(The present document is the English translation of the Italian Financial Statements, prepared for and used in Italy, and have been translated only for the convenience of international readers. Financial Statements were prepared using International Reporting Standards (IAS/IFRS); therefore they are not intended to present the financial position and results of operations and cash flows according to accounting principles and practices other than IAS/IFRS)

carifermo
cassa di risparmio di fermo s.p.a.

FINANCIAL STATEMENTS AT 31/12/2019

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BOARD OF DIRECTORS
Meeting of 8 April 2020

Directors' report and financial statements at 31/12/2019

Dear shareholders,

The 2019 financial year was complex and rich in events in which Cassa di Risparmio di Fermo S.p.A. confirmed its vicinity to local communities and the role that it intends to undertake as a local bank, always in support of households and SMEs, with its local ground roots. Our bank is the "local bank" that can rely on a stable shareholding structure such as the Fondazione and a major national bank like Intesa Sanpaolo S.p.A. This allows us to undertake a positive role of vicinity to the industry in Marche and Abruzzo, where present, and near Rome, which guarantees diversification in the reference market. These dynamics represent the implementation of social responsibility and constitute the real added value that our business enjoys over larger banks.

On 30 April 2019, the board of directors expired and the governing bodies were renewed, promoting the internal shape and return to the traditional governance structure that envisages a general manager and executive committee. At its first meeting on 6 May, the board of directors of the bank appointed general manager Ermanno Traini, former commercial director. The return of the position of general manager brought with it that of the executive committee, formed of three members from the board of directors.

We extend our sincere thanks to Alessandra Vitali Rosati, managing director until 30 April 2019, for the intense and profitable work carried out in her three-year mandate, characterised by significant organisational transformations involving our entire bank.

We have high hopes that the work of the executive committee and the general manager will allow the bank to achieve the objectives identified in the business plan, guiding the bank through the changes required by the current context.

In this respect, we cannot ignore what has been happening since February 2020 in Italy and across the globe. On 11 March 2020, the Director of the WHO defined the spread of COVID-19 as a "pandemic". The health and economic emergency we are experiencing will have repercussions, as of yet not quantifiable but undoubtedly significant, on the global economy and on our local economies.

Our bank acted immediately, monitoring and maintaining thorough controls, while considering the health and safety of employees and customers as a priority. All measures on using video conference for meetings and remote contact with customers were implemented. A resource optimisation plan was launched through shift rotation and the activation of flexible working, while ensuring that all services were monitored. Our institute joined the "Addendum to the 2019 Credit Agreement" signed by the ABI and the main business associations, which extended to the loans granted up to 31 January 2020 to micro, small and medium enterprises that suffered losses due to the COVID-19 emergency, the possibility to request the suspension of payments or the extension of the repayment plan. The agreement transposes the provisions contained in Law Decree of 17/03/2020, "Cura Italia".

The measures undertaken by Carifermo for businesses and households confirm our commitment to: Be There.

INTERNATIONAL SITUATION

During 2019 no risks were mitigated as a result of the outlook for the global economy. International trade began to flourish again, there were signs that the trade disputes between the United States and China were easing off, and the United Kingdom's exit from the EU (Brexit) without a deal was avoided.
On the other hand, geopolitical tensions were on the rise, especially between the United States and Iran, and concerns remained that the Chinese economy would slow much more than anticipated. Nevertheless, a growth with less pessimistic expectations, favoured by the accommodating stance of the central banks, drove the stock markets forward and facilitated a moderate recovery of long-term returns.

In December, the United States and China reached an initial trade agreement (Phase One Deal), prefacing a wider discussion of the economic relations between the two countries. The agreement prevented increases in the US tariffs that initially envisaged for mid-December and halved those introduced in September. At the end of 2019, the United States Congress approved the new trade agreement between the United States, Mexico and Canada (United States-Mexico-Canada Agreement, USMCA). The decision regarding duties on imports of automobiles and components from the European Union (EU) was postponed to a later date, yet to be announced.

In November 2019, international trade recorded a monthly decrease of -0.6% compared to the previous month (-1.0% YOY). The average growth rate in the last 12 months was - 0.6%, down strongly compared to the +3.4% recorded in 2018.
Again in November 2019, industrial production increased by +0.6% on the previous month (+0.3% YOY). The average growth rate in the last 12 months was +0.9%, 23 tenths below the 2018 rate.

In the last quarter of 2019, the Eurozone recorded a growth in GDP of +0.4% on an annualised quarterly basis, slowing compared to the previous quarter. In December 2019, industrial production in the Eurozone decreased by -2.1% on the previous month and by 3.6% YOY, while retail sales in the Eurozone in December 2019 grew by +1.4% in terms of business trends, but decreased by -1.6% in relation to the economic cycle. The business confidence index in December 2019 recorded a figure of -9.3 (-9.1 in the previous month), while the consumer confidence index in the same month was -7.2, up from -8.1 in the previous month.
In December 2019, the unemployment rate decreased compared to the previous month, at 7.4%, while the employment rate in the third quarter of 2019 decreased to 67.9% compared to 68% in the second quarter of 2019 (67.4% one year prior). Inflation in the Eurozone in December 2019 rose to +1.3% (+1% in the previous month, +1.5% twelve months prior).

The global slowdown and the contraction of international trade affected the economic activity of the Eurozone, where growth weakened and the risk of a fall in inflation intensified. In September, the Governing Council of the European Central Bank (ECB) adopted a substantial package of expansive measures: the interest rate on deposits with the Eurosystem was reduced and the recovery of net purchases as part of the Expanded Asset Purchase Programme (APP) was announced. The conditions applied to the new series of Targeted Longer-Term Refinancing Operations (TLTRO3) decided in March 2019 were also changed, and a two-tier system for the remuneration of bank reserves was introduced in order to mitigate impact on the profitability of intermediaries by the negative interest rate applied to deposits with the central bank.

At the European Central Bank meeting of 23 January 2020, the Governing Council decided not to change the interest rates on the main refinancing operations, the marginal lending operations and deposits with the central bank, at 0.00%, 0.25% and -0.50% respectively.

The Governing Council, before the COVID-19 health emergency, expected the key ECB interest rates to remain at their present or lower levels until it had seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2% within its projection horizon, and such convergence had been consistently reflected in underlying inflation dynamics.

FINANCIAL MARKET TRENDS

The growing expectations for a trade agreement between China and the United States and the accommodating stance of the main central banks favoured a shift in investors' interest from the bonds market to the stock market and drove share prices up; long-term returns rose slightly, reflecting less pessimistic valuations for growth.
The negative phase of the 3-month Euribor continued throughout 2019, which sat at -0.4% in mid-December 2019, while the rate on 10-year interest rate swaps increased, in December 2019, to +0.13% from +0.08% in November 2019.
At home, the financial markets benefited from the decrease in political uncertainty. This said, the country has not yet succeeded in overcoming the chronic vulnerability associated with the medium-term outlook on public finances and economic growth. In December, the spread between the ten-year return on Italian and German government bonds was 156 basis points (151 in the previous month).
In December 2019, returns on the financial bonds of the Eurozone were stable and those of the US decreased.
The share indexes showed positive signs in December 2019. The Dow Jones Euro Stoxx increased on its monthly average by +1.2% (+19.8% on an annual basis), the Nikkei 225 increased by +1.7% (+13% on an annual basis) and the Standard & Poor's 500 increased by +2.3% (+24% on an annual basis). The main European stock indexes showed, in December, the following average monthly difference: the FTSE100 on the London Stock Exchange increased by +1% (+9.5% YOY), the DAX30 in Frankfurt increased by +0.1% (+22.4% YOY) and the FTSE MIB in Milan increased by +0.1 (+25.3% on an annual basis).
With reference to the bonds market in November 2019, the gross issues of government bonds came to €29.5 billion (29.9 billion in the same month of the previous year; 401 billion in the first 11 months of 2019), while the net issues came to +3.3 billion (+7.1 billion in the same month of the previous year; +71.6 billion in the first 11 months of 2019).
With reference to the bonds market in December 2019, the gross issues of government bonds came to €12.6 billion (15.6 billion in the same month of the previous year; 414 billion in 2019), while the net issues came to -21.6 billion (-31.9 billion in the same month of the previous year; +50 billion in 2019).
The gross issues of corporate bonds came to €14.1 billion (17.8 billion in the same month of the previous year; 124.4 billion in 2019), while the net issues came to +4.8 billion (+10.1 billion in the same month of the previous year; +23.9 billion in 2019).
Lastly, as regards bank bonds, the gross issues came to €7.9 billion (14.7 billion in the same month of the previous year; 92.8 billion in 2019), while the net issues came to -2.9 billion (+6.7 billion in the same month of the previous year; +0.2 billion in 2019).

ITALY

The latest information suggests that Italy's economic activity, which increased slightly in the third quarter of 2019, decreased in the last three months of the year, continuing to be especially affected by the weak manufacturing sector. In surveys by the ISTAT (Italian National Institute of Statistics) and the Bank of Italy, businesses expressed slightly more favourable valuations of orders and foreign demand, but continued to consider uncertainty and trade tensions as factors that hindered their activity.

The negative trend seen in the third quarter for GDP worsened in the last quarter of 2019 and decreased by -1.4% on an annualised quarterly basis (+0.2% in the previous quarter). In terms of demand, there was a negative contribution from the national component and a positive contribution from the net foreign component. The consumer and business confidence indexes continued to be negative. In December 2019, the consumer confidence index went from -16.5 to -14.2 (-10.2 twelve months prior); business confidence was also negative, and went from -6.2 to -6.1 (-1.5 one year prior).

In December 2019, the harmonised index of consumer prices, though remaining at very low levels, increased to +0.4 (+0.2% in the previous month); while "core" inflation (net of unprocessed foodstuffs and energy) remained stable at +0.7% as per the previous month.

The unemployment rate in December 2019 remained unchanged from the previous month, at 9.8% (10.4% twelve months prior). Youth unemployment (15-24 years) remained stable in the same month, at 28.9% (31.9% one year prior).

In November, industrial activity remained nearly stationary, slowed by the particularly pronounced decrease in the energy sector; net of this component, it grew by 0.4 per cent. In the third quarter of 2019, investments decreased slightly, due to the decrease in purchases of energy products; investments in construction, on the other hand, increased, and property sales grew once more with prices remaining rather stable. In the last three months of the year, activity in the construction sector grew moderately, in line with the dynamics of construction in October and with the confidence indexes, which dropped but remained at high levels.

The increase in disposable income recorded during 2019 supported household spending in the first six months of 2019. In the third quarter, resident household spending accelerated by 0.4 per cent. All components increased, specifically durable and semi-durable goods. Consumers enjoyed the favourable trend in disposable income, which since last April has also been moderately supported by the citizenship guaranteed minimum income. The purchasing power of households grew by 0.3%, to a lesser extent than the spring months due to less accentuated dynamics in income from employment. The propensity to save stayed at around 9 %.

MARCHE REGION

In 2019, the economy in the Marche recorded a phase of stagnation, with growth in the mechanical and construction industries, shoemaking even further in crisis, loans between companies down and a higher unemployment rate. The economic update on the economy in the Marche presented by the Bank of Italy last November showed a region struggling to emerge from the crisis due to the economic weakness, with the Marche substantially in line with the trend for the rest of the country. After 2018, when the region seemed to start to recover, in the first part of 2019 the economy slowed down and recorded slower growth. This situation was also affected by the international economic context which saw a decrease in one of the reference markets for regional export, Germany.

According to the results of the Quarterly Survey by Confindustria Marche, in October-December 2019, industrial production remained rather stationary in terms of business trends, a more favourable result than the national figure recorded in the October-December quarter (-2.6%).

The figure for the final three months of 2019 confirms the presence of underperforming production dynamics in some of the major sectors of the regional economy. Underlying this are factors connected to the composition of the industry, which includes sectors with varying sensitivity to demand, and to the organisational structure of businesses, which impacts the intensity and recovery times. However, the continuing weak dynamics of exports were reflected negatively in the regional production sectors most exposed to international trade dynamics. Total commercial activities were stable in the last quarter of 2019: sales in real terms were up 0.1% compared to the corresponding period of 2018, with a negative performance seen in the domestic market, and a positive one in the foreign market.

Sales in the domestic market recorded a fall of 0.7% compared to the last quarter of 2018, with negative results for all sectors except for Food, Rubber and Plastics and Footwear. Sales abroad recorded an increase of 0.9% compared to the last quarter of 2018. All sectors, with the exception of Textile Clothing and Rubber and Plastics, recorded positive performances, though they differed greatly.

The raw materials price and cost of purchasing dynamics were limited. Prices differed by 0.6% on both the domestic and foreign markets. For costs, the differences recorded came to 0.5% and 0.8% respectively in the two markets.

The average employment figures for October-December 2019 increased slightly (0.2%), with performances varying greatly between sectors. The government-sponsored lay-off scheme hours also increased in the same period by 103.1% compared to the last quarter of 2018 from 2.9 to 5.8 million. The growth is solely attributable to extraordinary measures, which went from 790 thousand hours in the last quarter of 2018 to 4.7 million hours in the last quarter of 2019 (+498.6%). Ordinary measures, on the other hand, went from 2 million hours in the last quarter of 2018 to 1 million hours in the last quarter of 2019 (-47%).

The moderate economic tone affecting the last quarter of 2019 reflects mixed performances in production between the provinces in the Marche, with weaker dynamics for the provinces of Ascoli Piceno-Fermo and Macerata and more favourable ones for Ancona and Pesaro Urbino. The trend in commercial activity on the domestic market was negative for the provinces of Ancona and Pesaro Urbino, while Macerata and Ascoli Piceno-Fermo recorded a better performance than the last quarter of 2018. As regards the foreign market, on the other hand, increases were recorded in all provinces.

Loans granted by banks to businesses and households in the Marche during 2019 saw a decreasing trend. At the end of November, approximately €32.6 billion had been disbursed, down -4.9% compared to the same month in the previous year. Within the loans disbursed, loans granted to businesses decreased by 9%, and those to consumer households by 1.1%. The ongoing and far-reaching economic crisis has affected the large amount of NPE held by the regional banks. At the end of November 2019, gross NPE made up 8.3% of the total loans disbursed despite the numerous transfers of exposures in previous years.

THE ITALIAN BANKING SYSTEM

At the end of 2019, total bank loans to households and businesses remained substantially stable. The annual difference in loans to businesses were negative at -1.9%, while the dynamics of loans to households showed a positive trend compared to the previous financial year of +2.6%.

Compared to the previous twelve months, loans to businesses decreased, mainly with reference to small enterprises. The contraction in loans affected all business sectors, with highest intensity in the construction sector, mainly connected to the decreased demand for business loans linked to investments.
The analysis of the bank loan distribution by sector of economic activity shows, in December 2019, that of the manufacturing activities, mineral extraction and services make up around 56.8% of the total; the portion of manufacturing activities only is 25.9%. Loans for the hospitality sector made up around 21.7% of the total, the construction sector 11.4%, agriculture 5.6% and the remaining activities around 4.6%.

The growth in loans to households closed 2019 in acceleration at +2.6% YOY, following the recovery of gross monthly flows of loans for property purchases recorded in September and strengthened notably in the 4th quarter, with a volume of renegotiations at maximum levels, nearly tripled compared to the 4th quarter of 2018. Confirming the increased liveliness on the mortgage market, new contracts grew again from November.

According to the Bank Lending Survey conducted in December, the Italian banks slightly relaxed the criteria for offering loans to households for property purchases. The relaxing was once again determined by competitive pressures. As regards the demand for mortgages, the expansive dynamics, which also continued in the 4th quarter, were mainly supported by low interest rates and the outlook on the residential property market. The banks expect unchanged demand in the 1st quarter of 2020.

Bad exposures, net of impairment losses and accruals, totalled €27.5 billion in December 2019, a decrease compared to the 31.9 billion in December 2018 (-4.4 billion, or -13.7%). The ratio of net bad exposures to total lending was 1.61% (1.85% in December 2018).

In December 2019, funding from customers, represented by deposits from resident customers and bonds (net of those repurchased by banks) rose by 4.8% compared to 2018. In detail, deposits from resident customers (current account, certificates of deposit, reverse repurchase agreements net of operations with central counterparties, deposits with pre-established duration associated with transfers of exposures) recorded a difference of +5.6%, while annual differences in bonds were null.

Securities in custody with Italian banks, totalling around €1,142 billion in December 2019, decreased by around 2% YOY. Assets under management in the third quarter of 2019 approximated €115.1 billion, showing a year-on-year decrease of -5.7%.
In September 2019, individual asset portfolios under management by banks, stock brokerage companies and OEICs in Italy contained assets of approximately €967 billion, a year-on-year increase of +15.5%.

In December 2019, assets of Italian and foreign open-ended funds increased by +11.2% due to: an increase of €38.2 billion in equity funds, 27.6 billion in balanced funds, 35.7 billion in bond funds and 6.9 billion in flexible funds, while hedge funds decreased by 704 million and monetary funds by 528 million. With specific reference to the equity breakdown by type of fund, it is shown how, in the last year, the portion of balanced funds rose by 10.3% in December 2018 to 11.9% in December 2019, equity funds from 20.7% to 22.2%, while bond funds decreased from 39.3% to 38.7%, flexible funds from 25.8% to 23.8%, monetary funds from 3.6% to 3.2% and the portion of hedge funds from 0.4% to 0.3%.

THE BANK'S OPERATIONS

The 2019 financial year was characterised by the renewal of the governing bodies and the change in corporate governance, which led to the reintroduction of the position of general manager and the executive committee.
The bank's operations during 2019 were characterised by the need to respect the increasingly more intense legislative requirements, by the continuing operational relaunch and consolidation in the New Organisational Model, inaugurated in 2017 and implemented in 2018, and by the pursuit of the objective to confirm the role of bank of reference for the local economy.
During the year, the bank complied with the extensive legislative innovations which entailed a costly ongoing internal compliance exercise.

The main legislative projects involved the following areas:

- MiFID II and IDD: activities continued during the year for the gradual activation of the procedures and operating methods connected to the obligations imposed by the legislation. Given the extent of the legislation in question, the procedural adjustments required a long period of "fine tuning". The new ESMA legislation, arising as part of MiFID II and IDD, required intermediaries to provide investors with clear and explicit information about all costs and charges connected to the investment services provided and to the related financial products, in order to allow customers to know the total cost incurred and its overall effect on the return of the investment portfolio. The bank communicated the costs incurred by investors for the first time in 2018, regarding the investment services and asset management and insurance products (financial in nature), by sending the 2018 Report on Ex-Post Costs and the 2018 Suitability Report.
- PSD2: The entry into force of the European directive on payment services, the "PSD2" (Payment Services Directive), imposed new security measures on payment services offered electronically, adopting technologies able to guarantee safe authentication and reduce the risk of fraud. The authentication procedure must include mechanisms to monitor the operations and guarantee that the user of the payment services is the legitimate user. The concept of strong customer authentication (SCA) was then introduced, and must be applied by each customer whenever accessing an online payment account or making an electronic payment, which requires the generation of an authentication code that is difficult to falsify. The bank also adjusted to the PSD2 legislation in relation to the obligations on reporting serious security incidents or incidents related to payment services, with updates to the incident management process described in the ICT Regulations.
- PAD (Payment Accounts Directive): Adjustment to PAD legislation (Legislative Decree no. 37/2017 transposing Directive 2014/92/EU Payment Accounts Directive) and in particular to the subsequent Measure of the Bank of Italy of 18 June 2019 regarding transparency of operations and banking and financial services in order to increase the transparency and comparability of spending information related to payment accounts

- ANTI-MONEY LAUNDERING AND THE FINANCING OF TERRORISM: at the end of March 2019, the following provisions were definitively issued by the Bank of Italy and the FIU: a) provisions on organisation, procedures and internal controls intended to prevent the use of intermediaries for the purposes of money laundering and the financing of terrorism; b) instructions on Objective Communications. At the end of August, the IT outsourcer issued the procedure for managing new reporting flows connected to sending objective communications to the Financial Intelligence Unit (FIU) in good time in order to send the first Objective Communication. In the current year, the Anti-Money Laundering Unit launched an itinerary intended to identify adequate technology solutions, supplementary to the existing procedures, capable of increasing the efficiency of the risk governance process for money laundering and the financing of terrorism.
- IFRS16: the bank defined and identified the rental and lease contracts subject to the new accounting standard. The application of IFRS16 led to no substantial differences to the profit or loss or to the equity, merely a reclassification for the purposes of profit or loss, from "administrative expenses" to "amortisation on property, plant and equipment". In addition, for equity purposes, the activity emerged related to the rights of use of leased/rented assets and the lease liability for future flows.
- PRODUCT OVERSIGHT AND GOVERNANCE (POG) OF BANK PRODUCTS: activities began in October and an analysis was initiated of the bank's product catalogue. At the same time, tests began on the procedure arranged by the outsourcer.

The 2019/2021 business plan was initially approved during the board meeting of 26 February 2019 and further revised following the updates requested by the supervisory body to the NPE operational management plan, without significantly amending the composition of the assets and liabilities of the business plan. Following the establishment of the new board of directors in May 2019 , having considered some changes to the regional and national scenario of reference, the need arose to revisit this document once more, the final version of which was approved in the meeting on 24 September 2019, mainly to specify some development and cost optimisation strategies in more detail, without modifying the structure of the assets and liabilities of the business plan.

In the 2019 financial year, the bank was also significantly committed to revising policies and regulations as required by changing legislation. The most significant changes were made to the Credit Measurement and Classification Policy, the Policies for Financial Risk Management, the HR Policies to transpose legislative provisions on financial and insurance products (MiFID II and IDD), the Whistleblowing Policy, the Outsourcing Policy, ICT Regulations and Privacy Regulations.

Commercial activities during the year, in addition to the development of the products already in the catalogue, involved the launch of the "2019 car loan" and the new 1.25% certificates of deposit alongside the Double Perspective and Dynamic Equilibrium Policy for individuals and the launch in October of the new multi-class product, Arca Ingegno. Since December, a collaboration with Italcredi has also been in place for the proposal of salary- or pension-backed loans and loans benefiting from deduction of repayment from salaries. As part of the agreement, the bank acquired these types of exposures for an approximate amount of €5 million. Specific financing was also launched for companies operating in the tourism sector, holiday loans, advances of 2019 CAP contributions, and business ceilings the bank uses to offer businesses a ceiling for short- and medium-term loans. Specific credit facilities were launched for businesses and professionals involved in reconstruction of the areas hit by the 2016 earthquake.

To implement the strategies envisaged in the NPE Plan approved on 26 March 2019, the bank initiated all measures required to achieve the qualitative and quantitative objectives. In particular, in April a two-year consultancy contract was signed with a major NPE management company regarding the identification and implementation of measures for a controlled restructuring of the exposures to debtors within the scope of the contract, with methods shared with the bank. Another contract was signed with a credit collection company specialised in the collection of NPEs, in relation to the out-of-court and judicial credit collection of credit-impaired exposures less than € 100 thousand. As part of the review of the credit process, "credit monitoring" continued to be strengthened, involving both the management structure and the network through specific training to share instructions and guidance for each phase of the credit process (acquisition of customer information, preliminary management and monitoring, review and past due payments).

In line with the NPE Plan, on 23 December 2019 the bank signed the transfer of a portfolio of bad exposures with a leading sector operator for a gross amount of € 25.9 million, fully paid in cash by 31 December 2019. During the year, total and partial write-offs were also made on highly non-performing exposures no longer deemed recoverable for the cancelled part for a gross amount of € 15.3 million.

Throughout 2019, the bank followed up its policy for outsourcing non-core activities in line with the 2019-2021 business plan, outsourcing the level 1 help desk to the IT outsourcer. On the one hand, this allowed for the service to be made more efficient and on the other, it allowed for cost savings on dedicated resources.

In 2019, extraordinary maintenance was carried out to bring the bank's structures up to date with new requirements. In particular, extraordinary maintenance began in the year on the complex of Porto San Giorgio following the lease of part of the building to Engineering; the works are to be completed by April 2020. Additional extraordinary maintenance was carried out in the branches of Cerreto d'Esi, Rome via Puglie and Faleriense. In January 2019, the Campiglione branch was transferred to the new premises and in March an ATM was installed in Monte Monaco.

Cyber and physical security was a key issue again in 2019 and many projects were carried out to improve security. Throughout the year, the alarm transmission systems in the branches were replaced and the ATMs were replaced with more advanced and secure models.

The bank's treasury and cash service provided to local bodies continued during the year. During the year, it reinforced its traditional role in this sector by acquiring four new treasury service mandates confirming its leadership role. It intends to encourage and strengthen its partnerships with local bodies to exploit all possible and existing synergies to the advantage of the local communities.

At year end, the bank managed 30 treasury services compared to 26 at the end of 2018, as well as cash services for 11 local bodies.

The annexes to the financial statements include a list of the bodies to which the bank provides treasury and/or cash services.

ORGANISATION AND WORKFORCE

In 2019, measures to make the distribution network more efficient continued with the optimisation of hub branches from 10 down to 8[1] and the alternating opening of pairs of neighbouring branches. The first trial began successfully in February at the agencies in Filottrano and Montecassiano. It continued in the second half of the year with the agencies in Monterubbiano and Rubbianello and with the agencies in Rapagnano and Torre San Patrizio, Montottone and Carassai; the decision was made to open the Recanati Fontenoce branch in the morning only. In June 2019, activities ceased at the Civitanova Nord branch and an evolved ATM was activated. All existing relationships were transferred to the branch in Civitanova Ag. 5.

[1] The Montegranaro branch was added to the Monte Urano hub. The Civitanova Marche and Porto Sant'Elpidio hubs were merged, with the Porto Sant'Elpidio branch acquiring the role of "hub branch"; the Pedaso and San Benedetto del Tronto hubs were merged, with the San Benedetto del Tronto branch acquiring the role of "hub branch"; the Fermo Campiglione agency was added to the Fermo hub;

At year end, the bank's 58 branches were located in seven provinces and three regions as shown in the following table:

REGION	PROVINCE	No. of branches at 31/12/2019
Marche	Fermo	27
Marche	Ascoli Piceno	11
Marche	Macerata	12
Marche	Ancona	2
Abruzzo	Teramo	2
Abruzzo	Pescara	1
Lazio	Rome	3

The bank's owned property used for operations has a surface of roughly 25,879 square metres while its leased property has a total surface of roughly 6,831 square metres.

The bank also owns properties which it leases for a total surface of 6,860 square metres. At 31/12/2019, the bank had a total workforce of 361 employees, excluding the cleaner, 16 less than at the end of the previous financial year, as follows:

	Workforce at 31/12/2019	Workforce at 31/12/2018	Workforce at 31/12/2017
Managers	2	1	2
Junior managers, 3rd and 4th level	49	41	43
Junior managers, 1st and 2nd level	54	61	63
3rd professional group	254	272	276
2nd professional group	2	2	3
Total	**361**	**377**	**387**
Cleaning staff	*1*	*1*	*1*

26 employees left the bank while 10 people joined it.

The following table summarises changes in the workforce during the year:

	Workforce at 31/12/2019	2019 departures	2019 entries	Promotions	Workforce at 31/12/2018
Managers	2	-1	0	2	1
Junior managers, 3rd and 4th level	49	-6	0	14	41
Junior managers, 1st and 2nd level	54	-5	1	-3	61
3rd professional group	254	-14	9	-13	272
2nd professional group	2	0	0	0	2
Total	**361**	**-26**	**10**	**0**	**377**

At year end, the bank had 28 employees with part-time contracts, compared to 27 at the end of the previous year. It had 9 employees with fixed-term contracts.

The workforce includes 253 employees (70.1 per cent) at the branches and the other 108 (29.71 per cent) at the head office. This allocation provides an efficient contribution to containing overheads given that the bank is an independent entity and does not belong to a banking group.

The employees' involvement in pursuing the bank's objectives, also ensured through ongoing training, is a key HR target as the bank is convinced of their central role. Training activities involved many professional employees and covered all company areas. With reference to the HR management and development policy, in the year ended at 31 December 2019, compulsory, managerial and specialist training was provided. Compulsory training involved privacy and transparency and refresher courses for IVASS, Legislative decree no. 81/2008 and security, as well as compulsory anti-money laundering training. Managerial and potential development training focused on the skills required to manage and develop resources, in line with the service model based on an ever growing enhancement of individual professionals. The classroom courses that started in October 2018 with Professor Rotondi (IEN – Istituto Europeo di Neurosistemica) continued with individuals responsible for a team. Furthermore, an empowerment training course was provided (awareness of self and control over one's decisions) for all bank personnel, in order to create a context in which the professional is more efficient, raising the awareness of all resources about the need to invest in their own potential.

Specialist training was launched through workshops to continue the development of knowledge about the roles. In 2019, approximately 15,280 hours of training were provided, of which 6,697 in the classroom and 8,283 in e-learning format
In 2019, the number of transactions performed using channels other than the sales network continued to grow, both as a percentage and amount.

MULTI-CHANNEL TOOL

The internet banking and corporate banking services, aimed at individuals and businesses, continued to be well met by customers and 32,605 customers had activated the service at year end, compared to 31,117 at the end of the previous year (+4.8%).

The increasing trend in cash and cheque deposits made by customers using ATMs also continued in 2019. The number of total transactions made and the amounts deposited increased by 18.8% and 14.2% respectively.

2019 ATM DEPOSITS				
TAX BASE	**No. of transactions**		**Amount of transactions (€'000)**	
	2019	**2018**	**2019**	**2018**
Cash	95,908	77,856	161,483	138,832
Cheques	33,665	31,216	43,037	40,210

INTERNAL CONTROLS

The current system of internal controls is set up in such a way as to ensure appropriate and careful monitoring of the bank's activities and, especially, those subject to the most significant implicit risks.

The controls involve the board of directors, the board of statutory auditors, senior management and all personnel, based on their roles and responsibilities.

Specifically, responsibility for the internal controls lies solely with the board of directors, whose duty it is accordingly to:

- establish guidelines, strategies and risk management policies;
- approve the bank's organisational structure, ensuring duties and responsibilities are allocated clearly and appropriately;
- regularly check the organisational structure's adequacy and effective working;
- ensure that the control units are sufficiently independent of the other units and have the appropriate resources to correctly carry out their duties.

The board of directors also regularly assesses the internal control's compliance with the bank's business model and their overall functionality, effectiveness and efficiency. It adopts any remedial actions promptly.

The internal controls cover all the bank's operations and are an integral part thereof. They include the following types of control:

- First level controls
  - line controls, that can be carried out by the production units themselves, included in procedures or performed as part of back office activities;
- Second level controls
  - these are carried out by units that define the risk measurement methodologies, check compliance with the limits set by the board of directors on an ongoing basis and compliance with the assigned risk objectives; second level controls also include compliance controls, aimed at ensuring efficient risk management so as to avoid judicial or administrative sanctions, large financial losses or reputation damages due to the violation of external (laws and regulations) or internal rules;
- Third level controls (internal audit)
  - their objective is to check the correctness of the bank's operations and adequacy of its risk management procedures.

Specifically, third level controls are carried out by the Internal Audit Unit, which reports directly to the strategic supervisory body: this ensures its independence of the other operating units.

When urged to do so by the Internal Audit Unit, senior management takes steps to eliminate any weaknesses, assisted by the relevant office, due to the non-definition and/or introduction of line or second level controls, the related adequacy or inadequacy of organisational processes and any other aspects that could compromise the working of the internal controls as a whole or risk management.

As regards the second level control offices (Risk Governance Office assigned with Risk Management and Anti-Money Laundering; Compliance and Privacy Office), these are sufficiently independent in order to strengthen their segregation from both the operating and internal audit functions.

Risk management

The Risk Management Unit continued its work during the year aimed at measuring and controlling the different types of risk in line with the instructions issued by the board of directors and the supervisory authorities.

Accordingly, it monitors the following risks:

Market risk

Internal regulations require that the VaR (Value at Risk) method be used to measure market risk. It estimates the maximum potential loss considering market values for a set period of time and a set confidence level at normal market conditions.

The VaR method, developed for management purposes with a special application designed by Promoeteia, calculates the maximum potential loss at a confidence level of 99% of the banking book over a period of 10 days. It measures the variability of the banking book's value using risk factors, being interest rates, exchange rates and market indexes.

Liquidity risk

Liquidity risk is measured using an internal model and data provided by the ERMAS application. The board of directors' model is based on the cumulative imbalance between assets and liabilities split by maturity. The bank also regularly monitors the liquidity coverage ratio (LCR), the net stable funding ratio (NSFR) and the additional liquidity monitoring metrics (ALMM).

In the second half of 2019, the weekly "Report on liquidity" was also launched by the Bank of Italy, with preparation of the maturity ladder according to the provisions of the supervisory authorities' instructions.

Interest rate risk

The model used to measure the banking book's exposure to interest rate risk includes calculation of the risk indicator considering the maturity or repricing of assets and liabilities as per the supervisory authorities' instructions. It gives the bank's net weighted position compared to its own funds. For ICAAP purposes, the A2 disclosure base of the accounts matrix is used for interest rate risk; exposure to the risk is monitored monthly through preparation of operating reports.

Credit risk

Systematic application of the CPC (Credit Position Control) model improves the monitoring of performing loans both at branch and head office level. Reports are produced regularly by the network on the largest irregularities, broken down by customer type.

The credit risk monitoring is also supported by the use of a counterparty internal rating system. The adopted procedure (S.A.Ra. - automatic rating system) classifies customers by credit risk level and estimates the probability of default (PD) based on the counterparty's performance trends, qualitative information obtained in questionnaires and, for companies, assessments of financial statements on a statistical basis and using system analyses. The Risk Management Unit regularly monitors the position of customers in the various risk categories using the S.A.Ra. application's internal rating system.

The S.A.Ra. rating system divides customers into three main segments (Corporate, SME retail and Retail) and classifies counterparties using a scale of ten classes, consisting of nine for performing counterparties (AAA, AA, A, BBB, BB, B CCC, CC and C) and one for defaulting counterparties (D). The system has two different methods to measure probability of default (PD), one for businesses and one for individuals.

The internal rating system has also been included in the loan disbursement process, amending the related "delegated powers". Specifically, when positions are rated as CCC or below, the loan approval powers are automatically transferred to general management and are exercised by no lower than the head of the Loans Office.

Single-name and geo-business segment concentration risk

The bank's exposure to business and geographical concentration risk is assessed every three months using Bank of Italy's regulatory models.

Recovery plan

The Italian central bank set out instructions to implement Title IV, Chapter 01-I of the Consolidated Banking Act and Title IV, Chapter I-bis of the Consolidated Finance Act with its measure of 16 February 2017. The two Acts establish the banks' requirement to draw up recovery plans as per Directive no. 2014/59/EU (the Banking Recovery and Resolution Directive - BRRD). Bank of Italy's measure provides that banks identified as "less significant institutions" may adhere to simplified recovery plan obligations and sets out the minimum content that these banks shall include in their plans.

The bank acknowledges the importance of preparing a recovery plan to be independently implemented should its situation deteriorate with the first trigger signs in order not to reach the stage of irreversibility when the regulator would have to either wind up the bank or put it in compulsory liquidation. Adoption of an effective recovery plan is a useful tool to prevent a crisis situation and essential for the bank's governance.

The head of the Administration, Control and Finance Unit reviews and updates the recovery plan every two years, assisted by the Risk Management Unit. The Internal Audit Unit checks each amendment which is also approved by the Management Body (the managing director) and the Strategic Function Body. The bank sends the amended recovery plan to Bank of Italy by 30 April every second year.

In April 2019, the company recovery plan was updated, approved by the board of directors of 30 April 2019, and submitted to the supervisory body.

Operational plan for managing NPE

As required by the "Guidance on the management of non-performing loans for Italy's less significant institutions", in June 2018 the board of directors approved the document "Cassa di Risparmio di Fermo's strategy for managing NPE". This strategy is firstly aimed at its optimisation, by maximising the present value of recoveries. The bank defined its strategy on the basis of an analysis of its operating ability, the market conditions and the characteristics of its NPE portfolio. Both the strategy and the plan are revised annually to include recommendations made by the board of directors, the Risk Management Unit with the head of the Administration, Control and Finance Unit, assisted by the other competent units. The Internal Audit Unit checks each amendment which is approved by the Strategic Supervision Body.

In March 2019, the operational plan for managing NPEs was updated. The new document, approved by the board of directors at the meeting on 26 March 2019, was submitted to the supervisory body.

Legislative decree no. 231 of 21 November 2007 – Prevention of the use of the financial system for the purpose of money laundering and terrorist financing

During 2019 important updates were made to anti-money laundering legislation with an impact on company regulations. The most significant updates are as follows:

- Legislative decree no. 125/2019 transposing the "V Direttiva antiriciclaggio" (AMLD no. 2018/843);

- Legislative decree no. 124/2019, which regulates the use of cash and introduces measures to combat tax and contribution evasion and tax fraud;
- Bank of Italy - Provisions of 26 March 2019 regarding organisation, procedures and internal controls intended to prevent the use of intermediaries for the purposes of money laundering and the financing of terrorism;
- IVASS - Regulation no. 44 of 12 February 2019 on organisation, procedures, internal controls and adequate checks on customers;
- Bank of Italy - Provisions of 30 July 2019 regarding adequate checks on customers to combat money laundering and the financing of terrorism;
- FIU - 28 March 2019 - Instructions on objective communications.

In compliance with the new legislative dictates, during the year the bank started to update its own processes and procedures, assisted by the IT outsourcer.

For 2019, compulsory training was led in an e-learning format, with documentation prepared by the Anti-Money Laundering Unit.

In April 2019, it completed the self-assessment of money laundering and terrorist financing risks required by Bank of Italy in its communication no. 115097/15 of 21 October 2015. This assessment requires banks to identify, assess and understand the money laundering and terrorist financing risks to which they are exposed in order to adopt measures designed to effectively mitigate such risks. It consisted of various stages, documented and described in the Anti-money Laundering Unit's annual report, presented to the board of directors on 30 April 2019. The self-assessment identified a low level of residual exposure to these risks and the measures to eliminate critical issues detected during the procedure.

Compliance Unit

The Compliance Unit assesses the risk of non-compliance of the bank's strategic and operating decisions. It carries out preventive checks and subsequent monitoring of the effectiveness of procedures, mainly to prevent possible violations or infractions of the relevant legislation.

As provided for by Bank of Italy's Circular no. 285/2013 and subsequent updates, this Unit manages the risk of non-compliance using a risk-based approach, considering all the pertinent legislation.

Accordingly, it has direct and indirect responsibilities. Specifically, the Unit is directly responsible for management of the risk of non-compliance with the more significant rules related to the "core" scope, such as the performance of banking activities and financial intermediation, management of conflicts of interest, transparency versus customers and, in general, consumer protection laws.

As far as the non-core scope activities are concerned, the Unit's functions are scaled and specialised controls defined for each compliance area.

IT risks

The bank's IT systems are mainly housed on an operating platform supplied and managed by CSE - Consorzio Servizi Bancari Soc. Cons. a r.l. on an outsourcing basis. This guarantees the security, quality and reliability necessary for all the services used.

The bank also uses other application packages, mainly to provide IT support, analysis and control functionalities. They are installed and managed directly by the relevant internal offices.

The bank has drawn up a specific IT security policy given the fundamental importance of this issue.

The bank's primary objective is the secure processing of personal information and, therefore, the document has been prepared to ensure the correct performance of the internal information system, its correct working and resistance to hacking for the equipment exposed to internet risks.

The relevant internal units perform the related controls at different levels, focusing on checking that the security measures are updated regularly to reflect changes in risks deriving from unauthorised access, changes to personal data or its destruction, either unintentionally or intentionally.

As required by law, the outsourcer CSE has a disaster recovery plan which it regularly updates and checks in order to combat the significant risk of disaster and/or hacking.

The bank has a backup plan with all the data recovered from the intranet servers as well as a recovery unit that can ensure complete operating continuity should the main systems be shut down.

In order to reduce the potential risks of on-line connections to the internet, the bank has a special portal and an intranet for internal e-mail management.

All bank employees who handle personal data and use electronic tools undergo training about the related risks and the proper procedures to adopt in order to avoid damaging events

Business continuity and disaster recovery plans

In accordance with Bank of Italy's instructions, the bank has a business continuity plan prepared with the assistance of its IT outsourcer.

The issue of business continuity includes a purely technological component (disaster recovery) and an organisational aspect, aimed at defining a business continuity plan for emergencies to ensure a return to minimum operations in a short as possible time frame in the case of a disaster.

The plan's objective is to analyse the effects of events that could threaten the continuity of internal operating processes and to design the related preventive and remedial measures as well as any related actions to be taken to restore business operations as quickly as possible.

The bank's business continuity plan is consistent with the business continuity and disaster recovery plans adopted by CSE (Banking services consortium), which are also regularly updated and checked.

IT Audit

The engagement for the IT audit, checks of the general controls and security of the CSE IT systems for 2019 was assigned to leading specialists by the bank members of the consortium. These consultants also carried out checks and follow-ups of the main findings of the IT audit of the previous year and specific analysis of the system's vulnerability to threats and external attacks.

Another engagement for the important operating functions outsourced to Caricese was also assigned.

Data protection

As provided by Regulation (EU) 2016/279 (GDPR), the bank appointed a data protection officer (DPO) pursuant to art. 37 of the GDPR; the DPO is part of the Compliance and Privacy Office and has various duties including the monitoring of compliance with the GDPR and liaising with the data subjects and the Italian Data Protection Authority.

In 2019, the new national and European legislative changes were transposed, the internal legislation finalised and specific training provided to data processing staff, with the objective of strengthening the controls intended to mitigate the risk of a data breach. In compliance with the GDPR, several agreements and contracts with suppliers and commercial partners were also supplemented, and the measures to improve the security and resilience of the directly managed computerised systems continued with support from the technical structures.

IVASS regulation of 2 August 2018 - Regulation on transparency, disclosure and design of insurance products

Italy transposed the Insurance Distribution Directive (IDD) in 2018 mainly through two IVASS regulations that govern insurance brokerage, the training of staff and the transparency of insurance policies. The bank is required to comply therewith as it is a broker registered in section D of the Single Insurance Register.

Specifically, these regulations are:

1. regulation no. 40 of 2 August 2018 laying down provisions on insurance and reinsurance distribution, which sets out rules for market access, operations, practices to be adhered to when selling products to customers, including over the internet and the training and refresher courses for operators;
2. regulation no. 41 of 2 August 2018 on transparency, disclosure and design on insurance products, which introduces the pre-contractual information documents which have a simplified format and standard content to make their comprehension easier and allow a comparison of products (life and non-life) by consumers and the requirement to manage insurance policies in a computerised format.

The bank has complied with these regulations through its specific policies.

Law no. 231/2001 - Companies' administrative liability

Legislative decree no. 231/2001 introduced the administrative liability of companies for unlawful practices carried out by company key personnel in its interests. This decree provides for the non-liability of companies that have previously adopted and implemented an "Organisational model" suitable to prevent the crimes it sets out.

The bank checked its Organisational model, also as regards the new predicate crimes, assisted by the supervisory body which checks its working, effectiveness and compliance. The body also ensures that it is up to date.

The duties of the supervisory body are carried out by the board of statutory auditors which may resort to the Internal Control Unit managers for specific functions.

THE BANK'S FINANCIAL POSITION

Lending

Breakdown of net lending by product							
Description	Financial year			Half year difference		Annual difference	
	12/2019	06/2019	12/2018	Amount	%	Amount	%
Current accounts	108,927	101,097	113,418	7,830	7.7%	-4,491	-4.0%
Postal current accounts	737	61	24	676	1108.2%	713	2970.8%
Financing for advances	133,707	125,006	136,828	8,701	7.0%	-3,121	-2.3%
Loans	677,654	602,132	609,662	75,522	12.5%	67,992	11.2%
Subsidies not settled through current accounts	53,966	47,567	50,705	6,399	13.5%	3,261	6.4%
Loans against pledges	59	58	60	1	1.7%	-1	-1.7%
Salary-backed loans	4,970	0	0	4,970	0.0%	4,970	0.0%
Bad exposures	33,210	47,859	50,456	-14,649	-30.6%	-17,246	-34.2%
Portfolio risk	287	342	381	-55	-16.1%	-94	-24.7%
Transactions with the Treasury Department	0	3,516	0	-3,516	-100.0%	0	0.0%
Total lending	**1,013,517**	**927,638**	**961,534**	**85,879**	**9.3%**	**51,983**	**5.4%**
- including: in Euros	1,012,277	926,181	960,852	86,096	9.3%	51,425	5.4%
- including: in foreign currency	1,240	1,457	682	-217	-14.9%	558	81.8%
Own HTC securities	228,650	227,120	227,338	1,530	0.7%	1,312	0.6%
Total caption 40. b)	**1,242,167**	**1,154,758**	**1,188,872**	87,409	7.6%	53,295	4.5%

Table 1

Examination of the trends in lendings, which at year end totalled €1,013,517 thousand, shows a significant increase of 5.4% on an annual basis. The figure implies an operating policy intended to expand the offering of credit as part of even closer checks on the quality of borrowers, also expanding lending types. The results achieved are even more significant if correlated to the presence of a persistent unfavourable context that characterises the Marche region, confirmed by the 4.6% decrease in lending in the region recorded in October 2019.

An analysis by product (cf. Table 1) confirms the recovery of growth, first seen in the previous year, of the longer-term products due to the precise guidelines set out in the commercial policy; they amounted to €677,654 thousand compared to €609,662 thousand at the end of the previous year, an increase of approximately €68 million or +11.2%.

Current accounts amounted to €108,927 thousand at year end, down 4% on an annual basis, due to the weak demand, especially in the business sector, also reflected in the marginal decrease in financing for advances from €136,828 thousand to €133,707 thousand at the reporting date (-2.3%).

Bills presented for collection or under reserve show an annual decrease of -2.3% (number of transactions) or -0.7% in terms of the amounts involved.

Subsidies not settled through current accounts totalled €53,966 thousand compared to €50,705 thousand at the end of the previous year.

The Bank did not use derivatives to hedge interest rate risks on fixed rate loans during the year, also because of the perceived stability of the very low rates over time and the related small probability of their large, immediate rise.

The increase in lending was made through a careful and constant selection of credit, the probability of default (PD) of the bank's performing exposures showed a certain improvement, highlighting a slightly higher expected loss than the previous year, while the gross performing exposures totalled approximately €948,122 thousand, recording a significant increase of +9.4% compared to the figure at the end of 2018.

In 2019, Carifermo was once more confirmed as the main bank of reference for households and local businesses. New financing disbursed amounted to over €257 million.

The following table provides a breakdown of the exposures from companies based on their ATECO codes and for amounts exceeding €5 million:

ATECO	Description	Gross amount at 31 December 2019	Individual impairment losses	Collective impairment losses	Net amount at 31 December 2019
412000	Construction of residential and non-residential buildings	72,824,008.01	9,795,983.34	1,107,439.44	61,920,585.23
682001	Property leases	44,166,772.02	3,484,800.50	476,102.21	40,205,869.31
681000	Buying and selling of own real estate	42,742,977.74	7,480,796.21	544,942.52	34,717,239.01
152010	Footwear	28,586,760.91	3,012,069.72	140,296.95	25,434,394.24
152000	Footwear	17,393,185.47	6,410,514.64	48,118.26	10,934,552.57
152020	Leather parts for footwear	14,247,571.03	342,393.42	88,803.34	13,816,374.27
551000	Hotels and similar structures	11,767,124.98	545,758.09	109,722.20	11,111,644.69
581400	Issue of magazines and periodicals	11,200,030.76	-	77,123.62	11,122,907.14
682000	Lease and management of owned or (rented) property	10,286,487.45	146,061.84	107,168.12	10,033,257.49
561011	Catering	9,151,455.94	333,430.30	93,239.85	8,724,785.79
451101	Wholesale and retail sale of cars and light vehicles	7,225,583.37	171,561.99	72,909.53	6,981,111.85
591400	Film projection activities	7,088,247.81	2,155,232.73	566.12	4,932,448.96
462110	Wholesale of grain and dried pulses	6,980,325.28	-	72,544.52	6,907,780.76
201500	Manufacturing of fertilizers and nitrogen compounds (excluding the manufacture of compost)	6,974,247.93	3,289,021.61	16.06	3,685,210.26
494100	Goods transportation by road	6,702,208.93	65,546.77	87,310.57	6,549,351.59
462410	Wholesale of leather and raw and worked skins (excluding fur skins)	6,312,200.22	1,322,876.53	9,102.97	4,980,220.72
201600	Manufacturing of plastic materials in primary forms	6,150,808.13	-	67,895.74	6,082,912.39
464240	Wholesale of footwear and accessories	5,944,633.20	344,480.63	32,491.99	5,567,660.58
471120	Supermarkets	5,917,650.03	30,679.89	84,421.17	5,802,548.97
143900	Manufacturing of pullovers, cardigans and other items similar to knitwear	5,776,704.96	-	10,150.44	5,766,554.52
101300	Production of meat products (including bird meat)	5,651,827.23	17,554.86	9,815.48	5,624,456.89
151209	Manufacturing of other travel items, bags and similar, leather goods and saddlery	5,539,279.98	115,204.49	57,405.57	5,366,669.92
251100	Manufacturing of metal structures and assembled structural parts	5,518,407.90	34,862.95	72,956.20	5,410,588.75
682002	Business leases	5,468,412.99	192,472.59	42,581.22	5,233,359.18
463920	Non-specialised wholesale of other foodstuffs, drinks and tobacco	5,347,573.86	21,530.35	12,371.17	5,313,672.34
101100	Production of non-bird meat and slaughter by-products (slaughterhouse activity)	5,161,414.39	62,156.83	32,192.13	5,067,065.43
553000	Camping areas and areas equipped for campers and caravans	5,142,864.38	-	45,966.85	5,096,897.53
477510	Retail sale of perfume items, make-up and personal hygiene products	5,028,079.65	-	23,228.79	5,004,850.86
	Total	**370,296,844.55**	**39,374,990.28**	**3,526,883.03**	**327,394,971.24**

Table 2

With reference to non-performing exposures, it is noted that in implementation of the strategies indicated in the NPE plan and in the business plan, at the end of December 2019 the bank transferred a portfolio of bad exposures for a gross amount of €25.9 million and made total and partial write-offs on non-performing exposures no longer deemed recoverable for a gross amount of €15.3 million. These actions, alongside the application of all the strategies envisaged by the NPE plan to reduce non-performing exposures, led to a sharp reduction in gross NPEs, which decreased from €197.1 million at 31 December 2018 to €153.7 million with a decrease of €43.4 million, or -22%.

As part of this caption, the bad exposures and unlikely to pay exposures decreased by 30.7% and 8.1% respectively, while non-performing past due exposures increased by €2.3 million. Net non-performing exposures decreased sharply compared to the previous year and totalled €73.3 million (-28.4 %), deriving both from the decrease in the gross figure and from the increase in impairment losses, which at 31 December 2019 totalled €19.8 million. The percentage of coverage of NPEs increased to 52.31%, up on the figure at December 2018 of 48.08%.

In detail, the coverage of bad exposures was 63.82% (61.43% at 31 December 2018), the coverage of unlikely to pay exposures was 36.1% (20.99% at 31 December 2018) and the coverage of non-performing past due exposures was 23.2% (12.18% at 31 December 2018).

An analysis of irregular exposures shows that the new exposures reclassified as bad decreased compared to the previous year. The amount of exposures reclassified as bad during 2019 totalled €6,202 thousand, of which €4,526 thousand from exposures already classified as non-performing, compared to €17,237 thousand in 2018.

The volume of collections of bad exposures, net of sales deriving from the aforementioned transfer, increased to €5,955 thousand, up on the figure from the previous year (+7.6%).

The following table shows the performance of irregular exposures and the bank's coverage rate:

NON-PERFORMING EXPOSURES					
		31/12/2019	31/12/2018	Difference amount	Difference %
Total non-performing exposures	Gross amount	153,684	197,126	-43,442	-22.04%
	Impairment losses	80,385	94,773	-14,388	-15.18%
	Carrying amount	**73,299**	**102,353**	**-29,054**	**-28.39%**
coverage rate		*52.31%*	*48.08%*		
Bad exposures	Gross amount	91,790	132,434	-40,644	-30.69%
	Impairment losses	58,580	81,354	-22,774	-27.99%
	Carrying amount	**33,210**	**51,080**	**-17,870**	**-34.98%**
coverage rate		*63.82%*	*61.43%*		
Unlikely to pay exposures	Gross amount	57,842	62,910	-5,068	-8.06%
	Impairment losses	20,865	13,202	7,663	58.04%
	Carrying amount	**36,977**	**49,708**	**-12,731**	**-25.61%**
coverage rate		*36.07%*	*20.99%*		
Past Due	Gross amount	4,052	1,782	2,270	127.38%
	Impairment losses	940	217	723	333.18%
	Carrying amount	**3,112**	**1,565**	**1,547**	**98.85%**
coverage rate		*23.20%*	*12.18%*		

Table 3

Credit quality indicators showed sharp improvement compared to the previous year. The gross NPE/gross lending indicator was 13.9% (18.5% at 31 December 2018) while the net NPE/net lending indicator was 7.2%, compared to 10.6% in 2018.

CREDIT RISK									
LENDING	31/12/2019			31/12/18	Difference		Coverage		
	Gross amount	Total impairment	Carrying amount	Carrying amount	Amount	%	31/12/2019	30/06/2019	31/12/2018
A. NPE	**153,684**	**80,385**	**73,299**	**102,352**	**-29,053**	**-28.39%**	**52.31%**	**51.16%**	**48.08%**
A.1. Bad exposures	91,790	58,580	33,210	51,079	-17,869	-34.98%	63.82%	63.09%	61.43%
A.3. Unlikely to pay exposures	57,842	20,865	36,977	49,708	-12,731	-25.61%	36.07%	26.87%	20.99%
A.2. Past Due	4,052	940	3,112	1,565	1,547	98.85%	23.20%	14.26%	12.18%
B. Performing exposures	948,122	7,903	940,219	859,182	81,037	9.43%	0.83%	0.90%	0.91%
TOTAL	**1,101,806**	**88,288**	**1,013,518**	**961,534**	**51,984**	**5.41%**	**8.01%**	**10.26%**	**9.65%**
Bad exposures/total exposures						**NET**	3.28%	5.16%	5.31%
NPE/total exposures							7.23%	10.13%	10.64%
Bad exposures/total exposures						**GROSS**	8.33%	12.54%	12.44%
NPE/total exposures							13.95%	18.62%	18.52%

Table 4

The figures in the above table refer to the sole financing component included in "Loans and receivables with customers". As regards performing exposures, the collective impairment losses were made through application of the updated estimation parameters in accordance with IFRS9.

Under the above standard, performing exposures are classified into 2 stages:

- Stage 1: performing exposures which have not seen a significant increase in their credit risk since initial recognition.
- Stage 2: performing exposures which have seen a significant increase in their credit risk since initial recognition.

The bank defined the criteria for a "significant increase in credit risk", i.e., the criteria for their reclassification to stage 2, considering indicators such as a worsening in the commensurate probability of default of the counterparty on the basis of the rating system used by the bank, a worsening in the internal performance score (credit position control - CPS - score), the number of continued past due/overdrawn days and whether forbearance measures have been applied.

The 12-month PD was applied to performing exposures in stage 1 while the lifetime PD was applied to stage 2 performing exposures in order to calculate the expected loss.

The impairment losses were calculated considering a 12-month horizon for all those exposures that have not shown a significant deterioration while a lifetime horizon was considered when there was an decrease in the borrower's credit rating during the year.

As required by IFRS 9, the definition of expected credit losses for performing exposures includes forward-looking information.

The allowance for collective impairment losses related to the sole financing component, which covers the implicit risk on performing exposures, was €7,903 thousand at year end, up slightly on the €7,868 thousand balance in the previous year. This implied that the coverage rate of these exposures was 0.83% (0.91% at 31 December 2018), thanks to the improvement in customer impairment rates.

The bank's support of the local economy was not limited to the above lending transactions during 2019 as it also developed its asset brokerage business.

The following activities were carried out:

Leasing: the bank continued its operations in the finance lease sector through its operating agreements with Fraer Leasing S.p.A., leading to the execution of 34 contracts worth €2.7 million in addition to 12 contracts agreed with Alba Leasing for €1.6 million.

Credit cards: the bank was again very active in this sector with a total 17,845 credit cards issued at year end, with an increase in 390 new cards. It reviewed its issue of Viacard and Telepass cards, including in organisational terms, with 10,023 cards issued at year end, an increase of 9 cards over the previous financial year.

Consumer credit: during the year, consumer credit granted directly by the bank and through major specialised companies increased in terms of the number of transactions and amounts involved.

Investments

During the year the global stock markets gradually adapted to a scenario of economic recovery, albeit in an advanced phase of the cycle. The recovery from the negativity of the previous year was facilitated by the improvement in the liquidity conditions implemented by the central banks, by a solid employment market that supported consumers and by the achievement at year end of an initial trade agreement between the United States and China. The American and Japanese stock indexes reached new maximum levels, while emerging countries and Europe remained at high levels throughout the year, with almost all performances much higher than 20 per cent.

The bond indexes also saw good performances in this context, with returns on ten-year securities gradually decreasing over the year before recovering partly in the final quarter. At year end, the US ten-year rate was 1.92 %, while the German Bund was -0.20 % and the return on the BTP Italian government bonds was 1.40%.
The German government bonds continued to benefit from the flight to quality, while US bonds were promoted by the FED's more accommodating monetary strategy, in support of an economic recovery as of then still gradually weakening. The Italian government bonds, especially in the second half of the year, benefited from the end of tensions between the Italian government and the European Commission following the change in government composition and the launch of the financial manoeuvre. This triggered a rapid reduction in the spread with respect to the Bund and a substantial recovery in market prices.
During the reporting period, the euro depreciated against the US dollar by around 2%, against the pound sterling by nearly 5% and more moderately against the main currencies linked to raw materials, while it appreciated slightly against the currencies linked to emerging countries.

Asset management

In the first quarter of the year only, the portfolio included equities for around 13%, while for the rest of the year it only included bonds. In the final part of the year, the duration, which during 2019 had been around 1.5 years on average, rose to 2.3 years, the allocation to corporate bonds by 47% and to Eurozone government bonds by 11%.

The duration of the portfolio at year end increased through the reduction in short futures on the Bund, contributing to a greater balance between the exposures on the curve in dollars and on the curve in euros.

Investments in corporate bonds made up 40% of the portfolio in the first half of the financial year and increased to 50% by year end. However, these bonds have short maturities and are very diversified by both geographical and business segment.

Currency diversification was stable; at the end of 2019 the exposure in currencies other than the euro was 13%, of which 3% yen, 1.5% US dollars and the remainder in emerging currencies.

Overall, the portfolio saw a positive gross performance of 4.08%, with the contribution equally divided between the bond component for the entire year and the equity component for the first part of the year only.

The bank maintained its €29 million investment in the European Loan fund managed by M&G, a global asset management market leader.

M&G's European Loan Fund mostly invests in a diversified portfolio of leveraged loans to medium and large companies, principally based in the UK, the US and the major European countries. The loans are chiefly granted to finance internal growth, acquisitions, mergers and leveraged buyouts (LBO) of private equity sponsors and has a return objective equal to the Libor +400 basis points.

The positive performance of corporate bonds contributed to the good performance of the fund, which produced a return of approximately 3.81% during the year.

The bank's investment objectives and related diversification continued to be in line with its prudent approach to all its investments, not solely the financial ones.

The rest of the bank's financial investments is nearly entirely comprised of government bonds with the remainder consisting of senior bonds issued by major Italian banks and by corporate firms with investment grade ratings.

The assessments of risk using the VaR model, covering both the outsourced component and the portfolio managed internally by the bank, showed that it always remained within the limits set by the board of directors.

The securities held by the bank are distributed across the following portfolios:

HTC (hold to collect): this portfolio includes financial instruments with a steady coupon flow over time; the board of directors decides whether to invest in this type of instrument.

HTCS (hold to collect and sell): this portfolio includes liquid instruments listed in markets where the bank operates with a minimum rating of BBB- or the equivalent for Italian government bonds. Securities are classified in this portfolio if they will be held over time or sold depending on market trends;

HTS (hold to sell): this portfolio includes financial assets with a minimum rating of BBB- that ensure principal repayment should the short-term scenarios assumed by the finance committee materialise. If the loss thresholds are breached, the financial instruments are sold in the shortest possible timeframe. The portfolio comprises securities included in the management mandates given to third parties.

At the reporting date, the securities portfolio (excluding equity investments for €16,661 thousand at fair value) was distributed as follows:

HTC portfolio Nominal amount				
	Financial year		difference	
	12/2019	12/2018	amount	%
BOT Italian treasury bills and zero coupon bonds	0	39,874	-39,874	-100.00%
CCT Italian treasury certificates	54,350	54,350	0	0.00%
BTP Italian government bonds	174,761	134,766	39,995	29.68%
Total	**229,111**	**228,990**	**121**	**0.05%**

HTCS portfolio Nominal amount				
	Financial year		difference	
	12/2019	12/2018	amount	%
CCT Italian treasury certificates	66,155	42,297	23,858	56.41%
BTP Italian government bonds	120,519	24,000	96,519	402.16%
Bonds	2,000	0	2,000	0.00%
Total	**188,674**	**66,297**	**122,377**	**184.59%**

HTS portfolio Nominal amount				
	Financial year		difference	
	12/2019	12/2018	amount	%
BOT Italian treasury bills and zero coupon bonds	25,550	67,200	-41,650	-61.98%
CCT Italian treasury certificates	2,000	29,292	-27,292	-93.17%
BTP Italian government bonds	750	44,975	-44,225	-98.33%
Bonds	114,154	133,438	-19,284	-14.45%
Shares	28,988	29,702	-714	-2.40%
Total	**171,442**	**304,607**	**-133,165**	**-43.72%**

Table 5

The HTC portfolio at nominal amount totalled €229,111 million at year end and was entirely formed of government bonds. During the year, in accordance with the policy on financial risks, securities were sold for €75 million, then replaced with other securities, which generated profits recognised in the income statement for €3,016 thousand. The securities recognised in the HTC portfolio at 31/12/2019 as a whole totalled a market value greater than €3.2 million against their carrying amount at amortised cost for €228,650 million.

The financial assets at fair value through other comprehensive income (HTCS) totalled a nominal amount of €188,674 thousand, with an increase of €122,377 thousand compared to 31/12/2018. The carrying amount at fair value totalled €187,013 thousand. Changes in the HTCS portfolio generated a decrease in the negative equity reserve for €1,312 thousand against the value at 12/2018; the profit from the sale of securities during the financial year amounted to €9,356 thousand.

The financial assets held for trading (HTS) totalled an overall €171,442 thousand (nominal amount), with a decrease of €-133,165 thousand compared to the balance at 31/12/2018. The carrying amount at 31 December 2019 amounted to €174,858 thousand. At year end, the HTS portfolio generated a net gain of €686 thousand, while net trading income totalled €2,170 thousand. Overall net trading income was also influenced by the spread created by the futures contracts, connected to Epsilon asset management, for €2,473 thousand. Exchange gain was €65 thousand.

Equity investments

The Bank has recognised its non-controlling interests in banks, financial and commercial companies in the fair value through other comprehensive income (FVOCI) portfolio and intends to hold on to these investments in the long term. It does not have controlling investments.
An additional 100 shares in the Bank of Italy were purchased during the year for a total value of €2,500 thousand. Therefore, at year end, the value of the investment in the capital of Bank of Italy totalled €10 million.
Following the transformation of the ICB Consortium into a joint-stock consortium company, shares worth €3,022 were allocated, recognised in the equity investments.
Enel shares previously classified in that sector were sold for €1,050 thousand, generating a profit of €91 thousand, allocated to the specific equity reserve.
As a result of the above transactions, the bank had equity investments of €16,661 thousand at year end compared to €15,208 thousand at the end of the previous year.
The annexes to the financial statements show a list of the bank's equity investments at year end, all classified in the HTCS portfolio as they do not meet the requirements for inclusion in caption 100 - Equity investments under Assets.

Funding:

Direct funding amounted to €1,548 million against an amount of €1,467 million in the previous year.

During the year, the bank's funding, measured at its carrying amount, underwent the following changes:

Breakdown of direct funding by product							
Description	Financial year			Half year difference		Annual difference	
	12/2019	06/2019	12/2018	Amount	%	Amount	%
Savings deposits	110,854	115,340	118,362	- 4,486	-3.9%	- 7,508	-6.3%
Current accounts	1,349,615	1,325,201	1,267,635	24,414	1.8%	81,980	6.5%
Certificates of deposit	69,805	68,163	79,731	1,642	2.4%	- 9,926	-12.4%
Bonds	-	-	-	-	0.0%	-	0.0%
Third party funds under a	8,677	4,346	1,597	4,331	99.7%	7,080	443.3%
Liabilities for assets acquired under lease	8,762	9,072	-	- 310	-3.4%	8,762	0.0%
Total direct funding	**1,547,713**	**1,522,122**	**1,467,325**	**25,591**	**1.7%**	**80,388**	**5.5%**

Table 6

Euro and foreign currency current account overdraft runs, which are the most important product, increased again on an annual basis by €81,980 thousand (6.5%) to €1,349,615 thousand, equal to over 87% of the bank's entire direct funding. Savings deposits lost ground, totalling €110,854 thousand (-6.3%). Certificates of deposit dropped 12.4% to €69,805 thousand. During the year, the bank did not deem that the conditions for new bond issues existed.

Liabilities for assets acquired under lease include the recognised liabilities with respect to recognition in the assets of the rights of use deriving from the adoption of IFRS16 at 1 January 2019:

The following table shows the amounts due to customers by business segment and how funding from households is substantially stable at 52.3%, compared to 52.9% in the previous year. Funding from businesses decreased from 31.7% in 2018 to 30.6% at the end of 2019. At the same time, funding from companies and family businesses increased from 9.35% to 9.55%.

DUE TO CUSTOMERS			
SAE type	Description	Amount	% OF TOTAL
4	COMPANIES	452,235	30.600%
61	ARTISANS AND FAMILY BUSINESSES	141,099	9.547%
60	HOUSEHOLDS	773,432	52.333%
99	OTHER	111,143	7.520%
	TOTAL	**1,477,909**	**100.000%**

Table 7

Indirect funding at year end may be analysed as follows:

Description	dic-19	giu-19	dic-18	Half year difference		Annual difference	
				Amount	%	Amount	%
Government bonds	143,372	157,159	153,795	-13,787	-8.77%	-10,423	-6.78%
Bonds	32,297	37,150	46,834	-4,853	-13.06%	-14,537	-31.04%
Shares	92,098	93,298	76,554	-1,200	-1.29%	15,544	20.30%
Total administered funds	**267,767**	**287,607**	**277,183**	**-19,840**	**-6.90%**	**-9,416**	**-3.40%**
Funds and OEIC units	477,226	477,999	472,549	-773	-0.16%	4,677	0.99%
Asset management	16,154	15,466	14,673	688	4.45%	1,481	10.09%
Total managed funds	***493,380***	***493,465***	***487,222***	***-85***	***-0.02%***	***6,158***	***1.26%***
Total indirect funding	***761,147***	***781,072***	***764,405***	***-19,925***	***-2.55%***	***-3,258***	***-0.43%***
Insurance and pension products	490,549	463,392	445,001	27,157	5.86%	45,548	10.24%
Total	**1,251,696**	**1,244,464**	**1,209,406**	**7,232**	**0.58%**	**42,290**	**3.50%**

Table 8

Indirect funding increased at year end to €1,251,696 thousand compared to €1,209,406 thousand at the end of the previous year (+3.5%).

A breakdown of indirect funding, compared to the previous year, shows customers' increasingly smaller interest in administered funds (-3.4%).

Managed funds increased by 1.26%. However, the balance of €493.4 million at year end showed the customers' high appreciation of the investment services and products made available by the bank.

The balance at market value from mutual funds and OEIC units, though the trend slowed slightly in 2019, confirmed the positive trend already seen in previous years, up €4.7 million.

The insurance and pension products performed very well. The segment ended the year with a large increase, from €445 million to €490.5 million (up approximately €45.5 million or 10.24%).

INCOME STATEMENT

The following table summarises the key income statement figures, using the same reclassification criteria adopted by the Bank in previous years.

Tax base	12/2019	12/2018	difference	
			amount	%
Net interest income	30,344	28,850	1,494	5.18%
Net operating income	79,770	56,604	23,166	40.93%
Operating costs	-48,937	-49,915	978	-1.96%
Operating profit	30,833	6,689	24,144	360.95%
Pre-tax profit from continuing operations	9,644	596	9,048	1518.12%
Net gain	5,997	1,571	4,426	281.73%

Table 9

The individual balances are shown below:

Net interest income

Tax base	12/2019	12/2018	difference	
			amount	%
Interest income:	***33,307***	***32,113***	***1,194***	***3.72%***
- Ordinary customers	27,852	28,570	-718	-2.51%
- Securities portfolio	5,393	3,466	1,927	55.60%
- Banks	62	77	-15	-19.48%
Interest expense:	***-2,963***	***-3,263***	***300***	***-9.19%***
- Ordinary customers	-2,215	-2,197	-18	0.82%
- Bonds	-510	-717	207	-28.87%
- Banks	-238	-349	111	-31.81%
Net interest income	**30,344**	**28,850**	**1,494**	**5.18%**

Table 10

The net interest income closed the year with a final balance of €30,344 thousand, up by 5.18% on the previous financial year, due to the increase in lending and the higher return from the securities portfolio.

The average annual rate paid on direct funding was 0.17% compared to the average 0.2% of the previous year, a drop of 3 bps, and the year-end rate was 0.21%.

Interest income from ordinary customers went from an average 2.89% in the previous year to an average rate of 2.76% at the reporting date equal to an average annual reduction of 13 bps. The year-end rate was 2.56 %.

The total spread on average interest rates with ordinary customers in 2019 was on average below that of the previous year as shown in the following graph, ending the year at 2.59%, down 10 bps:

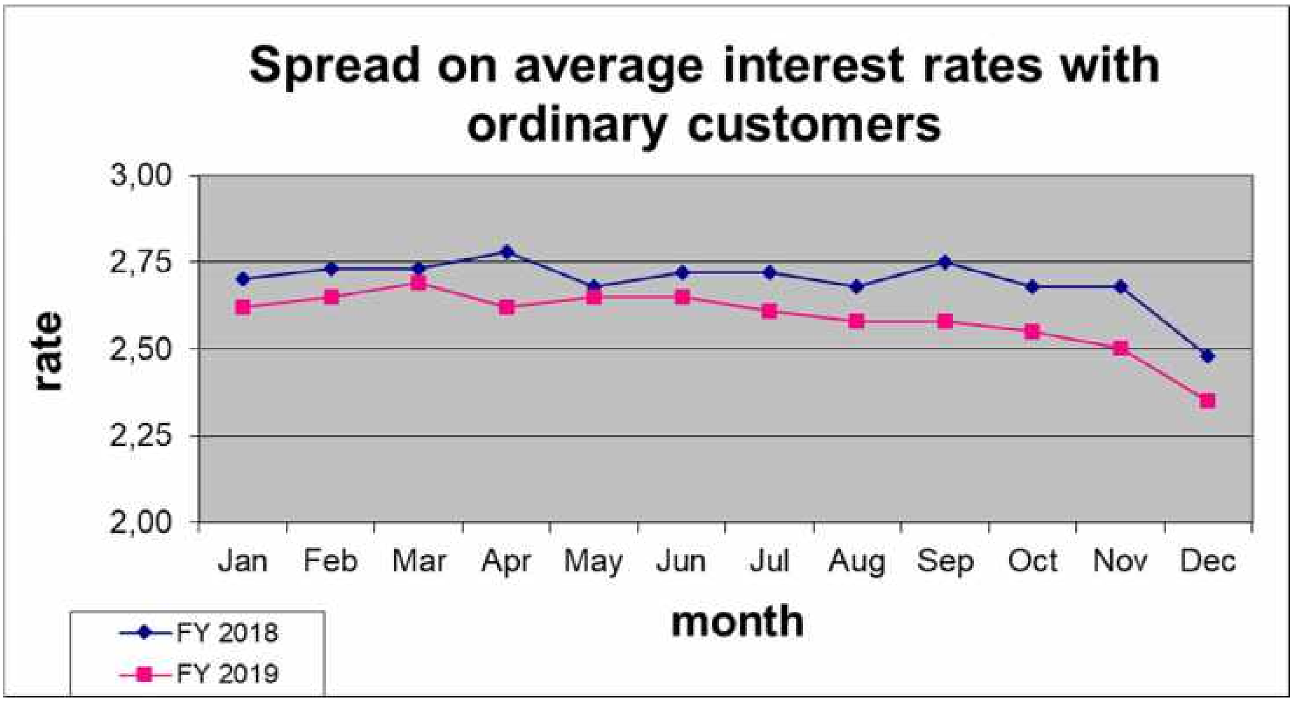

Table 11

Net operating income

Tax base	12/2019	12/2018	difference	
			amount	%
Net interest income	**30,344**	**28,850**	**1,494**	**5.18%**
Dividends	1,967	1,727	240	13.90%
Net fee and commission income	24,078	24,490	-412	-1.68%
Net trading income (expense)	19,323	-2,541	21,864	860.45%
Net gains (losses) on financial assets and liabilities at fair value through profit or loss	-279	-21	-258	-1228.57%
Other operating income	4,337	4,099	238	5.81%
Net operating income	**79,770**	**56,604**	**23,166**	**40.93%**

Table 12

Net operating income amounted to €79,770 thousand, a significant increase on the previous financial year (+40.92%).

Dividends collected during the year showed an increase from €1,727 thousand to €1,967 thousand, due both to the income from the M&G Fund investment and to the greater dividends collected from CSE following the 5% increase in the equity investment.

Net fee and commission income decreased slightly on the previous financial year to €24,078 thousand (-1.68%). As part of this caption, net fee and commission income on current account services and fee and commission income for other services both increased (+2% and +11.4% respectively). Net fee and commission income for management, brokerage and consultancy services decreased by around 9.7%, while fee and commission income for insurance and pension products decreased by around 13.2% and securities placement commissions decreased by 7.2%.

The net gain from HTS, HTCS and HTC financial assets (referring to the sum of profit or loss captions 80 and 100) totalled €19,323 thousand against the loss of €2,541 thousand in 2018, with an increase of €21,864 thousand. In detail, the net trading income from the HTS portfolio came to €5.4 million, trading income from the HTCS portfolio securities totalled €9.4 million, and gains on the sale of securities classified in the HTC portfolio came to around €3 million. Gain from the HTC sector also includes the income, net of costs, deriving from the aforementioned transfer of bad exposures for €1,469 thousand.

Other operating income increased by €238 thousand compared to the previous financial year, to €4,337 thousand.

Operating profit

Tax base	12/2019	12/2018	difference	
			amount	%
Net operating income	**79,770**	**56,604**	**23,166**	**40.93%**
Personnel expense	-26,588	-28,082	1,494	5.32%
Administrative expenses	-19,532	-20,192	660	3.27%
Amortisation and depreciation	-2,817	-1,641	-1,176	-71.66%
Operating costs	**-48,937**	**-49,915**	**978**	**-1.96%**
Operating profit	**30,833**	**6,689**	**24,144**	**360.95%**

Table 13

Operating profit closed at €30,833 thousand, up significantly compared to the previous financial year.

Personnel expense decreased to €26,588 thousand from €28,082 thousand, a drop of €1,494 thousand following the decrease of 16 employees on the previous financial year, in addition to the reduced cost of directors as a result of the replacement of the managing director with the general manager.

Administrative expenses decreased from €20,192 thousand to €19,532 thousand. The decrease is attributable to the reclassification made for IFRS 16 purposes to caption 180 of the profit or loss for €1,284 thousand.

Pre-tax profit from continuing operations

Tax base	12/2019	12/2018	difference	
			amount	%
Operating profit	**30,833**	**6,689**	**24,144**	**360.95%**
Net accruals to (utilisations of) provisions for risks and charges	-793	1,536	-2,329	-151.63%
Net impairment losses on loans and receivables	-20,396	-7,629	-12,767	-167.35%
Pre-tax profit from continuing operations	**9,644**	**596**	**9,048**	**1518.12%**

Table 14

The pre-tax profit from continuing operations amounted to €9,644 thousand compared to €596 thousand for the previous year.

Net accruals to provisions for risks and charges amounted to €793 thousand and were determined analytically in accordance with the detailed examination of the estimated risks of existing legal disputes and endorsement credits.

Loans and receivables with ordinary customers were measured using the methods set out in the notes to the financial statements with the usual prudent approach and in line with the bank's internal policy, and led to impairment losses for €20,396 thousand (recognisable as the sum of captions 130 and 140 in the profit or loss), significantly higher than the €7,629 thousand recognised in the previous financial year.

Profit for the year:

Tax base	12/2019	12/2018	difference	
			amount	%
Pre-tax profit from continuing operations	**9,644**	**596**	**9,048**	**1518.12%**
Income taxes	-3,647	975	-4,622	-474.05%
Profit (loss) from discontinued operations	0	0	0	0.00%
Net gain	**5,997**	**1,571**	**4,426**	**281.73%**

Table 15

Estimated direct taxes for the year came to €3,213 thousand, compared to €170 thousand in the previous financial year, while the reclassification of deferred tax assets and liabilities generated a balance of €434 thousand.
Accordingly, the profit for 2019 amounted to €5,997 thousand.
Comprehensive income for 2019 is €6,591 thousand compared to comprehensive expense of €-815 thousand for 2018.
The actuarial losses of €-344 thousand recognised on employee termination indemnities and the supplementary pension fund and the revaluation of the HTCS securities portfolio reserve for €938 thousand, net of the related taxes, mainly due to changes in the fair value differences on the HTCS portfolio securities, affected the comprehensive income.

Cash flows

The statement of cash flows has been prepared using the indirect method as allowed by IAS 7. Cash flows generated and used during the year are split between operating, investing and financing activities.

Operating activities generated cash flows of €30,567 thousand. This includes €14,527 thousand from operations, while financial assets and financial liabilities used and generated cash of €46,342 thousand and €62,382 thousand, respectively.

Investing activities used cash flows of €953 thousand, mostly due to the purchase of property, plant and equipment and intangible assets.

Financing activities used cash flows of €760 thousand to pay dividends to shareholders in 2019 using the profit for 2018.

As a result, the net cash outflows for the year were €28,854 thousand.

Indicators

The customary analysis using financial statements indicators is set out in the following table:

Financial statements indicators	2019	2018
Capitalisation ratios:		
Equity / total assets	8.58%	8.90%
CET 1 ratio	14.83%	15.09%
Tier 1 ratio	14.83%	15.09%
Total capital ratio	14.83%	15.09%
Non-current assets/equity	15.25%	9.91%
Net NPE/equity	21.74%	33.75%
Own funds/third-party funds	9.87%	10.31%
Risk ratios:		
Net NPE/total exposures	3.28%	5.31%
Coverage ratio for performing exposures	0.83%	0.91%
Allowance for impairment/total exposures	8.01%	9.65%
New NPE rate	0.90%	1.62%
Profitability ratios:		
Net interest income /total income	40.23%	54.95%
Gains from financial transactions / total income	28.22%	-1.55%
Cost of credit	1.79%	0.71%
Gross operating profit / equity	19.67%	5.43%
ROE	3.93%	1.04%
ROA	0.34%	0.09%
Tax rate	37.82%	-163.87%
Net other administrative expenses/total income	25.89%	38.46%
Personnel expense / total income	35.25%	53.48%
Administrative expenses/total income	61.14%	91.94%
Cost/income	60.18%	84.34%
Fair value losses/gains on securities	60.73%	77.57%
Administrative expenses/total assets	2.59%	2.84%
Productivity - Distribution efficiency:		
Loans and receivables with customers/employees	2,800	2,544
Due to customers/employees	4,275	3,882
Total income/average employees	203.876	137.089
Average employees/branches	6.379	6.383
Cost per employee	69.89	70.84
Loans and receivables with customers and due to customers/average employees	6,922	6,342
Total assets/employees	4.919	4.497
Loans and receivables with customers and due to customers/branches	44,159	40,481
Branch employees/employees	69.89%	70.11%

Table 16

Indicators reflecting the bank's core business are summarised in the above table, split into four macro areas.

The indicators for the bank's capitalisation continued to be very high.

In the "equity/total assets" ratio, the equity is the peak value excluding the profit for the year.

The number of employees used to calculate some indicators in the above table also includes the cleaning staff, which in other tables are shown separately. In the calculation of the "cost per employee" indicator, caption "1) Employees" shown in table 10.1 in Part C of the notes to the financial statements was used as the numerator.

The CET1, TIER 1 and TCR fell marginally year-on-year, from 15.09 bps to 14.83 bps. The decrease is mainly due to the increase in the RWA related to the increase in lending at year end. The value of the indicators considers the bank's use of the transitional arrangements by virtue of which the losses from the FTA of IFRS9 can be spread over 5 financial years at increasing percentages and takes account of the dividend policy proposal in line with the Bank of Italy's recommendation of 27 March 2020 and with document no. 044761520 of 2 April 2020.

The net NPE/equity ratio shrank to 21.74% from 33.75% for the previous year. Furthermore, as regards the value of new bad exposures for the year, not only is the figure related to new transactions reclassified as bad taken into consideration, so are the increases during the year of existing bad exposures, as shown in item "B.5 other increases" in table A.1.9 of Part E in the notes to the financial statements. The "cost of credit" of 1.79% was calculated as the ratio between the impairment losses of exposures and gross amounts due to customers.

The improved credit risk indicators reflect the bank's focus on reducing and containing NPE. In fact, new NPE decreased sharply from 1.62% to 0.9%%.

As regards the value of loans and receivables with customers used to calculate the indicators, the figure only refers to financing to customers, excluding the HTC securities portfolio component, which is instead included in the corresponding financial statement entry.

The coverage rate of performing exposures continues to be very positive at 0.83%.

"*Cost/income*", calculated as the ratio between operating costs and the total income, decreased to 60.18%. The indicator was influenced positively by the result of securities portfolio trading and by the reduced operating costs. Net of the currency component of the securities portfolio, the indicator is 60.73%.

In the calculation of the "*Fair value losses/gains on securities*", the difference between the gains and losses on trading shown in table 4.1 of Part C in the notes to the financial statements was used as the denominator of the indicator.

That being said, the ROE is 3.93%, compared to 1.04% in the previous financial year.

Objectives of the 2019 business plan: have they been met

The final version of the 2019/2021 business plan was approved at the meeting on 24 September 2019, following the establishment of the new board of directors in May 2019. The plan was prepared from the perspective of continuity and consolidation and increased efficiency compared to the previous three years.
The objectives of the 2019-2021 strategic plan were identified in line with Cassa di Risparmio di Fermo's mission, which intends to carry out the role of local bank and to continue standing shoulder to shoulder with households and SMEs.
The qualitative objectives set by the business plan for 2019 were achieved. Specifically:

- Reduction in gross and net non-performing exposures and revision of the non-performing exposures valuation and classification policy.
- Increase in the distribution network efficiency by optimising hub branches from 10 to 8 and alternating the opening of pairs of branches.
- Assessment of management resources
- Outsourcing of non-core business services through outsourcing of the help desk.
- Development of the bank's property assets
- Development of human resources through managerial and specialised training

The quantitative objectives for 2019 were achieved. Specifically:

- **Lending**, gross of the allowance for impairment, amounted to €1,101.8 million and exceed the lending estimated for the end of 2019 by 3.5%, amounting to €1,065 million. In detail, performing exposures were estimated in the plan for €921,431 thousand, whereas at 31 December 2019 they amounted to €948,122 thousand (+2.9% compared to the objective).

- **Direct funding** was estimated to amount to €1,465 million compared to the actual €1,548 million (+5.6%).

- **Indirect funding**, inclusive of pension funds plus policies, was estimated to amount to €1,276 million, against the actual figure of €1,252 million (€-24 million).
- **Profitability ratios**: profit for the year came to €5,997 thousand, fully meeting the objective set by the plan for 2019:

  1. **Net interest income** fully met the objectives set by the business plan, at €30.3 million;
  2. **Net fee and commission income**, totalling €24.1 million, was around €1 million lower than the objective set out by the plan (-4.12%).
  3. **Trading income** totalled €19 million, exceeding the objective set by the business plan by around 94%.
  4. **Administrative expenses** closed the year substantially in line with the objectives, while **personnel expense** was 2.7% lower than the business plan objective.
  5. **Net impairment losses on loans and receivables** were around 77.5% higher than the objectives of the plan.

The following table shows the actual results achieved compared to the business plan:

Tax base	Plan 2019	Actual 2019	Difference	%
Net interest income	30,316	30,344	28	0.09%
Net fee and commission income	25,112	24,078	- 1,034	-4.12%
Dividends	1,727	1,967	240	13.90%
Net trading income (expense)	9,826	19,044	9,219	93.82%
Total income	**66,981**	**75,434**	**8,453**	**12.62%**
Net impairment losses (gains) on loans and receivables	- 11,490	- 20,397	- 8,907	77.52%
Personnel expense	- 27,329	- 26,588	741	-2.71%
Other administrative expenses	- 19,704	- 19,532	172	-0.87%
Amortisation - accruals	- 4,449	- 3,610	839	-18.86%
Other operating income, net	4,119	4,337	218	5.29%
Pre-tax profit from continuing operations	**8,129**	**9,645**	**1,516**	**18.65%**
Income taxes	- 2,678	- 3,648	- 970	36.22%
Profit for the year	**5,451**	**5,997**	**546**	**10.02%**
Equity	**157,576**	**158,741**	**1,165**	**0.74%**

Table 17

Bank of Italy/Consob/Isvap (the Italian Insurance Companies Supervisory Authority) document no. 2 of 6 February 2009

The directors state that they have assessed the bank's profitability and liquidity for a period of not less than 12 months from the reporting date based on the business plan, the 2020 budget and all other available information.

With respect to the bank's liquidity, the board of directors confirms the following management guidelines:

1. ongoing alignment and monitoring of interbank credit facilities;
2. maintenance of a lending/funding ratio always below the 90% threshold identified by the board of directors as prudential.

With respect to the bank's profitability, the board of directors believes that, despite this difficult economic period, the bank has appropriate profitability margins for the near and far future notwithstanding increasing volatility in its results due to changed economic conditions and application of IFRS 9, which could lead to greater volatility in its results given the requirement to apply fair value measurement to an increasingly wider range of assets.

It is sufficient to consider the following:

a. the bank has never made a loss despite other unfavourable economic periods;
b. it has a large market share and its local ground roots have actually been strengthened by its strong reputation and efficiency characteristics that it has built up over the years;
c. Its high capitalisation and prudent approach are a solid basis for dealing with any future risks;
d. the 2019-2021 business plan includes a wide-ranging programme of actions designed to improve the bank's efficiency by extending its synergies with the non-controlling investor Intesa Sanpaolo.

It can, therefore, clearly be seen that the going concern assumption is fully met without having to provide any more details.

Bank of Italy's recommendation on the distribution of dividends by less significant Italian institutions during the COVID-19 pandemic

In line with the Bank of Italy's recommendation of 27 March 2020 and document no. 044761520 of 2 April 2020 regarding the dividends policy of less significant Italian institutions during the COVID-19 pandemic, the board of directors of 8 April 2020 amended the shareholders' proposal for allocation of profit for the year resulting from the financial statements at 31 December 2019, previously approved at the meeting on 24 March 2020, as described in section "12.4.2 Proposed allocation of profit for the year" in these financial statements.

Information related to own funds and the prudential ratios reported in the directors' report and the notes to the financial statements were subsequently updated, with respect to the corresponding prudential reports made in February 2020.

The bank's remuneration policy for its key management personnel hinges on maximum prudence, limiting the variable part indexed to financial statements data to just the mechanisms provided for by labour agreements while another part, agreed annually by the board of directors, is based on quantitative/qualitative assessments of the work performed by the management team.

On 25 March 2019, the unit in charge of prudential supervision and the related administrative processes regarding our bank moved from the offices in Ancona to those in Bologna.

Outlook

The overall and actual economic climate raises many issues. The primary issue is the spread of the coronavirus starting in January 2020, and the consequent restrictions implemented by public authorities in all affected countries to contain it.

These circumstances, which are extraordinary and extensive in nature, have direct and indirect repercussions on economic activity and have created a climate of general uncertainty. The changes in the economy and related effects are currently unforeseeable and will be greatly affected by the continuing emergency and the measures that governments, Italy especially, will implement. The potential effects of this event will be constantly monitored over the course of the year.

The distribution network has been made aware so that it can support the economic and production system and implement any targeted measures, awaiting government intervention. All sectors are affected by the issue, though the biggest focus is on manufacturing and tourism. The bank previously joined the "Addendum to the 2019 Credit Agreement" signed by the ABI and the main business associations, which extended to the loans granted up to 31 January 2020 to micro, small and medium enterprises that suffered losses due to the COVID-19 emergency, the possibility to request the suspension of payments or the extension of the repayment plan. Carifermo is taking action to implement the new "Cura Italia" ministerial decree, which sets out various measures including: increasing the central guarantee fund for SMEs, even for renegotiating existing loans; strengthening the Credit Guarantee Consortia for micro enterprises through simplification measures; extension to self-employed workers and simplified use of the mortgage fund for first-time buyers; liquidity and guarantees from CDP (deposit and loan bank) for enterprises with reduced turnover due to the virus.

Lending accelerated strongly in the final part of the year, allowing for the objectives of the 2019 business plan to be achieved. This will continue throughout the current year, as we implement all strategies identified such as ceilings dedicated to specific customer and/or economic segments, participation in pool financing and transfers of salary-backed loans, reinforcement of market shares on the markets with the greatest development potential and the opening of the branch in Ancona by the end of 2020.

With reference to investments, the bank will continue to diversify its portfolio, mainly through the management mandate granted to Epsilon, which operates in different instruments other than Italian government bonds and is moving towards risk splitting in relation to the securities portfolio, while taking due consideration of the protection and growth of the TCR.

Indirect funding was significantly redeveloped, especially the managed funds, which at 31 December 2019 made up over 64% of the total indirect funding, a figure that contributed heavily to a stable recovery of the net fee and commission income, which, as a result of the calculation mechanisms, is tending towards growth in the near future.

Placement was also extended to insurance products that cover a larger range of demand, chosen and tailored on the basis of the information and indications obtained from the network. Therefore, the flow of commission may be further enriched by the contribution from class III insurance instruments. From February 2020, it was again possible to place the assets managed by Eurizon Capital SGR and new savings products were introduced.

In the year ended at 31 December 2019, the objectives set out by the NPE plan were substantially met, and non-performing exposures significantly decreased and should continue to decrease in the current year. The bank reinforced its prudent valuation policy for non-performing exposures, which led to an improvement in the coverage rate from 48.08% to 52.3%. This trend should also remain stable in the future, using the outlook of the NPE plan as a point of reference. The plan will be updated in June 2020 according to the contents of the Bank of Italy's note of 20 March 2020 "Extension of the terms and other temporary measures to mitigate the impact of COVID-19 on the Italian banking and financial system", also considering the unforeseeable and unquantifiable effects of the COVID-19 emergency.

Personnel costs decreased, as expected due to normal turnover and increased organisational efficiency, which in 2020 will also involve the optimisation of the number of hub branches from 8 to 5.

The financial statements at year end showed a fall in administrative expenses year-on-year. The positive trend will also continue in the coming year and operating costs will gradually decrease in line with the entire company structure.

As envisaged by the 2019-2021 business plan, the policy for developing owned property will continue. In particular, over the course of 2020 restorations will continue in Palazzo De Angelis, the building forming a single unit with the complex containing our bank's management and central offices. The renovation of the San Benedetto branch will also continue.

In light of the above and the ongoing health emergency, Cassa di Risparmio di Fermo will continue to perform its role as local bank, and continue to support households and SMEs while pursuing the objectives of the 2019-2021 business plan.

Conclusions

To wind up this report, I would like once again to firstly thank all our customers who continue to choose Cassa di Risparmio di Fermo S.p.A. as their bank in what definitely has not been an easy year, and who are confident that the bank has been able to repay such a choice with its top quality services.

The bank's activities are those set out by the Fondazione Cassa di Risparmio di Fermo which are its reference point and guiding light. The expert assistance of the shareholder Intesa Sanpaolo provided continuously to our staff improving their approach and professional standing contributes great added value.

While thanking the directors who have ceased office, we are deeply appreciative of the managing director, Alessandra Vitali Rosati, for her qualified and enthusiastic commitment, dedication and work carried out over the entire three-year mandate that ended on 30 April 2019. We thank the general manager, appointed in May 2019, the executive committee and the board of directors for their expert assistance and guidance provided to the bank in this period of significant legislative discontinuities and a difficult economic situation.

The precious assistance provided by the entire board of statutory auditors is also worthy of mention.

We would also like to especially thank all the bank's employees for their profound commitment to embrace change professionally and with a sense of belonging.

Finally, we would like to express our gratitude to the supervisory authorities and, especially, the Bologna branch manager, Maurizio Rocca, and the Ancona branch manager, Gabriele Magrini Alunno, for their availability as well as all the personnel at those two branches for their assistance.

for the board of directors
The Chairman

Fermo, 8 April 2020

BALANCE SHEET: ASSETS

	Assets	12/2019	12/2018
10.	Cash and cash equivalents	62,820,183	33,965,889
20.	Financial assets at fair value through profit or loss	175,073,686	305,218,894
	a) financial assets held for trading;	*174,857,818*	*304,724,009*
	b) financial assets designated at fair value;	*-*	*-*
	c) other financial assets mandatorily measured at fair value	*215,868*	*494,885*
30.	Financial assets at fair value through other comprehensive income	203,674,025	79,573,280
40.	Financial assets at amortised cost	1,260,873,669	1,208,490,721
	a) loans and receivables with banks	*18,706,710*	*19,618,480*
	b) loans and receivables with customers	*1,242,166,959*	*1,188,872,241*
80.	Property, plant and equipment	23,150,385	14,870,293
90.	Intangible assets	136,422	122,051
	including:	-	-
	- goodwill	-	-
100.	Tax assets	21,750,776	22,673,945
	a) current	*3,502,311*	*3,330,908*
	b) deferred	*18,248,465*	*19,343,037*
120	Other assets	33,282,764	34,978,368
	Total assets	**1,780,761,910**	**1,699,893,441**

BALANCE SHEET: LIABILITIES

	Liabilities and equity	12/2019	12/2018
10.	Financial liabilities at amortised cost	1,550,471,183	1,468,697,773
	a) due to banks	*2,758,596*	*1,373,183*
	b) due to customers	*1,477,908,638*	*1,387,593,799*
	c) securities issued	*69,803,949*	*79,730,791*
20.	Financial liabilities held for trading	151,171	288,801
60.	Tax liabilities	4,183,175	*1,429,457*
	a) current	*3,213,438*	*402,540*
	b) deferred	*969,737*	*1,026,917*
80.	Other liabilities	48,770,676	57,798,123
90.	Employee termination indemnities	6,971,244	8,005,154
100.	*Provisions for risks and charges:*	*11,473,060*	*10,763,931*
	a) loan commitments and financial guarantees given	*542,186*	*152,205*
	b) pension and similar obligations	*8,278,051*	*8,362,303*
	c) other provisions	*2,652,823*	*2,249,423*
110.	Valuation reserves	11,017,974	10,423,757
140.	Reserves	67,825,540	67,014,605
150.	Share premium	34,660,068	34,660,068
160.	Share capital	39,241,087	39,241,087
180.	Profit for the year	5,996,732	1,570,685
	Total liabilities and equity	**1,780,761,910**	**1,699,893,441**

INCOME STATEMENT

	Tax base	12/2019	12/2018
10.	Interest and similar income	33,306,562	32,113,452
	including: interest calculated using the effective interest method	*21,924,797*	*20,176,205*
20.	Interest and similar expense	- 2,962,533	- 3,263,756
30.	**Net interest income**	**30,344,029**	**28,849,696**
40.	Fee and commission income	25,591,202	25,898,566
50.	Fee and commission expense	- 1,512,971	- 1,408,400
60.	**Net fee and commission income**	**24,078,231**	**24,490,166**
70.	Dividends and similar income	1,967,462	1,727,358
80.	Net trading income (expense)	5,393,737	- 6,321,335
100.	Net gain from sales or repurchases of:	13,929,713	3,781,201
	a) financial assets at amortised cost	*4,574,073*	*-*
	b) financial assets at fair value through other comprehensive income	*9,355,640*	*3,781,017*
	c) financial liabilities	*-*	*184*
110.	*Net loss on other financial assets and liabilities at fair value through profit or loss*	- 279,017	- 21,265
	a) financial assets and liabilities designated at fair value	*-*	*-*
	b) other financial assets mandatorily measured at fair value	*- 279,017*	*- 21,265*
120.	**Total income**	**75,434,155**	**52,505,821**
130.	Net impairment losses for credit risk associated with:	- 19,865,338	- 7,629,222
	a) financial assets at amortised cost	*- 19,751,990*	*- 7,505,157*
	b) financial assets at fair value through other comprehensive income	*- 113,348*	*- 124,065*
140.	Gains (Losses) from contractual modifications without derecognition	- 531,253	-
150.	**Net financial income**	**55,037,564**	**44,876,599**
160.	Administrative expenses:	- 46,119,999	- 48,274,472
	a)personnel expense	*- 26,588,008*	*- 28,082,499*
	b)other administrative expenses	*- 19,531,991*	*- 20,191,973*
170.	Net accruals to provisions for risks and charges	- 793,381	1,535,912
	a) loan commitments and financial guarantees given	*- 389,981*	*- 30,331*
	b) other	*- 403,400*	*1,566,243*
180.	Net adjustments to property, plant and equipment	- 2,736,366	- 1,552,461
190.	Net adjustments to intangible assets	- 80,392	- 88,587
200.	Other operating income, net	4,337,472	4,098,608
210.	**Operating costs**	**- 45,392,666**	**- 44,281,000**
250.	Net gains (losses) on sales of investments	- 198	- 413
260.	**Profit (Loss) from current operations before tax**	**9,644,700**	**595,186**
270.	Income taxes	- 3,647,968	975,499
280.	**Profit (Loss) from current operations after tax**	**5,996,732**	**1,570,685**
300.	**Profit for the year**	**5,996,732**	**1,570,685**

STATEMENT OF COMPREHENSIVE INCOME

	Tax base	12/2019	12/2018
10.	**Profit for the year**	**5,996,732**	**1,570,685**
	Items, net of tax, that will not be reclassified to profit or loss:		
20.	Equity instruments at fair value through other comprehensive income	48,334	- 426,510
30.	Financial liabilities designated at fair value through profit or loss (changes in own credit rating)	-	-
40.	Hedges of equity instruments at fair value through other comprehensive income	-	-
50.	Property, plant and equipment	-	-
60.	Intangible assets	-	-
70.	Defined benefit plans	- 343,814	332,567
80.	Non-current assets and disposal group classified as held for sale	-	-
90.	Share of valuation reserves of equity-accounted investees	-	-
	Items, net of tax, that will be reclassified to profit or loss:		
100.	Hedges of investments in foreign operations	-	-
110.	Exchange gains (losses)	-	-
120.	Cash flow hedges	-	-
130	Hedging instruments (non-designated items)	-	-
140.	Financial assets (other than equity instruments) at fair value through other comprehensive income	889,697	- 2,292,251
150.	Non-current assets and disposal group classified as held for sale	-	-
160.	Share of valuation reserves of equity-accounted investees	-	-
170.	**Other comprehensive expense, net of tax**	**594,217**	**- 2,386,194**
180.	**Comprehensive income (expense) (captions 10 + 170)**	**6,590,949**	**- 815,509**

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31/12/2019

	Balance at 31/12/2018	Change to opening balances	Balance at 01/01/2019	Allocation of prior year profit		Changes for the year								Equity at 31/12/2019
						Changes in reserves	Equity transactions						Comprehensive income for the year at 31/12/2019	
				Reserves	Dividends and other allocations		Issue of new shares	Repurchase of own shares	Extraordinary dividend distribution	Change in equity instruments	Derivatives on treasury shares	Stock options		
Share capital:	**39,241,087**	-	**39,241,087**	-	-	-	-	-	-	-	-	-	-	**39,241,087**
a) ordinary shares	39,241,087	-	39,241,087	-	-	-	-	-	-	-	-	-	-	39,241,087
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium	**34,660,068**	-	**34,660,068**	-	-	-	-	-	-	-	-	-	-	**34,660,068**
Reserves:	**67,014,605**	-	**67,014,605**	**810,935**	-	-	-	-	-	-	-	-	-	**67,825,540**
a) income-related	74,150,062	-	74,150,062	810,935	-	-	-	-	-	-	-	-	-	74,960,997
b) other	- 7,135,457	-	- 7,135,457	-	-	-	-	-	-	-	-	-	-	- 7,135,457
Valuation reserves:	**10,423,757**	-	**10,423,757**	-	-	-	-	-	-	-	-	-	**594,217**	**11,017,974**
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit for the year	**1,570,685**	-	**1,570,685**	**- 810,935**	**- 759,750**	-	-	-	-	-	-	-	**5,996,732**	**5,996,732**
Equity	**152,910,202**	-	**152,910,202**	-	**- 759,750**	-	-	-	-	-	-	-	**6,590,949**	**158,741,401**

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

	Balance at 31/12/2017	Change to opening balances	Balance at 01/01/2018	Allocation of prior year profit		Changes for the year								Equity at 31/12/2018
						Changes in reserves	Equity transactions						Comprehensive income for the year at 31/12/2018	
				Reserves	Dividends and other allocations		Issue of new shares	Repurchase of own shares	Extraordinary dividend distribution	Change in equity instruments	Derivatives on treasury shares	*Stock options*		
Share capital:	**39,241,087**	-	**39,241,087**	-	-	-	-	-	-	-	-	-	-	**39,241,087**
a) ordinary shares	39,241,087	-	39,241,087	-	-	-	-	-	-	-	-	-	-	39,241,087
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium	**34,660,068**	-	**34,660,068**	-	-	-	-	-	-	-	-	-	-	**34,660,068**
Reserves:	**74,872,925**	**-10,405,217**	**64,467,708**	**2,546,897**	-	-	-	-	-	-	-	-	-	**67,014,605**
a) income-related	71,603,165	-	71,603,165	2,546,897	-	-	-	-	-	-	-	-	-	74,150,062
b) other	3,269,760	-10,405,217	- 7,135,457	-	-	-	-	-	-	-	-	-	-	- 7,135,457
Valuation reserves:	**12,884,638**	**- 74,687**	**12,809,951**	-	-	-	-	-	-	-	-	-	**- 2,386,194**	**10,423,757**
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit for the year	4,826,147	-	4,826,147	- 2,546,897	-2,279,250	-	-	-	-	-	-	-	1,570,685	1,570,685
Equity	166,484,865	-10,479,904	156,004,961	-	-2,279,250	-	-	-	-	-	-	-	- 815,509	152,910,202

STATEMENT OF CASH FLOWS: indirect method

A. OPERATING ACTIVITIES	Amount	
	12/2019	12/2018
1. Operations	**14,526,788**	**-2,567,306**
- profit for the year	5,996,732	1,570,685
- net gains/losses on financial assets held for trading and other financial assets/liabilities at fair value through other comprehensive income (-/+)	-466,992	4,482,427
- gains/losses on hedging transactions (-/+)	-	-
- net impairment losses (gains) for credit risk (+/-)	18,833,322	6,607,728
- amortisation, depreciation and net impairment losses on property, equipment and investment property and intangible assets (+/-)	3,056,203	1,947,954
- net accruals to provisions for risks and charges and other costs/revenue (+/-)	-961,417	-1,535,912
- unpaid taxes and duties (+/-)	3,647,968	244,500
- net impairment losses/reversals of impairment losses on non-current assets held for sale and disposal groups, net of tax (+/-)	-	-
- other adjustments (+/-)	-15,579,028	-15,884,688
2. Cash flows generated by/used for financial assets	**-46,342,348**	**-129,345,044**
- financial assets held for trading	132,657,414	-49,573,690
- financial assets designated at fair value	-	-
- other assets mandatorily measured at fair value	-	-516,150
- financial assets at fair value through other comprehensive income	-113,324,475	148,519,803
- financial assets at amortised cost	-66,927,983	-221,473,267
- other assets	1,252,696	-6,301,740
3. Cash flows generated by financial liabilities	**62,382,395**	**27,055,544**
- financial liabilities at amortised cost	73,011,740	-3,164,088
- financial liabilities held for trading	-137,630	88,097
- financial liabilities designated at fair value	-	-
- other liabilities	-10,491,715	30,131,535
Net cash flows generated by/used in operating activities	**30,566,835**	**-104,856,806**
B. INVESTING ACTIVITIES		
1. Cash generated by	**1,502**	**430**
- sales of equity investments	-	-
- dividends from equity investments	-	-
- sales of property, plant and equipment	1,502	430
- sales of intangible assets	-	-
- sales of business units	-	-
2. Cash flows used to acquire	**-954,293**	**-950,746**
- equity investments	-	-
- property, equipment and investment property	-715,658	-600,179
- intangible assets	-238,635	-350,567
- business units	-	-
Net cash flows used in investing activities	**-952,791**	**-950,316**
C. FINANCING ACTIVITIES		
- issue/repurchase of treasury shares	-	-
- issue/purchase of equity instruments	-	-
- dividend and other distributions	-759,750	-2,279,250
Net cash flows used in financing activities	**-759,750**	**-2,279,250**
NET CASH FLOWS FOR THE YEAR	**28,854,294**	**-108,086,372**

Key: (+) generated; (-) used

Reconciliation:

FINANCIAL STATEMENT ITEMS	Amount	
	12/2019	12/2018
Opening cash and cash equivalents	33,965,889	142,052,261
Net cash flows for the year	28,854,294	- 108,086,372
Cash and cash equivalents: exchange gains (losses)	-	-
Closing cash and cash equivalents	62,820,183	33,965,889

EXPLANATORY NOTES

PART A
Accounting policies

A.1 – GENERAL PART

Section 1 – Statement of compliance with the IFRS

The financial statements of Cassa di Risparmio di Fermo S.p.A. as at 31 December 2019 have been prepared in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and related interpretations of the International Financial Reporting Interpretations Committee (IFRIC), endorsed by the European Commission with EC regulation 1606 of 19 July 2002 and applied in Italy with article 1 of Legislative decree no. 38 of 28 February 2005. The instructions issued by Bank of Italy in its Circular no. 262 of 22 December 2005 and subsequent updates have also been considered.

The bank also referred to the Framework for application of the IFRS.

The bank changed the drafting policies applied to classify, recognise, measure and derecognise financial assets and liabilities and to recognise revenue and costs compared to its 2018 financial statements.

This change derives from the compulsory application, as of 1 January 2019, of international accounting standard IFRS 16 "Leases", issued by the IASB on 13 January 2016 and approved by the European Commission through Regulation no. 2017/1986, which amended or interpreted the IAS/IFRS standards pertaining to the rules on classifying, measuring and depreciating the rights of use of leased/rented assets with recognition of the related liabilities on the basis of the actual value of the payments still due.

When preparing the financial statements, the board of directors made reference to and considered the applicability of the following sources, set out below in decreasing order of importance:

- the guidance and instructions set out in the standards and interpretations for similar or related cases;
- the definitions and recognition and measurement requirements for assets, liabilities, revenue and costs provided in the Framework.

The board of directors may also refer to the most recently issued measures of other accounting standard setters that use a framework similar to that of the IFRS to develop such standards, other accounting reference documentation and consolidated practices.

As required by IAS 8, the new international accounting standards, or the changes to standards already in force, are shown below. Their application became compulsory as of the 2019 financial year.

IFRS STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLIED FROM 1 JANUARY 2019

The following IFRS accounting standards, amendments and interpretations were applied by the bank for the first time as of 1 January 2019.

On 13 January 2016, the IASB published IFRS 16 – Leases, which replaces IAS 17 – Leases, as well as IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard provides a new definition of a lease and introduces a criterion based on the control (right of use) of an asset in order to distinguish between lease contracts and contracts to supply services, identifying the distinguishing criteria for leases as: the identification of the asset, its substantive substitution right, the right to obtain substantially all of the economic benefits from use of the asset and, finally, the right to use the underlying asset.

The standard establishes a single model for the lessee to recognise and measure lease contracts, which envisages the recognition of the asset being leased, including operational leases, in the financial assets with a balancing entry in the financial liabilities. On the other hand, the standard does not make significant changes for lessors.

The bank availed of the practical expedient envisaged for the transition to IFRS 16 to avoid reassessing whether a contract is or contains a lease. Therefore, the outcome related to qualifying a contract as a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to contracts signed or amended before 1 January 2019.

The change in the definition of a lease mainly refers to the criterion based on control ("right of use"). According to IFRS 16, a contract contains a lease if the customer has the right to control the use of an identified asset for a period of time in exchange for a fee. This concept is substantially different from the concept of "risks and rewards", to which significant attention was paid in IAS 17 and IFRIC 4.

The bank applies the definition of a lease and the related provisions set out by IFRS 16 for all lease contracts signed or amended after 1 January 2019 (regardless of the condition of lessee or lessor in each lease contract). In light of the first time application of IFRS 16, the bank carried out a project to assess the potential impacts and implementation of IFRS 16. The analysis showed how the new definition set out by IFRS 16 will not significantly change the scope of the contracts defined by the bank as a lease.

IFRS 16 became applicable on 1 January 2019. The main areas affected by its application are summarised below.

As mentioned by the transition rules of IFRS16, the bank availed of the right not to reassess on homogeneous bases the comparative values for the year of FTA of IFRS16, so the figures from 2018, determined in accordance with IAS 17, are not fully comparable. In particular, the "modified retrospective approach B" (section C5 letter b, C7 and C8 letter b.ii of annex C to IFRS 16) was applied, which provides for the possibility to present the asset consisting of the right of use at the date of FTA for an amount equal to the liabilities of the lease net of prepayment; using this approach, no differences appear on the net equity at the date of FTA.

Similarly, the bank availed of the exemption granted by IFRS 16:5(b) regarding lease contracts for which the underlying asset is configured as a low-value asset (i.e. the underlying asset of the lease contract does not exceed the value of €5 thousand when new). Contracts for which the exemption was applied mainly fall under the following categories:

- Computers, telephones and tablets;
- Printers;
- Other electronic devices;
- Furniture and fittings.

For these contracts, the introduction of IFRS 16 did not lead to recognition of the financial liabilities for the lease and the related right of use, but the lease fees were recognised in the profit or loss on a straight-line basis for the duration of respective contracts in "other costs" of the profit or loss.

The bank also decided not to apply IFRS16 for the contracts containing a lease that had an underlying intangible asset.

Lastly, with reference to the transitional rules, the bank availed of the following available practical expedients:

- Use of the assessment made at 31 December 2018 according to the rules of IAS 37 Provisions, Contingent Liabilities and Contingent Assets in relation to the accounting of onerous contracts instead of application of the impairment test pursuant to IAS 36 on the value of the right of use at 1 January 2019;
- Classification of the contracts maturing within 12 months from the transition date as short-term leases. For these contracts, the lease fees were recognised to the profit or loss on a straight-line basis;
- Exclusion of the initial direct costs from measurement of the right of use at 1 January 2019;
- Use of the information present at the transition date to determine the lease term, with particular reference to exercising the options of extension or early closure.

The right of use recognised at 1 January 2019 totalled €9,892 thousand, while the liabilities amounted to €9,818 thousand, adjusted for prepayments. The liabilities recognised at the date of FTA according to IFRS 16 mainly exclude the future payments for contracts with "low value assets" or those belonging to the "short term" category, in addition to other payments not falling within the scope of application of the new standard, as shown in the following reconciliation table:

Reconciliation of lease liabilities	
IAS 17 operating lease commitments not discounted at 31/12/2018	9,892
Other changes: Prepayments	74
IFRS 16 lease liabilities at 01/01/2019	9,818

Regarding the economic figures for the year, based on the provisions of IFRS 16, it is noted that:

- the depreciation and net impairment losses on property, plant and equipment include amortisation of the rights of use of assets underlying lease/rental contracts and amount to €1,284 thousand;
- the lease fees related to contracts falling within the scope of IFRS16 are no longer recognised in "other administrative expenses";
- property, plant and equipment include the rights of use calculated on leased assets for €8,841 thousand;
- amounts due to customers include the amount of the lease liability determined according to IFRS16 for €8,762 thousand.

Based on the above, the economic/financial figures related to the periods compared are not fully comparable.

- On 12 December 2017, the IASB published the "Annual Improvements to IFRSs 2015-2017 Cycle", which transposed the changes to some standards as part of their annual improvement process. The main changes concern:
    - IFRS 3 Business Combinations and IFRS 11 Joint Arrangements: the amendment clarifies that when an entity obtains control of a business representing a joint operation, it must remeasure the investment previously held in that business. This process is not required if joint control is obtained.
    - IAS 12 Income Taxes: the amendment clarifies that all tax effects related to dividends (including payments on the financial instruments classified in equity) must be accounted for in accordance with the transaction that generated those profits (profit or loss, OCI or equity).
    - IAS 23 Borrowing Costs: the change clarifies that in the event of borrowing remaining even after the qualifying asset of reference is ready for use or sale, this borrowing becomes part of all borrowings used to calculate the borrowing costs.

    The adoption of this amendment had no effect on the financial statements.

- On 7 February 2018, the IASB published the “Plant Amendment, Curtailment or Settlement (Amendments to IAS 19)”. The document clarifies how an entity should report a change (i.e. a curtailment or settlement) of a defined benefit plan. The changes require that the entity update its assumptions and re-measure the liabilities or net assets deriving from the plan. The amendments clarify that following such an event, an entity must use updated assumptions to measure the current service cost and interest for the remainder of the reference period following the event. The adoption of this amendment had no effect on the financial statements.
- On 12 October 2017, the IASB published the “Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)”. This document clarifies the need to apply IFRS 9, including the requirements related to impairment and other long-term investments in associated companies and joint ventures for which the equity method is not applied. The adoption of this amendment had no effect on the financial statements.
- On 7 June 2017, the IASB published the “Uncertainty over Income Tax Treatments (IFRIC Interpretation 23)”. The interpretation tackles the issue of uncertainties around which tax treatment to apply to income taxes. In particular, the interpretation requires that an entity analyse the uncertain tax treatments (individually or as a whole, depending on the characteristics), always assuming that the taxation authority will examine the tax position in question and will have full knowledge of all relevant information when doing so. If the entity concludes that it is not probable that the tax authority will accept a particular tax treatment, the entity must reflect the effect of the uncertainty in its current and deferred income taxes. In addition, the document does not contain any new reporting obligations but underlines that the entity must establish whether it will be necessary to provide information about the considerations made by management and relating to the uncertainty underlying the tax accounting, in accordance with IAS 1. The new interpretation was applied as of 1 January 2019. The adoption of this amendment had no effect on the financial statements.
- On 12 October 2017, the IASB published an amendment to IFRS 9 “Prepayment Features with Negative Compensation”. This document specifies that the instruments that require an early repayment could follow the Solely Payments of Principal and Interest (“SPPI”) test, even if the reasonable additional compensation to be paid in the event of an early repayment is negative compensation for the lender. The adoption of this amendment had no effect on the financial statements.

IFRS AND IFRIC ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPROVED BY THE EUROPEAN UNION, NOT YET MANDATORILY APPLICABLE AND NOT YET ADOPTED BY THE COMPANY AT 31 DECEMBER 2019

The company has not applied the following new accounting standards and other published amendments, application of which is not yet compulsory.

- On 31 October 2018, the IASB published the “Definition of Material (Amendments to IAS 1 and IAS 8)”. The document introduced a change to the definition of “material” contained in IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors. This amendment aims to make the definition of “material” more specific and introduced the concept of “obscured information” alongside the concepts of omitted or misstated information already present in the two amended standards. The amendment clarifies that information is obscured if it is communicated in a way that would have a similar effect on the primary readers of financial statements as omitting or misstating the information. The changes introduced by the document are applied to all transactions after 1 January 2020. The directors do not expect a significant effect on the financial statements from adopting this amendment.

- On 29 March 2018, the IASB published an amendment to the "References to the Conceptual Framework in IFRS Standards". The amendment is effective for periods beginning on or after 1 January 2020, but early application is permitted. The conceptual framework defines the fundamental concepts for financial reporting and guides the board in the development of IFRS. The document helps to guarantee that the standards are conceptually consistent and that similar transactions are treated in the same way, so as to provide useful information to investors, lenders and other creditors. The conceptual framework supports businesses in the development of accounting standards where no IFRS is applicable to a specific transaction and, in general, helps interested parties to understand and interpret the standards. The directors do not expect a significant effect on the financial statements from adopting this amendment. The amendments took effect on 1 January 2020, but companies may opt for early application. The directors do not expect any effects on the financial statements from adopting this amendment.

IFRS ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET APPROVED BY THE EUROPEAN UNION

At the reporting date, the EU competent bodies have not yet concluded the approval process required for the adoption of the amendments and standards described below.

- On 22 October 2018, the IASB published the "Definition of a Business (Amendments to IFRS 3)". The document provides some clarifications on the definition of a business for the purposes of the correct application of IFRS 3. In particular, the amendment clarifies that while a business usually produces an output, the presence of an output is not strictly necessary in order to identify a business where there is an integrated set of activities/processes and assets. Nevertheless, in order to satisfy the definition of a business, an integrated set of activities/processes and assets must include, as a minimum, an input and a substantial process that together significantly contribute to the ability to create an output. To this end, the IASB replaced the term "ability to create outputs" with "ability to contribute to the creation of outputs" in order to clarify that a business can exist even without the presence of all inputs and processes necessary to create an output.

The amendment also introduced an optional concentration test that makes it possible to exclude the presence of a business if the price paid is substantially attributable to a single asset or group of assets. The changes apply to all business combinations and asset acquisitions after 1 January 2020, but early application is permitted.

The directors do not expect any effects on the financial statements from adopting this amendment.

- On 18 May 2017, the IASB published IFRS 17 – Insurance Contracts, which is intended to replace IFRS 4 – Insurance Contracts.

The objective of the new standard is to guarantee that an entity provides relevant information that offers a faithful representation of the rights and obligations deriving from the insurance contracts issued. The IASB developed the standard to eliminate inconsistencies and weaknesses in the existing accounting policies, providing a single principle-based framework to take into account all types of insurance contracts, including the reinsurance contracts held by an insurer.

The new standard also envisages the presentation and disclosure requirements to improve comparability between the sector's entities.

The new standard measures an insurance contract on the basis of a general model or a simplified version of it, entitled the "premium allocation approach" (PAA).

The main characteristics of the general model include:

- the estimates and assumptions of future cash flows are always current;
- the measurement reflects the time value of money;
- the estimates envisage an extensive use of observable market information;

- a current and explicit risk assessment exists;
- the expected profit is deferred and aggregated into groups of insurance contracts during initial recognition; and
- the expected profit is reported in the contract coverage period taking account of the adjustments deriving from differences in the cash flow assumptions for each group of contracts.

The PAA envisages the measurement of liabilities for the residual coverage of a group of insurance contracts provided that, during initial recognition, the entity ensures that these liabilities reasonably represent an approximation of the general model. The contracts with a coverage period of one year or less are automatically suitable for the PAA. The simplifications deriving from application of the PAA do not apply to the valuation of the liabilities for existing claims, which are measured with the general model. Nevertheless, it is not necessary to discount those cash flows if it is expected that the balance is to be paid or collected within one year from the date of the claim.

The entity must apply the new standard to insurance contracts issued, including reinsurance contracts, to reinsurance contracts held and to investment contracts with a discretionary participation feature (DPF).

The standard applies from 1 January 2021 but early application is permitted only for entities that apply IFRS 9 – Financial Instruments and IFRS 15 – Revenue from Contracts with Customers. The adoption of this standard has no effect on the financial statements.

- On 11 September 2014, the IASB published an amendment to IFRS 10 and IAS 28 “Sales or Contribution of Assets between an Investor and its Associate or Joint Venture”. The document was published to resolve the current conflict between IAS 28 and IFRS 10.

According to IAS 28, the gain or loss from a sale or transfer of a non-monetary asset to a joint venture or associate in exchange for a share in its capital is limited to the share held in the joint venture or associate by the other investors not involved in the transaction. On the other hand, IFRS 10 requires the recognition of all gain or loss in the event of loss of control of a subsidiary, even if the entity continues to hold a non-controlling interest in it. This also includes the sale or transfer of a subsidiary to a joint venture or associate. The amendments introduced require that in a sale/transfer of an activity or subsidiary to a joint venture or associate, the amount of the gain or loss to be recognised in the financial statements of the assignor/transferor depends whether or not the activities or subsidiary sold/transferred constituted a business, as define by IFRS 3. If the activities or the subsidiary sold/transferred form a business, the entity must report the gain or loss on the entire share previously held; on the other hand, the portion of gain or loss related to the share still held by the entity must be derecognised. The IASB has currently suspended application of this amendment. The directors do not expect any impact as a result of this amendment.

- On 30 January 2014, the IASB published IFRS 14 – “Regulatory Deferral Accounts”, which permits a first-time adopter of the IFRS to continue to recognise the amounts related to the rate regulation activities according to the previously adopted accounting standards. As the bank is not a first-time adopter, this standard is not applicable.

Changes to the IBOR – Interest Rate Benchmark Reform: In September 2019, the IASB published the “Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform” (already endorsed by the EFRAG). This document amends some of the requirements for the application of hedge accounting, in order to mitigate the impact deriving from uncertainty around future cash flows due to the IBOR reform. The amendment requires that the following disclosures be provided for hedging relationships impacted by the reform:

- the most significant benchmarks to which the entity’s hedging relationships are exposed;
- the amount of risk hedged by the entity directly impacted by the reform;
- the methods used by the entity to manage the transition to the new benchmark rates;
- a description of the main assumptions adopted by the entity for application of the temporary exceptions defined by the amendment;
- the notional amount of the hedging instruments included in the hedging relationships affected.

Though the amendment is mandatorily applicable from 1 January 2020, application was possible before 31 December 2019. In any case, this amendment is not applicable to the bank.

The directors do not expect any effects on the financial statements.

Section 2 – Basis of presentation

The financial statements are clearly stated and give a true and fair view of the bank's financial position, financial performance and cash flows. They comprise the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and these notes and are accompanied by a directors' report. When the disclosures required by the IFRS and the instructions set out in Bank of Italy Circular no. 262 of 22 December 2005, and subsequent amendments, are not sufficient to give a true and fair, material, reliable, comparable and understandable view of the bank's financial position, results of operations and cash flows, additional information is provided in the notes.

The basis of presentation for the budgetary accounts is shown below:

- The general guidelines for presentation of the financial statements are: the assumption of going concern;
- the accruals basis of accounting: costs and revenue are recognised on an accruals basis;
- materiality and aggregation: each material class of similar items is presented separately in the balance sheet and the income statement. Items of a dissimilar nature or function are presented separately unless they are immaterial;
- if an element of the assets or liabilities falls under several entries of the balance sheet, its reference to the entries other than the entry in which it is recognised is annotated in the notes where necessary for comprehension of the financial statements;
- offsetting: assets and liabilities, income and expenses are not offset, unless expressly required or permitted by a standard or an interpretation or the above-mentioned Bank of Italy Circular no. 262 of 22 December 2005 and subsequent amendments;
- the budgetary accounts are prepared according to substance over form;
- comparative information: comparative information in respect of the previous year is disclosed for all amounts reported in the current year's financial statements.

Pursuant to article 5 of Legislative decree no. 38 of 28 February 2005, the financial statements have been prepared using the euro as the reporting currency. In particular, they were prepared in euros.

Section 3 – Events after the reporting date

Between 31 December 2019 and 8 April 2020, the date on which the financial statements were approved by the board of directors, no events occurred that required an adjustment to the results of the financial statements or the disclosures.
This said, as is known, the health emergency due to the spread of COVID-19 has been ongoing since January 2020.

On the basis of IAS 10, in light of the chronology of events and the information provided after the reporting date, the event in question is classifiable as a non-adjusting event, i.e. an event occurring after the reporting date that does not require any adjustments, only specific disclosures.

This event, which is extraordinary and extensive in nature, will have direct and indirect repercussions on the bank's future activity and has created a climate of general uncertainty. The changes in the economy and related effects are currently unforeseeable and will be greatly affected by the continuing emergency and the measures that national and international authorities will implement.
The areas of the financial statements that will see the greatest impact, to date unquantifiable, are the total income, assets at fair value with particular reference to the valuation of the securities portfolio, the valuation of loans and receivables with customers and the impairment losses on performing and non-performing exposures. Considering the dynamics of the event still ongoing at the approval date, it is not possible to quantify an amount.

Section 4 - Other aspects

Use of estimates and assumptions to prepare the financial statements

The preparation of the financial statements requires recourse to estimates and assumptions, which may have an effect on the values recognised in the balance sheet, in the income statement and the reporting related to potential assets and liabilities. The preparation of these estimates involves the use of available information and the adoption of subjective valuations, also based on historical experience, used for the purposes of formulating reasonable assumptions for reporting management-related issues. By nature, the estimates and assumptions used may vary from period to period and, therefore, the current values recorded in the financial statements may differ in subsequent periods, even significantly, following changes in the subjective valuations used.

The main cases for which the use of subjective valuations by company management is required include:

- the quantification of losses due to impairment of exposures and, in general, of financial assets not at fair value;
- the calculation of the fair value using measurement models for financial instruments not listed on an active market (including for the sole purposes of disclosures in the notes);
- the quantification of the provisions for personnel and provisions for risks and charges;
- the estimates and assumptions on the recoverability of deferred tax assets.

With particular reference to the carrying amount of the accounting entries at fair value and the loans and receivables with customers, both performing and non-performing, these values may also vary in subsequent accounting periods as a result of uncertainties arising from the COVID-19 health emergency, described in more detail in the "Outlook" section of the directors' report.
The description of the accounting policies applied to the main financial statement items provides the details necessary to identify the main assumptions and valuations used in the preparation of these financial statements.

Management performs analyses, which are sometimes complex, of loans and receivables with customers for their classification and to identify exposures that show possible impairment after disbursement based on internal information based on the borrower's repayment trend and external information based on the reference sector and the borrower's total exposure to banks.

Measuring loans and receivables with customers is a complex activity, with a high degree of uncertainty and subjectivity, with respect to which the directors apply valuation models that consider many quantitative and qualitative factors, including historical collection flows, expected cash flows and related estimated collection dates, the existence of any indicators of impairment, estimates about the borrowers' ability to repay, an assessment of any guarantees and the impact of macroeconomic variables and risks of the sectors in which the bank's customers operate, with respect to the accounting standards and the credit policy approved by the board of directors on 26 November 2019.

A.2 – ACCOUNTING POLICIES

1 - FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

a) Recognition

Debt and equity instruments are initially recognised at their settlement date while derivative contracts are recognised at the date they are signed.

Financial assets held for trading are initially recognised at fair value, which usually equals the consideration paid, without considering transaction costs or revenue, which are recognised in profit or loss.

Embedded derivatives in structured financial instruments whose characteristics are not strictly correlated with those of the host instrument and that meet the definition of a derivative are separated from the host contract and recognised at fair value in profit or loss.

The host contract is recognised using the relevant standard.

b) Classification

Financial assets at fair value through profit or loss include debt and equity instruments acquired to make profits, including through their trading, which meet the requirements of the bank's business model.

Hedging derivatives with positive fair values are included in this caption, including those embedded in financial instruments that meet the conditions for separation of the underlying derivatives.

c) Measurement

Financial assets held for trading are measured at fair value following initial recognition. Changes in fair value are taken to profit or loss.

The fair value of financial instruments listed on active markets equals the reporting date market closing prices.

The fair value of financial instruments traded on inactive markets is determined using commonly adopted estimation/valuation models that take into account market data such as methods based on the measurement of listed instruments with similar characteristics, calculation of discounted cash flows, option pricing models, prices registered in recent similar transactions, considering the different risk profiles of the instruments.

A market is defined as inactive when there are significant differences in the bid/ask prices of the instrument in question.

Credit valuation adjustment (CVA) and debit valuation adjustment (DVA)

Current legislation confirms that the pricing of a derivative, in addition to depending on market factors, must also include the measurement of the counterparty's credit quality determined through the credit valuation adjustment (CVA) and debit valuation adjustment (DVA).

To measure the counterparty's credit quality, the bank adopts the following methodology.

Credit valuation adjustment (CVA) is the value adjustment of the credit component (using positions with a positive fair value) of an OTC derivative stipulated with an external counterparty, which constitutes the market value of the potential loss due to the difference in the market prices on the derivative in question, due to the worsening of the credit rating/default of the counterparty.

Conversely, debit valuation adjustment (DVA) is the value adjustment of the debit component (using positions with a negative fair value) of an OTC derivative stipulated with an external counterparty, i.e. the market value of the potential earning due to the difference in the market prices on the derivative in question caused by the worsening of the credit rating/default of the bank.

When determining the CVA/DVA, under certain conditions the IFRS 13 refers to a calculation valuation that must be made for a netting set or counterparty, therefore on the basis of the carrying amount and not at individual contract level. In addition, the presence of any exchanged collateral or netting agreements must be considered.

The bank currently avails of bilateral netting agreements for derivative contracts, on the basis of which the mutual credit and debit positions of the mark to market are offset automatically and daily by establishing a single net balance, without novation: this then results in the sole payment of net income by the borrower. This activity permits a notable reduction in the exposure to credit risk and, consequently, in the impact of the CVA/DVA on the fair value.

d) Derecognition

These financial assets are derecognised when the contractual rights to cash flows therefrom expire or the financial asset is sold, transferring substantially all the related risks and rewards.

e) Recognition of costs and revenue

Interest and dividends are recognised under “Interest and similar income” and “Dividends and similar income”, respectively. Trading income or expense and gains or losses on the sale of financial assets are recognised under “Net trading income (expense)”.

2 - FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

a) Recognition

Financial assets managed under the hold to collect and sell (HTCS) model are initially recognised at the settlement date (debt and equity instruments) or at the disbursement date (loans and financing). They are initially recognised at fair value, which usually equals cost, including any transaction costs or revenue.

b) Classification

Based on the business model, this category includes the non-derivative liquid financial assets listed on markets where the bank operates which have passed the SPPI test and have a minimum rating of lower inv. grade (BBB-) or the equivalent for Italian government bonds. The objective of the business model is achieved by both collecting contractual cash flows and carrying out sales regulated by the powers attributed by the financial regulations and justified to the finance committee based on the market outlook.

This caption includes equity for equity investments held for purposes other than trading, for which at the time of initial recognition, the option was irrevocably exercised to recognise the fair value gains (losses) in the comprehensive income statement following the initial recognition in the financial statements.

c) Measurement

These financial assets are subsequently measured at fair value with any fair value gains or losses being recognised in a specific equity reserve.

The fair value of financial instruments listed on active markets equals the reporting date market closing prices.

The fair value of financial instruments not traded on an active market is determined based on the price of instruments with similar characteristics or the present value of future cash flows, considering the different risk profiles inherent in the instruments, or based on the actual prices for trades of the same asset.

A market is defined as inactive when there are significant differences in the bid/ask prices of the instrument in question.

When fair value cannot be determined reliably, equity instruments are carried at cost.

The value of the held to collect and sell instruments is also subject to collective impairment.

Impairment losses are recognised in profit or loss with a balancing entry in a special equity reserve.

When the reasons for impairment no longer exist, an impairment gain is recognised, with a balancing entry in:

- equity for equity instruments;
- profit or loss for debt instruments.

d) Derecognition

These financial assets are derecognised when the contractual rights to cash flows therefrom expire or the financial asset is sold, transferring substantially all the related risks and rewards.

e) Recognition of costs and revenue

Interest, calculated using the effective interest method, and dividends are recognised under “interest and similar income” and “dividends and similar income” respectively. Trading income or expense are recognised in the “gain (loss) on sale or repurchase of financial assets at fair value through comprehensive income”. Gains and losses on the fair value measurement of HTCS financial assets are recognised in the “valuation reserves” under equity and reclassified to profit or loss when sold, except for those on equities.

Impairment losses/gains arising from impairment testing are recognised as “Net impairment losses/gains on financial assets at fair value through other comprehensive income”, while those on equity instruments are recognised in the “Fair value reserve” under equity.

3 - FINANCIAL ASSETS AT AMORTISED COST

LOANS AND RECEIVABLES WITH CUSTOMERS AND BANKS

a) Recognition

Loans and receivables are initially recognised at the disbursement date or, in the case of a debt instrument, at the settlement date, based on the financial instrument’s fair value, which usually equals the amount disbursed, or the subscription price, including transaction costs or revenue attributable to the individual loan or receivable and determinable from the transaction start date, even when they are disbursed subsequently. During the initial recognition of a debt instrument, the minimum rating is lower inv. grade (BBB-) or the equivalent for Italian government bonds. The return on the instrument must ensure a coupon flow at least corresponding to equivalent Italian government bond instruments.

The initially recognised amount does not include costs that, despite having the above characteristics, are to be reimbursed by the counterparty or that are administrative costs. Reverse repurchase agreements and repurchase agreements are recognised as lending or funding transactions.

Specifically, spot resale and forward repurchase agreements are recognised as a liability for the spot amount received while spot repurchase and forward resale agreements are recognised as an asset for the spot amount paid.

b) Classification

Under the bank's HTS business model and SPPI test, this category includes the non-derivative loans and debt instruments with banks and customers, both disbursed directly and purchased from third parties, with fixed or determinable repayments.

This caption includes trade receivables, reverse repurchase agreements, finance lease receivables and securities purchased as part of underwriting or private placement transactions with fixed or determinable repayments, listed on an active market.

c) Measurement

When managed under a business model whose objective is to collect the contractual cash flows at maturity and, therefore, if they passed the SPPI test, loans and receivables are measured at amortised cost. Sales of assets of debt instruments classified in the HTC portfolio may be carried out when:

- there is an increase in the credit risk of a financial asset;

- the maturity of the financial instrument is short term, so the proceeds from their sales approximate their residual cash flows;

- the frequency, corresponding to the turnover rate of the HTCS portfolio observed in the period, is rare;

- the aggregated amount of the sales made on the portfolio is not considered significant.

After initial recognition, loans and receivables and debt instruments are measured at amortised cost, that is, they are measured at initial recognition minus/plus principal repayments, impairment losses/reversals of impairment losses and cumulative amortisation, using the effective interest method. The effective interest rate is the date that exactly discounts estimated future payments over the expected life of the loan or receivable to the carrying amount at the time of initial recognition, including directly attributable transaction costs and amounts paid or received between the contracting parties. The economic effect is distributed financially over the residual life of the exposure.

The amortised cost method is not used for short-term loans (with maturities of less than 12 months) as discounting these loans has no material impact. They are measured at historical cost.

Loans without a specified maturity and revocable loans are treated similarly.

Loans and receivables and debt instruments are tested for impairment at least at each annual or half yearly reporting date to determine whether there is objective evidence of impairment due to events subsequent to initial recognition or a worsening in the debtors' solvency.

The stage 3 non-performing exposures include bad exposures, unlikely to pay exposures and exposures past due by more than 90 days. The stage 3 exposures are also classified by considering the multi-scenario value of the non-performing financial assets. On the basis of the information set out in the ITG "Inclusion of cash flows expected from the sale on default of loan" by IFRS Foundation staff and in the "Guidance to banks on non-performing loans (NPL)" published by the European Central Bank in March 2017 for the proactive management of non-performing exposures, the bank has included forward-looking factors in the valuation of non-performing assets (classified in particular as bad exposures) through recovery provisions developed from a multi-scenario perspective. Therefore, where applicable, stage 3 exposures are measured by weighing the estimated realisation value in the two possible scenarios, i.e. the "sale" value and the "internal recovery" value. In the latter measurement, the estimate of the expected cash flows is the result of an analytical valuation of the position for the bad, unlikely to pay and past due exposures exceeding ceilings established by internal legislation. For unlikely to pay and past due exposures below the ceilings established by internal legislation, the expected loss is determined using statistical impairment methods. The impairment loss is equal to the difference between their carrying amount at the (annual or interim) measurement date (amortised cost) and the present value of the recoverable cash flows, calculated using the effective interest rate. Estimated future cash flows are determined considering the estimated recovery time and the estimated realisable amount of any guarantees. The original effective interest rate of each exposure is unchanged over time. The recovery time is reasonably estimated considering general or specific factors. General factors include the estimated recovery time considering the nature of the transaction while specific factors include the estimate of future cash flows considering negotiations for an out-of-court settlement or ongoing debt rescheduling plans. The bank monitors the difference between the originally planned recovery time and the effective cash flows to best estimate the expected recovery times.

Exposures and debt instruments for which objective indicators of impairment are not identified, i.e., performing, are managed under the HTC business model if they pass the SPPI test and are measured at amortised cost.

IFRS 9 has introduced new impairment rules for performing exposures using not only 12-month but also lifetime risk factors (PD, LGS, EAD and ECL). It also replaced the “incurred credit losses” approach with the “expected credit losses (ECL)” approach. Following the application of this approach, the bank has categorised its exposures into stages based on the 12-month or lifetime ECL and the increase in their credit risk. Therefore, any changes to the ECL, credit risk and forecast future conditions may cause a variation in the collective assessment of performing exposures

In accordance with the above impairment rules, performing exposures are classified in 2 stages as follows:

Stage 1: financial instruments whose credit risk has not significantly increased since initial recognition or with a low credit risk at the reporting date;

Stage 2: financial instruments whose credit risk has increased significantly since initial recognition, but for which there is no objective evidence of impairment;

Impairment losses are recognised in profit or loss.

The loss attributable to discounting cash flows of Stage 3 exposures is released on an accruals basis using the effective interest method and recognised as interest income.

The debt instruments recognised in the HTC portfolio are also subject to collective impairment.

Collectively-determined impairment losses are recognised in profit or loss.

Any additional impairment losses or gains are recalculated at each reporting date using a different approach considering the entire performing exposure portfolio at that date.

When the reasons for impairment are no longer valid, the impairment loss is reversed.

d) Derecognition

Loans and receivables and debt instruments transferred are derecognised when substantially all the risks and rewards of ownership of the asset are transferred.

Conversely, if the risks and rewards associated with the asset are retained, the loan or receivable continues to be recognised to the extent of the bank’s continuing involvement in the asset, even though legal title has been transferred.

When it is not possible to verify the substantial transfer of the risks and rewards, the assets are derecognised when no control thereover is retained. If even a portion of control is retained, the asset continues to be recognised in line with the bank’s continuing involvement, measured by exposure to changes in the value of the assets transferred and to changes in the related cash flows.

Finally, transferred loans and receivables are derecognised when the bank retains the contractual rights to receive the related cash flows with the concurrent obligation to pay them to a third party.

e) Recognition of costs and revenue

Interest on exposures and debt instruments is recognised under "Interest and similar income". Impairment losses and gains are recognised under "Net impairment losses/gains on loans and receivables – a) financial assets at amortised cost".

Gains or losses on sales are shown under "Gain (loss) on sales or repurchases of financial assets at amortised cost".

4 - HEDGING DERIVATIVES

The bank has not undertaken hedging transactions.

5 – EQUITY INVESTMENTS

At the reporting date, the bank did not have investments in subsidiaries or associates.

6 - PROPERTY, PLANT AND EQUIPMENT

a) Recognition

Property, plant and equipment are initially recognised at cost, including directly related charges.

Subsequent maintenance expenditure is capitalised if it leads to an increase in the future economic benefits generated by the asset.

Borrowing costs are recognised in accordance with IAS 23 and are, therefore, recognised as a cost in the year in which they are incurred.

Recognition of the rights of use of lease/rental contracts as required by IFRS16.

b) Classification

Property, plant and equipment include land, owned buildings and investment property, furniture, fittings, technical systems, rights of use of leased or rented assets defined by IFRS16 and other assets held for use in production or to supply goods and services, for lease to third parties or for administrative purposes which will be used over more than one period.

Buildings and appurtenance land are recognised separately when purchased.

c) Measurement

Property and equipment are measured at cost net of accumulated depreciation and any impairment losses.

They are depreciated systematically over their useful lives on a straight-line basis, except for land which has an indefinite useful life and is not depreciable. Should the carrying amount of land be included in that of the related building, they are separated using an appraisal performed by sector experts.

These assets are tested for impairment when there is objective indication thereof.

The rights of use of the leased/rented assets are subject to amortisation according to the provisions of IAS 16 based on the duration of the contract.

Investment property is measured at fair value, which is determined periodically using specific appraisal estimates prepared by sector experts.

d) Derecognition

An asset is derecognised when divested or when it is no longer used and its disposal is not expected to generate future risks or benefits.

The rights of use of leased/rented assets are derecognised upon maturity or termination of the contract.

e) Recognition of costs and revenue

Accumulated depreciation and any impairment losses on property and equipment are recognised under “Depreciation and net impairment losses on property, plant and equipment”. Fair value gains and losses on investment property are recognised under “Fair value gains (losses) on property, plant and equipment”.

7 – INTANGIBLE ASSETS

a) Classification

Intangible assets include long-term software licences.

b) Recognition and measurement

Intangible assets are recognised at cost, including directly related charges only when it is probable that the future economic benefits of the asset will materialise and its cost can be determined reliably.

Annually, or whenever there is evidence of impairment, an impairment test is carried out.

Impairment losses are recognised in profit or loss.

The cost of assets with finite lives is amortised on a straight-line basis over their useful lives.

c) Derecognition

Intangible assets are derecognised upon their disposal or when no future benefits are expected therefrom.

d) Recognition of costs and revenue

Accumulated amortisation is recognised under “Amortisation and net impairment losses on intangible assets”. Impairment losses on goodwill and intangible assets with indefinite useful lives are taken to “Impairment losses on goodwill” and “Amortisation and net impairment losses on intangible assets”, respectively.

8 - NON-CURRENT ASSETS AND DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE

The bank does not have non-current assets classified as held for sale.

9 - CURRENT AND DEFERRED TAXES

a) Classification

Current tax assets and liabilities consist of tax advances paid and income taxes on the tax base for the year, respectively.

Deferred tax assets and liabilities originate on the temporary differences between the carrying amounts of assets and liabilities and their tax bases.

b) Recognition and measurement

Current and deferred taxes, calculated in accordance with the Italian tax legislation, are recognised on an accruals basis, in line with the costs and revenue generating them and using enacted tax rates. Income taxes are recognised in profit or loss except for those related to captions recognised directly in equity.

Income taxes are provided for based on a prudent estimate of the current and deferred taxes.

In particular, current taxes include accruals for direct taxes in the liabilities, while the current tax items are represented by the advances and other tax withholdings paid in the assets.

Deferred taxes are determined considering the temporary differences (without time limits) between the carrying amount of assets and liabilities and their tax bases.

The estimate is made by performing a probability test, as set out by IAS 12. This test is based on an economic prediction developed across a future period of 5 years, adjusting its pre-tax profit to consider temporary and permanent future differences in accordance with the tax regulations in force at the valuation date, so as to give an estimate of the future tax results capable of determining the recovery of deferred tax assets.

Following enactment of Law no. 214/2011, governing the recognition of deferred tax assets, a round table was held during which Bank of Italy, Consob and ISVAP discussed the issue in the light of the IFRS. On 15 May 2012, they published a document stating that, due to the aforementioned law, the probability test is automatically passed, as the recoverability of deferred tax assets is now certain in any circumstances. Accordingly, they are recognised in the financial statements.

Deferred tax liabilities include income taxes payable in future periods for temporary taxable differences.

Deferred tax assets and liabilities are recognised in the balance sheet without offsetting.

c) Recognition of costs and revenue

Current and deferred taxes are recognised under “Current and deferred tax assets” and “Current and deferred tax liabilities” respectively.

They are recognised in equity if they relate to transactions recognised directly in equity.

10 - FINANCIAL LIABILITIES AT AMORTISED COST

LIABILITIES AND SECURITIES ISSUED

a) Recognition

These financial liabilities are recognised when the amounts are received or the debt instruments are issued.

They are initially recognised at fair value, which is normally equal to the consideration received or the issue price, plus or minus any additional costs or revenue directly attributable to the individual transaction and not reimbursed to the creditor. The fair value of financial liabilities issued at other than market conditions is estimated and the difference compared to the consideration received is recognised directly in profit or loss, when the conditions of IFRS 9 are met.

b) Classification

Due to banks, due to customers and securities issued include the characteristic types of interbank and customer funding as well as lending through certificates of deposit and bonds issued net of any repurchases.

c) Measurement

After initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Conversely, current financial liabilities continue to be measured at the consideration received as the effect of the amortised cost measurement would be negligible.

d) Derecognition

Financial liabilities are derecognised when they expire or are extinguished. They are also derecognised when previously issued securities are repurchased. The difference between their carrying amount and the amount paid to repurchase them is recognised in profit or loss.

If the repurchased security is subsequently placed on the market again, this is treated as a new issue and is recognised at the new placement price, with no effect on profit or loss.

e) Recognition of costs and revenue

Interest is recognised under “Interest and similar expense”. Gains and losses on the repurchase of the liabilities are shown under “Gain (loss) from sales/repurchases of financial liabilities”.

11 - FINANCIAL LIABILITIES HELD FOR TRADING

a) Recognition

Financial liabilities held for trading are initially recognised at the settlement date while derivatives are recognised at their agreement date.

They are initially recognised at fair value, which usually equals the consideration received, without considering directly related transaction costs and revenue.

b) Classification

The category includes financial liabilities held for trading. It also includes embedded derivatives with a negative fair value.

c) Measurement

Financial liabilities held for trading are subsequently measured at fair value through profit or loss.

Market prices are used to determine the fair value of financial instruments listed on active markets. If an active market does not exist, commonly adopted estimation/valuation models that take into account market data such as methods based on the measurement of listed instruments with similar characteristics, calculation of discounted cash flows, option pricing models and prices registered in recent similar transactions are used.

d) Derecognition

Financial liabilities held for trading are derecognised when they expire, are extinguished or all the related risks and rewards are transferred to third parties.

e) Recognition of costs and revenue

Fair value gains and losses are recognised in "Net trading income (expense)".

12 – FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

The bank has not undertaken this type of transaction.

13 - FOREIGN CURRENCY TRANSACTIONS

a) Recognition and derecognition

Foreign currency transactions are initially recognised in Euros by applying the exchange rate prevailing at the transaction date.

b) Classification and measurement

Foreign currency assets and liabilities are translated into Euros at each reporting date using the following criteria:

- ✓ monetary items are translated using the closing rates;
- ✓ non-monetary items measured at historical cost are translated using the transaction-date exchange rates;
- ✓ non-monetary items measured at fair value are translated using the closing rates.

c) Measurement of costs and revenue

Exchange differences arising from the settlement of monetary items or from the translation at exchange rates other than the initial translation rate or the prior closing rate are recognised in profit or loss in the period in which they arise.

When the gain or loss on a non-monetary item is recognised in equity, the exchange gain or loss is also taken to equity. However, when the gain or loss is recognised in profit or loss, the related exchange gain or loss is recognised there too.

All exchange gains and losses are recognised under "Net trading income (expense)".

14 - OTHER INFORMATION

14.1 - Provisions for risks and charges

a) Recognition and derecognition

b) Classification

c) Measurement

loan commitments and financial guarantees given

The fund includes the risk assessment of the guarantees and the commitments to disburse performing exposures. The measurement criterion is the one established for performing exposures. For stage 3 endorsement credits, the measurement is analytical.

Pension and similar provisions

They include the supplementary pension fund organised by INPS (the Italian social security institution).

The fund, which technically is a defined benefit plan, includes accruals to guarantee pensioners with the related vested rights a supplementary pension, determined on an objective and realistic forward-looking basis, equal to the “mathematical reserve” calculated by an external actuary. It is recognised in accordance with IAS 19 as amended by the IASB in 2011, which eliminated the corridor approach and requires the immediate recognition of any actuarial gains or losses in equity (OCI).

Other provisions

Other provisions include provisions made when the following concurrent conditions are met:

a) the bank has a present legal or constructive obligation as a result of a past event;
b) it is probable that an outflow of resources will be necessary to settle the obligation;
c) the obligation can be determined reliably.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation or transfer it to third parties at the closing date.

The types of events that could require provisions are:

a) ongoing legal disputes;
b) risks for ongoing claw-back claims;
c) certain or probable obligations arising from contractual commitments or an executive ruling which is not yet final.

When the effect of the time value of money is material, the provisions are discounted using the spot market rates at the closing date.

d) Recognition of costs and revenue

Accruals to these provisions are recognised in “Net accruals to provisions for risks and charges” while those for employee termination indemnities are recognised under “Personnel expense”.

14.2. Employee termination indemnities

a) Recognition

b) Classification

c) Measurement

d) Derecognition

Employee termination indemnities are recognised at their actuarial value.

This value is determined using the procedure for defined benefit plans and the projected unit credit method, whereby future payments are projected using historical series analyses and demographical trends and discounted using a market rate.

Accruals are recognised under "Personnel expense" and include the Italian Civil Code revaluation and interest expense on the increase in present value due to the time value of money. The actuarial gains or losses are calculated in accordance with IAS 19, as amended by the IASB in 2011, which eliminated the corridor approach and their full recognition in profit or loss, requiring their recognition in other comprehensive income (OCI), hence directly in an equity reserve without affecting profit or loss.

e) Recognition of costs and revenue

Actuarial gains and losses are recognised as other comprehensive income, in a specific equity reserve.

14.3 - Treasury shares

The bank did not have any treasury shares in its portfolio at the reporting date.

14.4 - Dividends and revenue recognition

In accordance with IFRS 15, revenue is recognised when the contractual obligation to transfer a promised good or service is met. Transfer is considered to be completed when the customer obtains control of the good or service. This may take place in two ways:

1) over time, or

2) at a point in time.

Specifically, dividends are recognised in profit or loss when the right to receive their payment arises.

Income from the trading or issue of financial instruments, being the difference between the transaction price and the instrument's fair value, is recognised in profit or loss when the transaction is recognised if the fair value can be determined using parameters or recent transactions on the same market as that on which the instrument is traded; if not, they are deferred and recognised over the instrument's term considering its nature.

Income from financial instruments that cannot be measured using the above methods is taken to profit and loss over the transaction's term.

A.3 – TRANSFERS BETWEEN FINANCIAL ASSET PORTFOLIOS

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

Type of financial instrument (1)	Original portfolio (2)	New portfolio (3)	Reclassification date (4)	Reclassified carrying amount (5)	Pre-tax interest income for the year (6)
				-	-
				-	-
				-	-
				-	-
				-	-
				-	-
				-	-
				-	-
			Total A		-

The bank has not reclassified any financial assets.

A.3.2 Reclassified financial assets: change in business model, fair value and impact on OCI

The bank did not reclassify its financial assets as a result of a change in its business model.

Type of financial instrument (1)	Original portfolio (2)	New portfolio (3)	Fair value 31/12/2019 (4)	Pre-tax gains (losses) that would have been recognised in equity without the transfer	
				31/12/2019 (5)	31/12/2018 (6)
			-	-	-
			-	-	-
			-	-	-
			-	-	-
			-	-	-
			-	-	-
			-	-	-
			-	-	-
			-	-	-
			-	-	-
			-	-	-
		Total A	-	-	-

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

The bank did not reclassify its financial assets as a result of a change in its business model.

A.4 - FAIR VALUE

Qualitative disclosure

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the principal market at the measurement date.

The fair value of a financial liability with a demand feature (e.g., a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

The fair value of financial instruments quoted on active markets is calculated using the official prices of the principal market. A financial instrument is considered to be quoted on an active market if the quoted prices are promptly and regularly available in a price list, from an operator, broker, etc. and these prices represent effective market transactions that take place regularly in normal conditions.

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

If an active market that can give the price of a financial instrument does not exist, the bank determines fair value using the following methods:

- ***Market approach***: the bank uses prices generated by market transactions involving identical or similar assets, liabilities or a group of assets and liabilities.
- ***Discounted cash flow***: the bank estimates future cash flows expected or generated by the financial instrument which it discounts using risk free rates to which it adds the credit spread requested by the market for instruments with similar risk profiles.
  Fair value equals the sum of the discounted cash flows.
  The credit spread for performing exposures with customers is calculated considering expected losses.
  The fair value of credit-impaired exposures is their carrying amount.
- ***Similar transactions***: the fair value of equity instruments for which market prices or market prices for identical or similar assets are not available is based on recent transactions or the unrestricted trade of the same instrument.
  If there are no recent transactions by third parties, the bank uses the transaction performed to acquire the financial instrument to calculate its fair value.

Financial products are classified as level 2 when fair value is determined by using observable inputs on an active market. They are classified as level 3 when market sources do not provide a market price and the bank applies valuation techniques used on the market and applied to its assets.
Financial instruments not measured at fair value, including loans and receivables with customers and banks, are not managed on the basis of the fair value. For these instruments, the fair value is only calculated to comply with the disclosure requirements of IFRS 13 and does not affect the financial statements or profit or loss. As these instruments are not traded, determination of their fair value is based on internal parameters not directly observable on the market as defined by IFRS 13.
The fair value of debt instruments issued by the bank and recognised at amortised cost is determined using the effective interest method.

A.4.2 Measurement processes and sensitivity

The bank has measured investments in unlisted entities, classified in the HTCS portfolio and for which observable prices in an active market do not exist, as fair value level 3. As mentioned earlier, the carrying amount was determined using the prices of the most recent transactions performed. The bank performed a sensitivity analysis for these assets, assuming a variation of -10%/+10% in equity. The following table shows the possible variations:

Investee	Equity	Investment %	Share of equity	10% decrease in equity	10% increase in equity	Carrying amount at 31/12/2019
Alipicene S.r.l.	- 4,000	2.5000%	- 100	- 90	- 110	2,582
Bancomat S.p.A.	2,757,999	0.1000%	2,758	2,482	3,034	1,144
CBI S.c.p.a.	938,220	0.3284%	3,081	2,773	3,389	3,022
CARICESE S.r.l.	14,350,159	0.5000%	71,751	64,576	78,926	20,000
ConfidiCoop Marche	25,829,766	1.5000%	387,446	348,702	426,191	100,000
CSE Consorzio Servizi Bancari S.r.l.	98,978,397	5.0000%	4,948,920	4,454,028	5,443,812	6,250,000
Fermano Leader s.c.a.r.l	46,916	1.5000%	704	633	774	3,000
S.W.I.F.T. - Brussels	407,529,000	0.0004%	1,497	1,348	1,647	2,529
SIA S.p.A. (former Società Servizi Bancari S.p.A.)	288,851,000	0.0340%	98,206	88,385	108,026	161,770
TOTAL	**839,277,457**		**5,514,263**	**4,962,837**	**6,065,689**	**6,544,047**

The above table shows that the fair value of the equity investments listed above (shown in the financial statements) is consistent with the inputs used for the sensitivity analysis. The above table does not take into consideration the investments in the "voluntary scheme at the Interbank Guarantee Deposit Fund" since these are not consistent with the presentation purposes. They are instead shown in the other tables in the notes to the financial statements.

A.4.3 Fair value hierarchy

IFRS 13 establishes a fair value hierarchy depending on the observability of the valuation technique inputs adopted. There are three levels:

1. Level 1: the fair value of instruments classified in this level is based on quoted prices in active markets;
2. Level 2: the fair value of instruments classified in this level is based on valuation models that use inputs that are observable on inactive/active markets for the asset or liability;
3. Level 3: the fair value of instruments classified in this level is based on valuation models used on the market and applicable to the bank's assets.

A.4.4. Other disclosures

The bank has not undertaken transactions that would require disclosure as per IFRS 13 paragraphs 51/ 93(letter i)/ 96.

Quantitative disclosure

A.4.5 Fair value hierarchy

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

Financial assets/liabilities measured at fair value	12/2019			12/2018		
	L1	L2	L3	L1	L2	L3
1. Financial assets at fair value through profit or loss	151,156	23,702	216	289,555	15,169	-
a) financial assets held for trading	*151,156*	*23,702*	-	*289,555*	*15,169*	-
b) financial assets designated at fair value	-	-	-	-	-	-
c) other financial assets mandatorily measured at fair value	-	-	*216*			
2. Financial assets at fair value through other comprehensive income	187,108	10,000	6,566	65,496	7,500	6,577
3. Hedging derivatives	-	-	-	-	-	-
4. Property, equipment and investment property	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	**338,264**	**33,702**	**6,782**	**355,051**	**22,669**	**6,577**
1. Financial liabilities held for trading	-	151	-	117	172	-
2. Financial liabilities designated at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
Total	-	**151**	-	**117**	**172**	-

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

Financial assets classified as trading in the L2 column of the A.4.5.1 table refer to debt instruments traded on inactive markets and measured using the criteria set out in Part A, section 2 of these notes.

Financial assets classified as at fair value through OCI in the L1 column of the A.4.5.1 table refer to:

- debt instruments traded on organised markets;

- the bank's listed equity instruments.

Financial assets classified at fair value through OCI in the L2 column of the table A.4.5.1 refer to debt instruments traded on inactive markets and measured using the criteria set out in Part A, section 2 of these notes and the investment in the Bank of Italy, for which the fair value can be objectively determined.

Financial assets classified as at fair value through OCI in table A.4.5.1 of the L3 column refer to unlisted equity investments and investments in companies limited by quotas (S.r.l.) acquired by the bank over the last few years with carrying amounts equal to the average prices struck for the last few acquisitions. If this information is not available, they are measured at cost.

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

	Financial assets at fair value through profit or loss				Financial assets at fair value through OCI	Hedging derivatives	Property, equipment and investment property	Intangible assets
	Total	Including: a) financial assets held for trading	Including: b) financial assets designated at fair value	Including: c) other financial assets mandatorily measured at fair value				
1. Opening balance	495	-	-	495	6,578	-	-	-
2. Increases	-	-	-	-	3	-	-	-
2.1. Purchases	-	-	-	-	3	-	-	-
2.2. Gains recognised in:	-	-	-	-	-	-	-	-
2.2.1. *Profit or loss*	-	-	-	-	-	-	-	-
- *including: gains on sales*	-	-	-	-	-	-	-	-
2.2.2. *Equity*					-	-	-	-
2.3. Transfers from other levels	-	-	-	-	-	-	-	-
2.4. Other increases	-	-	-	-	-	-	-	-
3. Decreases	279	-	-	279	14	-	-	-
3.1. Sales	-	-	-	-	-	-	-	-
3.2. Repayments	-	-	-	-	-	-	-	-
3.3. Losses recognised in:	279	-	-	279	-	-	-	-
3.3.1. *Profit or loss*	279	-	-	279	-	-	-	-
- *including: losses on sales*	279	-	-	279	-	-	-	-
3.3.2. *Equity*					-	-	-	-
3.4. Transfers to other levels	-	-	-	-	-	-	-	-
3.5 Other decreases	-	-	-	-	14	-	-	-
4. Closing balance	216	-	-	216	6,567	-	-	-

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

The table has not been inserted since there is no instance of this case.

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

Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	12/2019				12/2018			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Financial assets at amortised cost	1,260,874	232,277	-	1,121,967	1,208,491	223,383	-	1,057,451
2. Investment property	272	-	-	272	-	-	-	-
3. Non-current assets held for sale and disposal groups	-	-	-	-	-	-	-	-
TOTAL	1,261,146	232,277	-	1,122,239	1,208,491	223,383	-	1,057,451
1. Financial liabilities at amortised cost	1,550,471	-	-	1,553,701	1,468,698	-	-	1,469,516
2. Liabilities associated with disposal groups	-	-	-	-	-	-	-	-
TOTAL	1,550,471	-	-	1,553,701	1,468,698	-	-	1,469,516

PART B
Notes to the balance sheet

ASSETS

Section 1 – Cash and cash equivalents – Caption 10

1.1 Cash and cash equivalents: breakdown

Tax base / Amount	12/2019	12/2018
a) Cash	25,196	23,953
b) On-demand deposits with central banks	37,624	10,013
Total	62,820	33,966

Section 2 – Financial assets at fair value through profit or loss – Caption 20

2.1 Financial assets held for trading: breakdown by product

Tax base / Amount	12/2019			12/2018		
	L1	L2	L3	L1	L2	L3
A. Assets						
1. Debt instruments	122,168	23,648	-	260,655	14,943	-
1.1 Structured instruments	-	-	-	-	-	-
1.2 Other debt instruments	*122,168*	*23,648*	-	*260,655*	*14,943*	-
2. Equity instruments	-	-	-	-	-	-
3. OEIC units	28,988	-	-	28,852	-	-
4. Financing	-	-	-	-	-	-
4.1 Reverse repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total A	151,156	23,648	-	289,507	14,943	-
B. Derivatives						
1. Financial derivatives:	-	53	-	49	226	-
1.1 for trading	-	*53*	-	*49*	*226*	-
1.2 associated with fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 for trading	-	-	-	-	-	-
2.2 associated with fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total B	-	53	-	49	226	-
Total (A + B)	151,156	23,701	-	289,556	15,169	-

The amount shown in the "Level 2" column for item "1.2 Other debt instruments" relates to the securities purchased by the bank and issued by:

- Porto Sant'Elpidio municipality (€490 thousand);
- Royal Bank of Scotland bonds (€300 thousand);
- Philippines government bonds (€1,926 thousand);
- French government bonds (€20,005 thousand);
- US government bonds (€927 thousand).

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

Tax base / Amount	12/2019	12/2018
A. ASSETS		
1. Debt instruments	**145,816**	**275,598**
a) Central banks	-	-
b) Public administrations	79,071	203,583
c) Banks	26,732	38,383
d) Other financial companies	31,553	26,394
including: insurance companies	*1,155*	*1,123*
e) Non-financial companies	8,460	7,238
2. Equity instruments	-	-
a) Banks	-	-
b) Other financial companies	-	-
including: insurance companies	-	-
c) Non-financial companies	-	-
d) Other issuers	-	-
3. OEIC units	28,988	28,852
4. Financing	-	-
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
including: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total A	**174,804**	**304,450**
B. DERIVATIVES		
a) Central counterparties	-	49
b) Other	53	226
Total B	**53**	**275**
Total (A + B)	**174,857**	**304,725**

The derivatives set out in point B include:

- interest rate swaps;
- interest rate caps;
- interest rate collars;
- futures;
- currency forwards.

The bank has agreed a mirroring derivative with leading national banks to hedge each IRS agreed with its customers. This led to the substantial overlapping of the fair value of the derivatives.

The futures and forwards relate to the assets managed by Epsilon SGR. They are listed and their fair value is based on their market prices at the reporting date. Futures are settled daily and, hence, the related changes in the margin account made by the clearing house are recognised in profit or loss.

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

Tax base / Amount	12/2019			12/2018		
	L1	L2	L3	L1	L2	L3
1. Debt instruments	-	-	**216**	-	-	**495**
1.1Structured instruments	-	-	-	-	-	-
1.2Other debt instruments	-	-	216	-	-	495
2. Equity instruments	-	-	-	-	-	-
3. OEIC units	-	-	-	-	-	-
4. Financing	-	-	-	-	-	-
4.1Reverse repurchase agreements	-	-	-	-	-	-
4.2Other	-	-	-	-	-	-
Total	-	-	**216**	-	-	**495**

Item 1.2 in the above table shows the amount paid to the voluntary scheme following the actions taken in favour of Carige S.p.A., net of the impairment for €279 thousand, recognised under caption 110 of the profit or loss in the 2019 financial year.

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

Tax base / Amount	12/2019	12/2018
1. Equity instruments	-	-
including: banks	-	-
including: other financial companies	-	-
including non-financial companies	-	-
2. Debt instruments	**216**	**495**
a)Central banks	-	-
b)Public administrations	-	-
c)Banks	-	-
d)Other financial companies	216	495
including: insurance companies	-	-
e)Non-financial companies	-	-
3. OEIC units	-	-
4. Financing	-	-
a)Central banks	-	-
b)Public administrations	-	-
c)Banks	-	-
d)Other financial companies	-	-
including: insurance companies	-	-
e)Non-financial companies	-	-
f)Households	-	-
Total	**216**	**495**

Section 3 - Financial assets at fair value through other comprehensive income - Caption 30

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

Tax base / Amount	12/2019			12/2018		
	L1	L2	L3	L1	L2	L3
1. Debt instruments	187,013	-	-	64,365	-	-
1.1 Structured instruments	-	-	-	-	-	-
1.2 Other debt instruments	*187,013*	-	-	*64,365*	-	-
2. Equity instruments	95	10,000	6,566	1,131	7,500	6,577
3. Financing	-	-	-	-	-	-
Total	**187,108**	**10,000**	**6,566**	**65,496**	**7,500**	**6,577**

Financial assets at fair value through other comprehensive income:

1. in the L1 column refer to:
    a. a. debt instruments traded on regulated active markets;
    b. listed equity instruments;
    c. other listed investments.
2. in the L2 column refer to debt instruments traded on inactive markets and measured using the criteria set out in Part A, section 2 of these notes and the investment in Bank of Italy, for which fair value can objectively be determined. An additional 100 shares in the Bank of Italy were purchased during 2019 at €25,000 each;
3. in the L3 column refer to equity instruments measured based on recent transactions. If this information is not available, they are measured at cost.

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

Tax base / Amount	12/2019	12/2018
1. Debt instruments	**187,013**	**64,365**
a)Central banks	-	-
b)Public administrations	185,046	64,365
c)Banks	-	-
d)Other financial companies	-	-
including: insurance companies	-	-
e)Non-financial companies	1,967	-
2. Equity instruments	**16,661**	**15,208**
a) Banks	10,095	7,578
b) Other issuers:	6,566	7,630
- other financial companies	*123*	*138*
including: insurance companies	-	-
- non-financial companies	*6,440*	*7,492*
- other	*3*	-
3. Financing	-	-
a)Central banks	-	-
b)Public administrations	-	-
c)Banks	-	-
d)Other financial companies	-	-
including: insurance companies	-	-
e)Non-financial companies	-	-
f) Households	-	-
Total	**203,674**	**79,573**

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

Tax base / Amount	Gross amount				Total impairment losses			Partial/total write-offs
	Stage 1	including: instruments with a low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt instruments	187,148	-	-	-	135	-	-	-
Financing	-	-	-	-	-	-	-	-
Total (31/12/2019)	**187,148**	-	-	-	**135**	-	-	-
Total (31/12/2018)	**64,365**	-	-	-	**124**	-	-	-
including: purchased or originated credit-impaired financial assets			-	-		-	-	-

Section 4 - Financial assets at amortised cost - Caption 40

4.1 Financial assets at amortised cost: loans and receivables with banks broken down by product

Transaction/Amount	12/2019						12/2018					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Stages 1 and 2	Stage 3	including: purchased or originated credit-impaired	L1	L2	L3	Stages 1 and 2	Stage 3	including: purchased or originated credit-impaired	L1	L2	L3
A. Loans and receivables with central banks	14,186	-	-	-	-	14,186	14,050	-	-	-	-	14,050
1. Term deposits	-	-	-				-	-	-			
2. Minimum reserve	14,186	-	-				14,050	-	-			
3. Reverse repurchase agreements	-	-	-				-	-	-			
4. Other	-	-	-				-	-	-			
B. Loans and receivables with banks	4,520	-	-	-	-	4,520	5,569	-	-	-	-	5,569
1. Financing	4,520	-	-				5,569	-	-			
1.1 Current accounts and on-demand deposits	4,419	-	-				5,448	-	-			
1.2. Term deposits	101	-	-				121	-	-			
1.3. Other financing	-	-	-				-	-	-			
- Reverse repurchase agreements	-	-	-				-	-	-			
- Financing for leases	-	-	-				-	-	-			
- Other	-	-	-				-	-	-			
2. Debt instruments	-	-	-	-	-	-	-	-	-	-	-	-
2.1 Structured instruments	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt instruments	-	-	-	-	-	-	-	-	-	-	-	-
Total	18,706	-	-	-	-	18,706	19,619	-	-	-	-	19,619

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

Transaction/Amount	12/2019						12/2018					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Stages 1 and 2	Stage 3	including: purchased or originated credit-impaired	L1	L2	L3	Stages 1 and 2	Stage 3	including: purchased or originated credit-impaired	L1	L2	L3
Financing	940,220	73,298	-	-	-	1,103,261	859,181	102,353	-	-	-	1,037,832
1.1. Current accounts	149,501	23,179	-				148,561	32,007	-			
1.2. Reverse repurchase agreements	-	-	-				-	-	-			
1.3. Loans	662,474	42,886	-				577,328	59,854	-			
1.4. Credit cards, personal loans and salary-backed loans	31,859	907	-				24,820	1,480	-			
1.5. Financing for leases	-	-	-				-	-	-			
1.6. Factoring	-	-	-				-	-	-			
1.7. Other financing	106,386	6,347	-				108,482	9,012	-			
Debt instruments	228,650	-	-	232,277	-	-	227,338	-	-	223,383	-	-
1.1. Structured instruments	-	-	-	-	-	-	-	-	-	-	-	-
1.2. Other debt instruments	228,650	-	-	232,277	-	-	227,338	-	-	223,383	-	-
Total	1,168,870	73,298	-	232,277	-	1,103,261	1,086,519	102,353	-	223,383	-	1,037,832

Item “1.7. Other financing” of table 4.2 includes the following:

- import/export advances of €12,637 thousand;
- advances on bills under reserve and invoices of €67,505 thousand;
- portfolio risks of €287 thousand;
- subsidies with or without repayment plans of €26,941 thousand;
- future margin accounts of €8 thousand;
- loans and receivables with garnishee administration for salary-backed loans for €42 thousand.

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

Transaction/Amount	12/2019			12/2018		
	Stages 1 and 2	Stage 3	including: purchased or originated non-performing assets	Stages 1 and 2	Stage 3	including: purchased or originated non-performing assets
1. Debt instruments	228,650	-	-	227,338	-	-
a)Public administrations	228,650	-	-	227,338	-	-
b)Other financial companies	-	-	-	-	-	-
including: insurance companies	-	-	-	-	-	-
c)Non-financial companies	-	-	-	-	-	-
2. Financing with:	940,220	73,297	-	859,180	102,353	-
a)Public administrations	10,032	-	-	3,267	-	-
b)Other financial companies	23,757	66	-	6,521	170	-
including: insurance companies	-	-	-	-	-	-
c)Non-financial companies	547,749	51,736	-	500,753	68,550	-
d)Households	358,682	21,495	-	348,639	33,633	-
Total	1,168,870	73,297	-	1,086,518	102,353	-

Item 1 a) of the above table shows the government bonds classified in the HTC portfolio in line with the bank's business model.

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

Tax base / Amount	Gross amount				Total impairment losses			Partial/total write-offs
	Stage 1	including: instruments with a low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt instruments	228,814	-	-	-	164	-	-	-
Financing	770,080	-	196,753	153,684	3,551	4,356	80,385	7,916
Total (31/12/2019)	998,894	-	196,753	153,684	3,715	4,356	80,385	7,916
Total (31/12/2018)	925,054	-	189,375	197,126	4,049	4,243	94,774	859
including: purchased or originated credit-impaired financial assets			-	-		-	-	-

The caption financing of the stage 1 column includes loans and receivables with banks of €18.7 million.

The coverage of the financing with customers is shown in the following table:

Stage	financing with customers	Impairment losses	% hedged
Stage 1	751,369	3,547	0.47%
Stage 2	196,753	4,356	2.21%
Total	**948,122**	**7,903**	**0.83%**

Section 8 - Property, plant and equipment - Caption 80

8.1 Property and equipment: breakdown of assets measured at cost

Asset / Amount	Total at 12/2019	Total at 12/2018
1 Owned	14,038	14,871
a) land	4,223	4,223
b) buildings	7,802	8,628
c) furniture	1,067	1,121
d) electronic systems	491	398
e) other	455	501
2 Rights of use acquired with leases	8,841	-
a) land	-	-
b) buildings	7,709	-
c) furniture	-	-
d) electronic systems	1,021	-
e) other	111	-
Total	22,879	14,871
including: obtained through enforcement of guarantees received	-	-

Item "1 Owned - b) buildings" in the above table includes the rights of use on leased properties, calculated following application of IFRS 16 for €7,709 thousand.

The amount under item "1 Owned - d) electronic systems" including the rights of use on leased electronic machinery amounts to €1,021 thousand, while item "e) other" includes the rights of use for car hire for €111 thousand.

8.2 Investment property: breakdown of assets measured at cost

Asset / Amount	Total at 12/2019				Total at 12/2018			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1 Owned	272	-	-	272	-	-	-	-
a) land	-	-	-	-	-	-	-	-
b) buildings	272	-	-	272	-	-	-	-
2 Rights of use acquired with leases	-	-	-	-	-	-	-	-
a) land	-	-	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-	-	-
Total	272	-	-	272	-	-	-	-
including: obtained through enforcement of guarantees received	272	-	-	272	-	-	-	-

8.6 Property and equipment: annual changes

Tax base / Amount	Land	Buildings	Furniture	Electronic systems	Other	Total
A. Gross opening balance	**4,223**	**43,253**	**6,539**	**7,875**	**7,055**	**68,945**
A.1 Accumulated depreciation and net impairment losses	-	25,969	5,418	6,406	6,390	44,183
A.2 Net opening balance	4,223	17,284	1,121	1,469	665	24,762
B.Increases:	-	**251**	**139**	**540**	**173**	**1,103**
B.1 Purchases	-	-	139	318	115	572
B.2 Capitalised improvement costs	-	-	-	-	-	-
B.3 Impairment gains	-	-	-	-	-	-
B.4 Fair value gains recognised in:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
B.5 Exchange gains	-	-	-	-	-	-
B.6 Transfers from investment property	-	-				-
B.7 Other changes	-	251	-	222	58	531
C.Decreases:	-	**2,024**	**193**	**498**	**272**	**2,987**
C.1 Sales	-	-	-	-	-	-
C.2 Amortisation and depreciation	-	827	193	224	208	1,452
C.3 Impairment losses recognised in:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
C.4 Fair value losses recognised in:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) investment property	-	-				-
b) non-current assets held for sale and disposal groups	-	-	-	-	-	-
C.7 Other changes	-	1,197	-	274	64	1,535
D. Net closing balance	**4,223**	**15,511**	**1,067**	**1,511**	**566**	**22,878**
D.1 Accumulated depreciation and net impairment losses	-	26,796	5,611	6,630	6,598	45,635
D.2 Gross closing balance	**4,223**	**42,307**	**6,678**	**8,141**	**7,164**	**68,513**
E. Measurement at cost	-	-	-	-	-	-

The decreases in line "C.2 Depreciation" of the table above comply with the tax rates established by the Ministry for the Economy and Finance decree as no material wear and tear was identified during the year.

Line "B.7 Other changes" also includes the rights of use by asset category, while line "C.7 Other changes" includes the quotas of the rights of use pertaining to the financial year.

A list of the property owned by the bank is attached to these notes.

IFRS 16 took effect on 1 January 2019, resulting in the recognition of the rights of use under caption "80 - Property, plant and equipment". A detailed illustration of the effects of the introduction of this accounting standard has been provided in Part A to "Section 1 – Statement of compliance with the IFRS". The rights of use have been included in line "A. Gross opening balance" for €8,656 thousand in the building column, for €1,071 thousand in electronic systems and for €164 thousand in other property, plant and equipment.

8.7 Investment property: changes

Tax base / Amount	Total at 12/2019	
	Land	Buildings
A. Opening balance	-	-
B.Increases	**272**	-
B.1 Purchases	272	-
B.2 Capitalised improvement costs	-	-
B.3 Fair value gains	-	-
B.4 Impairment gains	-	-
B.5 Exchange gains	-	-
B.6 Transfers from property used for operations	-	-
B.7 Other changes	-	-
C.Decreases	-	-
C.1 Sales	-	-
C.2 Amortisation and depreciation	-	-
C.3 Fair value losses	-	-
C.4 Impairment losses	-	-
C.5 Exchange losses	-	-
C.6 Transfers to:	-	-
a) property used for operations	-	-
b) non-current assets held for sale and disposal groups	-	-
C.7 Other changes	-	-
D. Closing balance	**272**	-
E. Fair value	-	-

Line B1 indicates the value of a property assigned to the bank by the Court of Fermo following the credit recovery enforcement procedure concluded in 2019.

Section 9 - Intangible assets - Caption 90

9.1 Intangible assets: breakdown by asset

Asset / Amount	Total at 12/2019		Total at 12/2018	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill		-		-
A.2 Other intangible assets	**136**	-	**122**	-
A.2.1 At cost:	136	-	122	-
a) Internally-generated	-	-	-	-
b) Other assets	*136*	-	*122*	-
A.2.2 At fair value:	-	-	-	-
a) Internally-generated	-	-	-	-
b) Other assets	-	-	-	-
Total	**136**	-	**122**	-

9.2 Intangible assets: changes

Tax base / Amount	Goodwill	Other intangible assets: internally-generated		Other intangible assets: other		Total
		with finite life	with indefinite life	with finite life	with indefinite life	
A. Gross opening balance	-	-	-	690	-	690
A.1 Accumulated depreciation and net impairment losses	-	-	-	568	-	568
A.2 Net opening balance	-	-	-	122	-	122
B. Increases	-	-	-	95	-	95
B.1 Purchases	-	-	-	95	-	95
B.2 Increase in internally generated assets		-	-	-	-	-
B.3 Impairment gains		-	-	-	-	-
B.4 Fair value gains	-	-	-	-	-	-
- equity		-	-	-	-	-
- profit or loss		-	-	-	-	-
B.5 Exchange gains	-	-	-	-	-	-
B.6 Other changes	-	-	-	-	-	-
C. Decreases	-	-	-	81	-	81
C.1 Sales	-	-	-	-	-	-
C.2 Impairment losses	-	-	-	81	-	81
- Amortisation and depreciation		-	-	*81*	-	*81*
- Impairment losses	-	-	-	-	-	-
+ equity		-	-	-	-	-
+ profit or loss	-	-	-	-	-	-
C.3 Fair value losses	-	-	-	-	-	-
- equity		-	-	-	-	-
- profit or loss		-	-	-	-	-
C.4 Transfers to disposal groups	-	-	-	-	-	-
C.5 Exchange losses	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
D. Net closing balance	-	-	-	136	-	136
D.1 Accumulated amortisation and net impairment losses	-	-	-	649	-	649
E. Gross closing balance	-	-	-	785	-	785
F. Measurement at cost	-	-	-	-	-	-

Intangible assets include software packages amortised over five years unless their user licence provides otherwise.

Section 10 - Tax assets and liabilities - Caption 100 of assets and Caption 60 of liabilities

10.1 Deferred tax assets: breakdown

Components	12/2019
Personnel expense	910
Administrative expenses	-
Fair value losses on HTCS securities	554
Impairment losses on loans and receivables	15,663
Actuarial losses on agents' termination benefits/post-employment benefits	1,121
Total	**18,248**

10.2 Deferred tax liabilities: breakdown

Components	12/2019
Fair value gains on bonds	-
Fair value gains on HTCS securities	64
Deferred gains	-
FTA depreciation of land	671
Post-employment benefits	-
Actuarial gains on post-employment benefits	235
Total	**970**

Deferred tax assets and liabilities were affected by changes in the fair value reserve of HTCS securities. Moreover, the tax legislative changes applicable to entities that apply the IFRS authorised use of the "forced derivation" criterion rather than the "neutrality" criterion. This substantially decreased the differences between the carrying amounts and tax bases of assets and liabilities with the resulting decrease in the related deferred tax assets and liabilities. Law no. 214/2011 introduced the provision for the conversion of deferred tax assets recognised on loans and receivables and goodwill when they satisfy the probability test. Table 10.3-bis shows the deferred tax assets covered by the law if the bank has an accounting or tax loss.

10.3 Changes in deferred tax assets (recognised in profit or loss)

Tax base / Amount	Total at 12/2019	Total at 12/2018
1. Opening balance	**12,228**	**12,303**
2. Increases	**497**	**538**
2.1 Deferred tax assets recognised in the year	497	538
a) related to previous years	-	-
b) due to changes in accounting policies	-	-
c) reversals of impairment losses	-	-
d) other	*497*	*538*
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**793**	**613**
3.1 Deferred tax assets derecognised in the year	793	613
a) reversals	*793*	*613*
b) impairment due to non-recoverability	-	-
c) change in accounting policies	-	-
d) other	-	-
3.2 Decrease in tax rates	-	-
3.3 Other decreases	-	-
a) conversion into tax assets as per Law no. 214/2011	-	-
b) other	-	-
4. Closing balance	**11,932**	**12,228**

10.3-bis Change in deferred tax assets as per Law no. 214/2011

Tax base / Amount	Total at 12/2019	Total at 12/2018
1. Opening balance	**10,292**	**10,292**
2. Increases	-	-
3. Decreases	-	-
3.1 Reversals	-	-
3.2 Conversions into tax assets	-	-
a) arising on losses	-	-
b) arising on tax losses	-	-
3.3 Other decreases	-	-
4. Closing balance	**10,292**	**10,292**

The above table shows the deferred tax assets related to impairment losses on loans and receivables that are convertible into tax assets should the bank record a loss for accounting or tax purposes as per Law no. 214/2011.

The bank did not make any reversals of deferred taxes as per art. 1.712 of the 2020 Budget Law no. 160/2019.

10.4 Changes in deferred tax liabilities (recognised in profit or loss)

Tax base / Amount	Total at 12/2019	Total at 12/2018
1. Opening balance	**909**	**909**
2. Increases	-	-
2.1 Deferred tax liabilities recognised in the year	-	-
a) related to previous years	-	-
b) due to changes in accounting policies	-	-
c) other	-	-
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**17**	-
3.1 Deferred tax liabilities derecognised in the year	17	-
a) reversals	*17*	-
b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Decrease in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**892**	**909**

10.5 Changes in deferred tax assets (recognised in equity)

Tax base / Amount	Total at 12/2019	Total at 12/2018
1. Opening balance	**7,115**	**1,368**
2. Increases	**689**	**6,684**
2.1 Deferred tax assets recognised in the year	689	6,684
a) related to previous years	-	-
b) due to changes in accounting policies	-	*5,107*
c) other	*689*	*1,577*
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**1,488**	**937**
3.1 Deferred tax assets derecognised in the year	1,488	937
a) reversals	*1,488*	*937*
b) impairment due to non-recoverability	-	-
c) due to changes in accounting policies	-	-
d) other	-	-
3.2 Decrease in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**6,316**	**7,115**

10.6 Changes in deferred tax liabilities (recognised in equity)

Tax base / Amount	Total at 12/2019	Total at 12/2018
1. Opening balance	**117**	**594**
2. Increases	**41**	**92**
2.1 Deferred tax liabilities recognised in the year	41	92
a) related to previous years	-	-
b) due to changes in accounting policies	-	-
c) other	*41*	*92*
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**81**	**569**
3.1 Deferred tax liabilities derecognised in the year	81	569
a) reversals	*81*	*569*
b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Decrease in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**77**	**117**

10.7 Other information

Caption 130 “Tax assets: a) current” of €3,502 thousand comprises:

- IRAP payments on account of €91 thousand;
- IRES claimed for reimbursement of €73 thousand, net of the repayments of €722 thousand and €503 thousand made on 30 December 2016 and 21 August 2018, respectively. It relates to the IRES tax asset arising on the deductibility of IRAP from personnel expense as per Law decree no. 201/2011; the related claim was presented on 18 January 2013 - the application send date for the Marche region;
- cinema tax credit of €720 thousand;
- substitute tax on account of €489 thousand on the capital gain;
- IRES assets of €1,620 thousand;
- tax relief for earthquakes of €187 thousand;
- IRAP tax relief of €257 thousand;
- tax assets of €1 thousand for withholdings on public bodies;
- tax assets of €64 thousand for withholdings on savings deposits, current accounts and certificates of deposit.

Section 12 - Other assets - Caption 120

12.1 Other assets: breakdown

Components	Total at 12/2019
a) other tax assets	3,921
b) cheques drawn on other banks	454
c) cheques to be received from clearing house and truncated in branch	-
d) suspense items	-
e) revenue stamps and other stamps	3
f) gold, silver and other precious metals	-
g) shortfalls, embezzlement, theft and other prior	-
h) items in transit	21,881
i) leasehold improvements	449
j) accrued income	87
k) prepayments	275
l) portfolio adjustment differences	-
m) other	6,213
Total	**33,283**

Specifically, in the above table:

- item h) includes transactions under settlement by Nexi S.p.A. and Bank of Italy (€18,793 thousand) and items in transit to be debited to the end accounts (€2,004 thousand);
- item k) mostly consists of prepaid insurance premiums;
- item m) includes sundry amounts of €954 thousand and accrued commissions of €4,316 thousand.

LIABILITIES

Section 1 - Financial liabilities at fair value through profit or loss - Caption 10

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

Transaction/Amount	Total at 12/2019				Total at 12/2018			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Due to central banks	-				-			
2. Due to banks	**2,759**				**1,373**			
2.1 Current accounts and on-demand deposits	2,677				1,294			
2.2 Term deposits	82				79			
2.3 Financing	-				-			
2.3.1 Repurchase agreements	-				-			
2.3.2 Other	-				-			
2.4 Commitments to repurchase own equity instruments	-				-			
2.5 Lease liabilities	-				-			
2.6 Other liabilities	-				-			
Total	2,759	-	-	2,759	1,373	-	-	1,373

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

Transaction/Amount	Total at 12/2019				Total at 12/2018			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and on-demand deposits	1,449,764				1,374,567			
2. Term deposits	8,645				9,276			
3. Financing	-				-			
3.1 Repurchase agreements	-				-			
3.2 Other	-				-			
4. Commitments to repurchase own equity instruments	-				-			
4. Lease liabilities	8,762				-			
6. Other liabilities	10,738				3,750			
Total	1,477,909	-	-	1,480,083	1,387,593	-	-	1,388,025

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

Security /Amount	Total at 12/2019				Total at 12/2018			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. bonds	-	-	-	-	-	-	-	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	-	-	-	-	-	-	-	-
2. other securities	69,804	-	-	70,859	79,731	-	-	80,117
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	*69,804*	-	-	*70,859*	*79,731*	-	-	*80,117*
Total	**69,804**	-	-	**70,859**	**79,731**	-	-	**80,117**

Item “2.2 - other” includes the certificates of deposit issued by the bank.

Section 2 - Financial liabilities held for trading - Caption 20

2.1 Financial liabilities held for trading: breakdown by product

Transaction / Amount	Total at 12/2019					Total at 12/2018				
	Nominal or notional amount	Fair Value			Fair Value (*)	Nominal or notional amount	Fair Value			Fair Value (*)
		L1	L2	L3			L1	L2	L3	
A. Liabilities										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt instruments	-	-		-	-	-	-		-	-
3.1. Bonds	-	-		-	-	-	-		-	-
3.1.1 Structured	-	-	-	-		-	-	-	-	
3.1.2 Other bonds	-	-	-	-		-	-	-	-	
3.2. Other securities	-	-		-		-	-		-	
3.2.1 Structured	-	-	-	-		-	-	-	-	
3.2.2 Other	-	-	-	-		-	-	-	-	
Total A	-	-		-	-	-	-		-	-
B. Derivatives										
1. Financial derivatives		-	151	-			117	172	-	
1.1 For trading		-	*151*	-			*117*	*172*	-	
1.2 Associated with fair value option		-	-	-			-	-	-	
1.3 Other		-	-	-			-	-	-	
2. Credit derivatives		-	-	-			-	-	-	
2.1 For trading		-	-	-			-	-	-	
2.2 Associated with fair value option		-	-	-			-	-	-	
2.3 Other		-	-	-			-	-	-	
Total B		-	**151**	-			**117**	**172**	-	
Total (A+B)		-	**151**	-			**117**	**172**	-	

Section 6 - Tax liabilities - Caption 60

6.1 Current tax liabilities

Tax base / Amount	12/2019
Current tax liabilities	**3,213**
IRES	2,250
IRAP	963
Stamp duty	-
Substitute tax @ 12.00%	-
Prior year tax assets	-

Section 8 - Other liabilities - Caption 80

8.1 Other liabilities: breakdown

Components	12/2019
a) Tax liabilities	4,322
b) Amounts due to social security institutions	15
c) Amounts available to customers	525
d) Third party guarantee deposits	89
e) Suspense items	-
f) Other amounts due to employees	3,015
g) Items in transit	9,455
h) Accrued expenses	6
i) Deferred income	245
j) Portfolio adjustment differences	29,013
k) Other items	2,086
Total	**48,771**

Item “a) Tax liabilities” refers to tax withholdings to be paid and amounts collected on behalf of customers to be transferred to the tax authorities.

Item “k) Other items” includes invoices due (€1,420 thousand), sundry items (€416 thousand) and costs pertaining to 2020 (€250 thousand).

Section 9 – Employee termination indemnities – Caption 90

9.1 Employee termination indemnities: changes

Tax base / Amount	Total at 12/2019	Total at 12/2018
A. Opening balance	8,005	8,768
B. Increases	157	74
B.1 Accruals	80	72
B.2 Other changes	77	2
C. Decreases	1,191	837
C.1 Payments	1,170	807
C.2 Other changes	21	30
D. Closing balance	6,971	8,005
Total	6,971	8,005

In 2012, the bank changed the method used to recognise actuarial gains and losses from the corridor approach to an approach entailing their immediate recognition in other comprehensive income. Therefore, the actuarial losses of €77 thousand determined by the actuary are recognised in point “B.2 Other increases”. Point B.1 shows the annual interest cost, as calculated by the actuary.

9.2 Other information:

Breakdown of "B. Increases"

Description	Amounts
Interest cost	80
including: Revaluation	*80*
Actuarial loss	77
Total	**157**

Breakdown of "C. Decreases"

Description	Amounts
Decrease due to post-employment benefits reform Legislative decree no. 252/2005 / Actuarial gain	-
Post-employment advances and payments	- 1,170
Substitute tax on revaluation	- 21
Total	**- 1,191**

Actuarial valuation of post-employment benefits provision

Description	Amounts
Present value of benefits at 31/12/2018	8,005
Interest cost	80
Substitute tax	- 21
Service cost	-
Payments	- 1,170
Total recursive	**6,894**
Present value of benefits at 31/12/2019	6,971
Accumulated actuarial loss	***- 77***

Since 1 January 2007, employee termination indemnities are transferred to either the INPS treasury fund or a supplementary pension fund. Therefore, the actuarial calculation considers the value of accrued benefits, i.e. the total liability for each employee. The calculation is based on demographic and economic assumptions already used in 2011. The bank eliminated the corridor approach in 2012 and recognised the actuarial loss immediately in equity, thus adopting one of the effects of the revised IAS 19 (2011) early.

For the financial assumptions, reference was made by the actuary to the:

- demographic parameters;
- economic parameters;
- financial parameters.

The demographic parameters are most directly attributable to the actuarial aspects. These parameters are usually included in tables created from general samples from various institutes (e.g. ISTAT (the Italian National Institute of Statistics), INAIL, etc.) and by using the assumptions of a reduction in users based on the probability of death and invalidity.

The economic parameters concern the assumptions made on the changes in values with a direct economic connotation. In relation to the rate of inflation, an essential value for determining the remeasurement dynamics of performance in the years following the measurement, reference has been made to the "December 2018 Eurosystem staff macroeconomic projections for the euro area" (source: ECB) and to the related distribution by country where the growth outlook of prices is set at 0.7% for 2020, 1.1% for 2021 and 1.3% for 2022. As of 2023, a rate of 1.8% has been used as a reference value, slightly lower than the annual 2.0% target set by the ECB for the Eurozone.

The financial, and most significant, parameter is given from the rate used in the discounting of cash outflows and, therefore, in determining the average present value of the obligations. Through discounting, future commitments are all reported at the measurement date. The curve of AA Corporate rates reported at 31/12/2019 was used in the model, as shown by the following table:

YEAR	EUR AA CORPORATE CURVE YIELD TABLE	YEAR	EUR AA CORPORATE CURVE YIELD TABLE
1	-0.2170%	11	0.5518%
2	-0.1410%	12	0.6056%
3	-0.0220%	13	0.6594%
4	0.0830%	14	0.7132%
5	0.1540%	15	0.7670%
6	0.2140%	16	0.8316%
7	0.2820%	17	0.8962%
8	0.3550%	18	0.9608%
9	0.4290%	19	1.0254%
10	0.4980%	20	1.0900%

On the basis of the above assumptions, the bank recognised the actuarial loss of €77 thousand in other comprehensive income.

Section 10 - Provisions for risks and charges - Caption 100

10.1 Provisions for risks and charges: breakdown

Tax base / Amount	Total at 12/2019	Total at 12/2018
1. Provisions for credit risk associated with loan commitments and financial guarantees given	542	152
2. Provisions for other commitments and other guarantees given	-	-
3. Internal pension funds	8,278	8,362
4. Other provisions	2,653	2,249
4.1 legal and tax disputes	-	-
4.2 personnel expense	-	-
4.3 other	2,653	2,249
Total	11,473	10,763

10.2 Provisions for risks and charges: changes

Tax base / Amount	Provisions for other commitments and other guarantees given	Pension funds	Other provisions	Total
A. Opening balance	**152**	**8,362**	**2,249**	**10,763**
B. Increases	**457**	**521**	**1,170**	**2,148**
B.1 Accruals	457	123	1,170	1,750
B.2 Discounting	-	-	-	-
B.3 Changes due to variations in discount rate	-	-	-	-
B.4 Other changes	-	398	-	398
C. Decreases	**67**	**605**	**766**	**1,438**
C.1 Utilisations	-	605	766	1,371
C.2 Changes due to variations in discount rate	-	-	-	-
C.3 Other changes	67	-	-	67
D. Closing balance	**542**	**8,278**	**2,653**	**11,473**

Utilisation of these provisions amounted to €766 thousand and referred to the settlement of legal disputes recognised in caption 170/b of the income statement.

Other provisions of €2,653 thousand, shown in table 10.2, may be analysed as follows by type of litigation:

- Civil litigation	1,621,823
- Claw-back claims	411,000
- Other charges	20,000
- Labour disputes	600,000
- **Total**	**2,652,823**

As can be seen, the larger accruals are made for civil litigation, partly related to third party claims about the charging of compound interest or interest exceeding the legal rate.
Risks for ongoing proceedings about securities trading are modest, also given the:
1) limited number of legal actions: two at 31/12/2019;
2) generally modest amounts involved;
3) rulings at all levels in the bank's favour.
The accrual for claw-back claims refers to 4 customers under bankruptcy proceedings for which the court ruling had not been handed down at the reporting date.
Just one dispute involves two employees due to a claim forms received by the bank for the repayment of grants for training to INPS. The case, following a second level judgement in favour of the bank, has been reinstated by the plaintiffs.

The bank has considered the typical risks of the banking sector and a prudent interpretation of the reference regulations when measuring and determining the various provisions.

It regularly reviews contingent liabilities for which specific provisions have not been made and which are treated like the recognised liabilities. These relate to obligations that are possible only or present obligations for which:

a. it is not certain whether an outflow of resources will be necessary;

b. the amount cannot be determined.

The case in point b is infrequent and relates to just one instance.

Conversely, the case in point a. is more frequent and the probability that an outflow of resources will be necessary depends on events that suggest that the probability of a negative outcome is very unlikely or impossible.

Specifically, it includes legal disputes existing at the reporting date, for which a negative outcome is improbable based on:

(i) the legal advisors' opinion;

(ii) rulings in the bank's favour by earlier court hearings.

Based on the probability of contingent or actual liabilities presented in the 2019 financial statements, the situation is as follows:

Type of risk	Contingent liability		Bonds	
	Petitum	*Accrual*	*Petitum*	*Accrual*
Legal disputes	5,402,638	0	44,814,812	1,621,823
Claw-back claims	0	0	701,933	411,000
Labour disputes	0	0	627,000	600,000
Other charges	0	0	20,000	20,000
Total	**5,402,638**	**0**	**45,516,745**	**2,652,823**

Contingent liabilities for legal disputes refer to the following categories:

a) repudiation of false drawers' signatures on credit instruments;

b) trading of bonds;

c) compound interest or interest exceeding the legal rate;

d) other claims for damage compensation.

10.3. Provisions for credit risk associated with loan commitments and financial guarantees given

Tax base / Amount	Provisions for credit risk associated with loan commitments and financial guarantees given			
	Stage 1	Stage 2	Stage 3	Total
Loan commitments	29	14	-	43
Financial guarantees given	24	17	458	499
Total	53	31	458	542

10.5 Defined benefit internal pension plans

The bank's pension fund ("*Fondo d'integrazione delle pensioni dell'assicurazione obbligatorio per l'invalidità, la vecchiaia ed i superstiti gestita dall'INPS per il Personale - ruolo credito - della Cassa di Risparmio di Fermo*"), included in the special section III as number 9107 of the Pension funds register held by COVIP (the Italian pension regulator) and recognised in caption 100. b) on the liabilities side of the balance sheet, is regulated by the Agreement of 4 December 1990, Legislative decree no. 124/93, the new legislative framework as defined by Law no. 335 of 8 August 1995 and the measure attached to the 1998 Finance Act (Law no. 449/1997) as well as the agreement of 18 October 2000 for the fund's transformation by setting up a defined contribution part from 1 January 2001.

The fund's object is to provide its beneficiaries and their surviving family members with a supplementary pension in addition to that provided by INPS.

Following the aforesaid transformation agreement, the fund covers the bank's employees that had retired at 31 December 2000 or their surviving family members. The bank pays in a contribution in order to ensure its actuarial balance.

At 31/12/2019, the fund had 114 beneficiaries, including those with zero annuities as shown in the following table:

Gender	Direct	Indirect or reversible	Total
Women	7	49	**56**
Men	57	1	**58**
Total	**64**	**50**	**114**

The actuarial calculations were based on a projection of the individual beneficiaries' positions at 31 December 2019. This projection was extended until the complete extinguishment of the obligations considering a hypothetical system based on:

1. legislative parameters;
2. demographic parameters;
3. economic parameters;
4. financial parameters.

The generation RG 48 chart prepared by the State General Accounting Office was used for the demographic parameters while the estimates usually used for INPS simulations were used for the family beneficiaries.

An annual increase in prices of 1.80% over the long term was assumed for the economic parameters. The effects of the substantial elimination of the equalisation clause were estimated by considering the "equal grade of service". The equalisation rates using the assumed inflation rates were:

BRACKET	RATE
Up to 3 times the minimum treatment	1.80%
From 3 to 5 times the minimum treatment	1.62%
More than 5 times the minimum treatment	1.35%

With respect to the financial parameters, in compliance with IAS provisions, an update was made to the returns structure of the curve of the Corporate Euro securities with AA rating (source: Refinitiv) reported at 31 December 2019.

The average present value appraised by the relevant expert of the cost of integrating and substituting the pension plan for the 114 beneficiaries is in line with the amount recognised in the financial statements.

Technical accounts at 31/12/2019	
Average present value - immediate	8,278
Average present value - total charges	8,278
Mathematical reserve at 31/12/2018	8,362
Equity at 31/12/2019	7,900
Mathematical provision	8,278
TECHNICAL SURPLUS	**378**
Calculation of actuarial gains/losses for IFRS purposes	
Mathematical provision at 31 December 2018	8,362
Interest cost	123
Service cost	0
Payments	-605
Accumulated net actuarial gain at 31/12/2019	**398**

The bank has replaced the corridor approach with the immediate recognition of actuarial gains or losses in other comprehensive income. The interest cost recognised in profit or loss amounted to €123 thousand and the actuarial loss to €398 thousand, recognised in other comprehensive income.

Section 12 – Equity – Captions 110, 130, 140, 150, 160, 170 and 180

12.1 Share capital and treasury shares: breakdown

Component	Amount
Share capital	39,241
Total	**39,241**

The fully subscribed and paid-in share capital consists of 759,750 shares with a nominal amount of €51.65 for a total €39,241,087.50.

The bank's shareholders are:

- Fondazione Cassa di Risparmio di Fermo, with 506,500 ordinary shares equal to an investment of 66.67%;
- Intesa Sanpaolo S.p.A., with 253,250 ordinary shares equal to an investment of 33.33%.

The caption did not undergo any change during the year.

12.2 Share capital - number of shares: changes

Tax base / Types	Ordinary	Other
A. Opening balance	**759,750**	-
- fully paid-in	*759,750*	-
- not fully paid-in	-	-
A.1 Treasury shares (-)	-	-
A.2 Outstanding shares: opening balance	**759,750**	-
B. Increases	-	-
B.1 New issues	-	-
- against consideration:	-	-
- business combinations	-	-
- bond conversions	-	-
- exercise of warrants	-	-
- other	-	-
- bonus issues:	-	-
- to employees	-	-
- to directors	-	-
- other	-	-
B.2 Sale of treasury shares	-	-
B.3 Other changes	-	-
C. Decreases	-	-
C.1 Cancellations	-	-
C.2 Repurchase of treasury shares	-	-
C.3 Disposals of equity investments	-	-
C.4 Other changes	-	-
D. Outstanding shares: closing balance	**759,750**	-
D.1 Treasury shares (+)	-	-
D.2 Closing balance	759,750	-
- fully paid-in	-	-
- not fully paid-in	-	-

12.4 Income-related reserves: other information

Tax base	LEGAL RESERVE	STATUTORY RESERVE	OTHER
OPENING BALANCE	18,846	55,303	- 7,135
INCREASES	157	654	-
Allocation of profits	157	654	-
DECREASES	-	-	-
Other changes (FTA reserve)	-	-	-
CLOSING BALANCE	19,003	55,957	- 7,135

The legal reserve was increased by the allocation of 10% of the profit for the year as provided for by article 24 of the by-laws, regardless of the legal requirements for it to be equal to one fifth of the bank's share capital as required by article 2430 of the Italian Civil Code.

It exceeds one fifth of the bank's share capital by €11,154 thousand.

The statutory reserve includes:

- 15% of the profit for the year as provided for by article 24 of the by-laws;
- reclassification of the income-related reserves for €15,200 thousand as determined during IFRS FTA of 1 January 2005.

The other reserves comprise:

- the contribution reserve of €6,130 thousand as per Law no. 218/90, net of the IFRS FTA reserve of -€2,860 thousand;
- IFRS 9 FTA reserve of 1 January 2018 of -€10,405 thousand.

12.4.1 Equity: breakdown, availability and distributability of the different captions

Nature/description	Amount	Possible use (1)	Available portion	Summary of use in the last 3 years (2)	
				To cover losses	For other purposes
Share capital	39,241,087.50				
Equity-related reserves:					
Contribution reserve	15,121,767.94	A,B,C	15,121,767.94		
Revaluation reserve	6,129,826.94	A,B,C	6,129,826.94		
Share premium (3)	34,660,068.07	A,B,C	34,660,068.07		
Income-related reserves:					
Legal reserve	19,003,135.72	B	11,154,918.22		
Statutory reserve	55,957,861.43	B	-		
Other reserves:					
FTA reserve (IAS/IFRS adoption)	- 13,265,284.23		-		
Fair value reserve (HTCS securities)	- 1,149,028.79		-		
Actuarial reserve	- 2,954,765.52		-		
Retained earnings	-		-		
Total	**152,744,669.06**		**67,066,581.17**	-	-
Undistributable portion (4)			585,835.10		
Remaining distributable portion			66,480,746.07		

in Euros

Key:
A = share capital increase
B = to cover losses
C = dividend distribution
Note:

(1) = Except for additional constraints imposed by by-laws

(2) = Utilisations are shown from 2000 as comparative previous years' data are unavailable

(3) = Pursuant to article 2431 of the Italian Civil Code, the entire reserve can only be distributed when the legal reserve has reached the threshold set by article 2430 of the Italian Civil Code.

(4) = The portion that cannot be distributed due to: the translation reserve, the reserve for equity-accounted investees, the reserve for departures as per article 2413.4 of the Italian Civil Code and the part allocated to cover unamortised deferred costs as per article 2426.5 of the Italian Civil Code.

12.4.2 Proposed allocation of the profit for the year

On 24 March 2020, the bank's board of directors resolved to submit for the approval of the shareholders' meeting the proposal to distribute a unit dividend at €4 per share, for an overall amount of €3,039 thousand, using the bank's net profit for the 2019 financial year of €5,996 thousand.
The Bank of Italy's recommendation of 27 March 2020 and document no. 044761520 of 2 April 2020 regarding the dividends policy of less significant Italian institutions during the COVID-19 pandemic were subsequently published, and recommended not to distribute dividends given the economic context caused by the epidemic.

In light of the above, it is suggested that the bank follow the instructions set out by the Bank of Italy's recommendations and subsequently allocate the profit for the year as per the following table:

Profit distribution plan	
PROFIT FOR THE YEAR	**5,996,732.00**
10% to the legal reserve	**599,673.00**
90% to the statutory reserve	**5,397,059.00**
TOTAL DISTRIBUTABLE PROFIT	**5,996,732.00**

Pursuant to the relevant laws and article 25 of the by-laws, we propose it be allocated as follows:

- 10% to the legal reserve, i.e., €599,673;

- the remaining €5,397,059 to the extraordinary reserve

After the allocation set out above pursuant to article 25 of the by-laws, the legal reserve, which amounted to €19,003,136 at 31/12/2019, will amount to €19,602,809 exceeding one fifth of the share capital as per article 2430 of the Italian Civil Code by €11,754,591.

OTHER INFORMATION

1. Loan commitments and financial guarantees given other than those at fair value

Transactions	Nominal amount on commitments and financial guarantees given			Amount at 12/2019	Amount at 12/2018
	(Stage 1)	(Stage 2)	(Stage 3)		
Loan commitments	449,976	40,597	5,139	495,712	514,091
a)Central banks	-	-	-	-	-
b)Public administrations	35,393	-	-	35,393	41,081
c)Banks	-	-	-	-	3,428
d)Other financial companies	6,517	201	-	6,718	6,884
e)Non-financial companies	358,200	33,071	4,693	395,964	404,459
f)Households	49,866	7,325	446	57,637	58,239
Financial guarantees given	21,664	3,306	1,607	26,577	24,794
a)Central banks	-	-	-	-	-
b)Public administrations	29.00	-	-	29	21
c)Banks	4,770	-	-	4,770	4,354
d)Other financial companies	1,557	135	460	2,152	2,392
e)Non-financial companies	13,606	2,561	1,147	17,314	15,907
f)Households	1,702	610	-	2,312	2,120

2. Other commitments and other guarantees given

There are no transactions of this kind in the bank's operations.

3. Assets pledged as guarantee for liabilities and commitments

Portfolios	Amount at 12/2019	Amount at 12/2018
1. Financial assets at fair value through profit or loss	905	11
2. Financial assets at fair value through other comprehensive income	-	-
3. Financial assets at amortised cost	53,498	54,340
4. Property, equipment and investment property	-	-
including: held as inventories	-	-

Table 3 shows the securities pledged as guarantee for the bank's liabilities:

- transactions tied to payment of pensions by INPS for €10 thousand;
- transactions tied to the future margin accounts for €895 thousand;
- transactions tied to the ECB's monetary policies for €53,498 thousand.

4. Management and trading on behalf of third parties

Service	Amount
1. Execution of customer orders	-
a) Purchases	-
1. settled	-
2. unsettled	-
b) Sales	-
1. settled	-
2. unsettled	-
2. Asset management	-
a) individual	-
b) collective	-
3. Securities custody and administration	**1,707,114**
a) third party securities held as part of depository bank services (excluding asset management)	-
1. securities issued by the reporting entity	-
2. other securities	-
b) third party securities on deposit (excluding asset management): other	607,610
1. securities issued by the reporting entity	*26,161*
2. other securities	*581,449*
c) party securities deposited with third parties	581,231
d) securities owned by the bank deposited with third parties	518,273
4. Other	-

9. Credit collection on behalf of third parties: adjustments

Transactions	FY 12/2019	FY 12/2018
a) "debit" adjustments	**321,382**	**321,113**
1) bank joint accounts	76,395	78,019
2) central portfolio	242,818	241,714
3) cash	362	274
4) other accounts	1,807	1,106
b) "credit" adjustments	**350,395**	**348,381**
1) bank joint accounts	93,070	83,525
2) transferors of bills and documents	257,039	264,479
3) other accounts	286	377
DIFFERENCE	**29,013**	**27,268**

The difference of €29,013 thousand is shown under caption "80 Other liabilities" in the balance sheet.

PART C
Notes to the income statement

Section 1 – Interest – Captions 10 and 20

1.1 Interest and similar income: breakdown

Tax base / Products	Debt instruments	Financing	Other	Total at 12/2019	Total at 12/2018
1. Financial assets at fair value through profit or loss:	2,265	-	-	2,265	2,255
1.1 Financial assets held for trading	2,178	-	-	2,178	2,255
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value	87	-	-	87	-
2. Financial assets at fair value through other comprehensive income	1,327	-		1,327	862
3. Financial assets at amortised cost	1,801	27,914		29,715	28,991
3.1 Loans and receivables with banks	-	62		62	78
3.2 Loans and receivables with customers	1,801	27,852		29,653	28,913
4. Hedging derivatives			-	-	-
5. Other assets			-	-	5
6. Financial liabilities				-	-
Total	5,393	27,914	-	33,307	32,113
- including: interest income on credit-impaired exposures	-	2,733	-	2,733	2,639
- including: interest income on finance leases	-	-	-	-	-

Interest accrued since the start of the year on the following credit-impaired exposures, which, at the reporting date, are unlikely to pay or are past due/overdrawn by more than 90 days:

1. Unlikely to pay (€2,792 thousand);
2. Past due/overdrawn by more than 90 days (€180 thousand).

1.2 Interest and similar income: other information

1.2.1 Interest income on foreign currency financial assets

Tax base / Amount	Total at 12/2019	Total at 12/2018
1.3.1 Interest income on foreign currency financial assets	693	215

1.3 Interest and similar expense: breakdown

Tax base / Products	Financial liabilities	Securities	Other	Total at 12/2019	Total at 12/2018
1. Financial liabilities at amortised cost	- 2,239	- 510	-	- 2,749	- 2,935
1.1 Due to central banks	-		-	-	-
1.2 Due to banks	- 23		-	- 23	- 17
1.3 Due to customers	- 2,216		-	- 2,216	- 2,201
1.4 Securities issued		- 510	-	- 510	- 717
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities designated at fair value	-	-	-	-	-
4. Other liabilities and provisions			-	-	-
5. Hedging derivatives			-		-
6. Financial assets				- 214	-
Total	**- 2,239**	**- 510**	-	**- 2,963**	**- 2,935**
including: interest expense related to lease liabilities	-	-	-	-	-

1.4 Interest and similar expense: other information

1.4.1 Interest expense on foreign currency liabilities

Tax base / Amount	Total at 12/2019	Total at 12/2018
1.4.1 Interest expense on foreign currency liabilities	- 28	- 37

Section 2 – Fees and commissions - Captions 40 and 50

2.1 Fee and commission income: breakdown

Service / Amount	Total at 12/2019	Total at 12/2018
a) guarantees given	**270**	**249**
b) credit derivatives	-	-
c) management, brokerage and consultancy services:	**9,140**	**9,949**
1. trading in financial instruments	95	96
2. foreign currency transactions	96	105
3. individual asset management	-	-
4. securities custody and administration	79	81
5. depository services	-	-
6. securities placement	4,327	4,663
7. order collection and transmission	361	292
8. consultancy services	-	-
8.1 concerning investments	-	-
8.2 concerning financial structure	-	-
9. distribution of third party services	4,182	4,712
9.1. asset management	*249*	*362*
9.1.1. individual	*133*	*143*
9.1.2. collective	*116*	*219*
9.2. insurance products	*2,704*	*3,117*
9.3. other products	*1,229*	*1,233*
d) collection and payment services	**2,926**	**3,001**
e) servicing services for securitisations	-	-
f) services for factoring transactions	-	-
g) tax collection services	-	-
h) management of multilateral trading systems	-	-
i) keeping and management of current accounts	**9,595**	**9,392**
j) other services	**3,660**	**3,306**
Total	**25,591**	**25,897**

The balance shown as letter "j) other services" in the above table includes:[2]

Loan preliminary investigation fees	804
Financing fees	411
Bancomat (debit card) and home banking fees	773
Transfer fees	1,057

2.2 Fee and commission income: product and service distribution channels

[2] Amount (€'000)

Channel / Amount	Total at 12/2019	Total at 12/2018
a) own branches:	**8,508**	**9,375**
1. asset management	-	-
2. securities placement	4,327	4,663
3. third party services and products	4,181	4,712
b) off-premises distribution:	-	-
1. asset management	-	-
2. securities placement	-	-
3. third party services and products	-	-
c) other distribution channels:	-	-
1. asset management	-	-
2. securities placement	-	-
3. third party services and products	-	-

2.3 Fee and commission expense: breakdown

Service / Amount	Total at 12/2019	Total at 12/2018
a) guarantees received	-	**- 29**
b) credit derivatives	-	-
c) management and brokerage services:	**- 406**	**- 349**
1. trading in financial instruments	- 152	- 104
2. foreign currency transactions	-	-
3. asset management:	- 209	- 203
3.1 own portfolio	-	-
3.2 third party portfolios	*- 209*	*- 203*
4. securities custody and administration	- 45	- 42
5. placement of financial instruments	-	-
6. off-premises distribution of securities, products and services	-	-
d) collection and payment services	**- 1,050**	**- 955**
e) other services	**- 57**	**- 75**
Total	**- 1,513**	**- 1,408**

Section 3 - Dividends and similar income - Item 70

3.1 Dividends and similar income: breakdown

Tax base / Income	Total at 12/2019		Total at 12/2018	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	-	970	-	959
B. Other financial assets mandatorily measured at fair value	-	-	-	-
C. Financial assets at fair value through other comprehensive income	997	-	768	-
D. Equity investments	-	-	-	-
Total	**997**	**970**	**768**	**959**

Section 4 – Net trading income (expense) - Caption 80

4.1 Net trading income: breakdown

Tax base / Income	Gains (A)	Trading income (B)	Losses (C)	Trading losses (D)	Profit for the year [(A+B) – (C+D)]
1. Financial assets held for trading	**1,007**	**3,049**	**321**	**879**	**2,856**
1.1 Debt instruments	871	2,525	321	226	2,849
1.2 Equity instruments	-	524	-	653	- 129
1.3 OEIC units	136	-	-	-	136
1.4 Financing	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	-	-	-	-	-
2.1 Debt instruments	-	-	-	-	-
2.2 Liabilities	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Other financial assets and liabilities: exchange gains					**65**
4. Derivatives	**11,353**	-	**8,880**	-	**2,473**
4.1 Financial derivatives:	11,353	-	8,880	-	2,473
- On debt securities and interest rates	11,353	-	8,880	-	2,473
- On equity instruments and equity indexes	-	-	-	-	-
- On currencies and gold					-
- Other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
including: natural hedges associated with the fair value option					-
Total	**12,360**	**3,049**	**9,201**	**879**	**5,394**

Currency: Costs, Revenue and Inventories

EXPENSES AND LOSSES:			REVENUE AND PROFITS:		
Tax base	2019	2018	Tax base	2019	2018
A) Opening balance in foreign currency	903	868	E) Revenue from currency	122,367	102,101
B) Cost of purchasing currency	122,649	102,182	F) Closing balance	1,287	903
D) Total costs	**123,552**	**103,050**	**H) Total revenue**	**123,654**	**103,004**

SUMMARY:		
	2019	2018
(+) Total revenue	*123,654*	*103,004*
(-) Total costs	*- 123,552*	*- 103,050*
(+) Currency fees	*52*	*48*
(-) Losses (+) gains on currencies	*- 152*	*41*
(-) Impairment losses (+) gains on Securities	*50*	*122*
(-) Impairment losses (+) gains on Currencies	*13*	*-*
Profit from currency valuation	***65***	***165***

The purchase costs and income from sales relate to foreign currency dealt in by the bank during the year, except for participating currencies and Euro captions.

Section 6 - Gain (loss) from sales/repurchases - Caption 100

6.1 Gain (loss) from sales/repurchases: breakdown

Tax base / Income statement item	Total at 12/2019			Total at 12/2018		
	Gains	Losses	Net gain	Gains	Losses	Net gain
Financial assets						
1. Financial assets at amortised cost	4,858	284	4,574	-	-	-
1.1 Loans and receivables with banks	-	-	-	-	-	-
1.2 Loans and receivables with customers	*4,858*	*284*	*4,574*	-	-	-
2. Financial assets at fair value through other comprehensive income	12,075	2,719	9,356	3,781	-	3,781
2.1 Debt instruments	*12,075*	*2,719*	9,356	*3,781*	-	3,781
2.2 Financing	-	-	-	-	-	-
Total assets	**16,933**	**3,003**	**13,930**	**3,781**	-	**3,781**
Financial liabilities at amortised cost						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	-	-	-	-	-	-
Total liabilities	-	-	-	-	-	-

Item "1.2 Loans and receivables with customers", column 3, includes the gain from the sale of securities in the HTC portfolio for €3,105 thousand, according to the provisions of the financial regulations business model and the board of directors' resolution of 25/06/2019. The gain of €1,753 thousand realised on the single name sale of 68 bad exposures is recognised in the profit for the year for €4,574 thousand. Net of €284 thousand for fees paid, this gain amounts to €1,469 thousand.

Section 7 - Net gains (losses) on financial assets and liabilities at fair value through profit or loss - Caption 110

7.2 Net gains (losses) on other financial assets and liabilities at fair value through profit or loss: breakdown of other financial assets mandatorily measured at fair value

Transaction / Income statement item	Gains (A)	Realised gains (B)	Losses (C)	Realised losses (D)	Profit for the year [(A+B) - (C+D)]
1. Financial assets	-	-	279	-	- 279
1.1 Debt instruments	-	-	279	-	- 279
1.2 Equity instruments	-	-	-	-	-
1.3 OEIC units	-	-	-	-	-
1.4 Financing	-	-	-	-	-
2. Foreign currency financial assets: Exchange gains (losses)					-
Total	-	-	279	-	- 279

The amount shown in the above table relates to the impairment on the sums paid to the voluntary scheme for the action taken in favour of Carige S.p.A.

Section 8 – Net impairment gains (losses) for credit risk - Caption 130

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

Transaction / Income statement item	Impairment losses (1)			Impairment gains (2)		Total at 12/2019	Total at 12/2018
	Stages 1 and 2	Stage 3		Stages 1 and 2	Stage 3		
		Write-offs	Other				
A. Loans and receivables with banks	**-4**			**-**	**-**	**-4**	**-**
- Financing	-4	-	-	-	-	-4	-
- Debt instruments	-	-	-	-	-	-	-
Including: purchased or originated credit-impaired	-	-	-	-	-	-	
B. Loans and receivables with customers	**-89**	**-1,222**	**-22,424**	**124**	**3,863**	**-19,748**	**-12,072**
- Financing	-89	-1,222	-22,424	1	3,863	-19,871	-11,648
- Debt instruments	-	-	-	123	-	123	-424
Including: purchased or originated credit-impaired	-	-	-	-	-	-	-
C. Total	**-93**	**-1,222**	**-22,424**	**124**	**3,863**	**-19,752**	**-12,072**

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

Transaction / Income statement item	Impairment losses (1)			Impairment gains (2)		Total at 12/2019	Total at 12/2018
	Stages 1 and 2	Stage 3		Stages 1 and 2	Stage 3		
		Write-offs	Other				
A. Debt instruments	**-113**	**-**	**-**	**-**	**-**	**-113**	**-124**
B. Financing	-	-	-	-	-	-	-
- With customers	-	-	-	-	-	-	-
- With banks	-	-	-	-	-	-	-
Including: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	-
D. Total	**-113**	**-**	**-**	**-**	**-**	**-113**	**-124**

Section 9 – Modification gains/losses - Caption 140

9.1 Modification gains/losses: breakdown

Tax base / Amount	Total at 12/2019	Total at 12/2018
9.1 Modification gains/losses: breakdown	- 531	-

Section 10 - Administrative expenses – Caption 160

10.1 Personnel expense: breakdown

Expense / Amount	Total at 12/2019	Total at 12/2018
1) Employees	**- 25,777**	**- 27,132**
a) wages and salaries	- 18,083	- 19,050
b) social security contributions	- 4,877	- 5,042
c) post-employment benefits	-	-
d) pension costs	-	-
e) accrual for post-employment benefits	- 1,104	- 1,136
f) accrual for pension and similar provisions:	- 123	- 142
- defined contribution	-	-
- defined benefit plans	*- 123*	*- 142*
g) payments to external supplementary pension funds	- 608	- 745
- defined contribution	*- 608*	*- 745*
- defined benefit plans	-	-
h) costs of share-based payment plans	-	-
i) other employee benefits	- 982	- 1,017
2) Other personnel	**- 83**	-
3) Directors and statutory auditors	**- 728**	**- 950**
4) Retired personnel	-	-
5) Cost recoveries for personnel seconded to other companies	-	-
6) Cost reimbursements for personnel seconded to the bank	-	-
Total	**- 26,588**	**- 28,082**

Item 3 of the table includes the statutory auditors' fees and the directors' insurance policies.
According to Law no. 124 of 4 August 2017, known as the "law for market and competition", which introduced the policy on "subsidies, contributions, remunerated engagements and economic rewards of any kind" received from public administrations, the bank did receive this kind of contribution, which was recognised in caption "1) -b social security contributions". The following table analytically lists the financial incentives received:

N.	Contributing entity	Contribution received in euro	Reason
1	INPS	5,647.44	law no. 92/2012 women unemployed over 24 months
2	INPS	37,000.00	law no. 205/2017 recruitment of young people
3	Region Employment Centre	23,247.74	law no. 68/99 and 247/2007 disabled people
4	INPS	11,335.10	Decree law no. 151/2015 art. 10 disabled people
5	INPS	3,092.50	NASpI recipients law no. 92/2012 art. 2 subsection 15 decree law no. 76/2013
6	INPS	7,293.89	Southern Bonus
	Total economic benefits received	**87,616.67**	

10.1.1 Wages and salaries: bonuses

Expense / Amount	Total at 12/2019	Total at 12/2018
a) wages and salaries	- 18,083	- 19,050
- *including: bonuses*	*942*	*798*

10.2 Average number of employees per category

Breakdown	2019 peak value	2019 average	2018 peak value
• Employees	**362**	**356**	**378**
a) managers	2	2	1
b) junior managers	103	103	102
- *including: 3rd and 4th level*	*49*	*45*	*41*
c) other employees (including cleaning staff)	257	252	275
- *including: 3rd professional group*	*254*	*249*	*272*
- *including: 2nd professional group*	*2*	*2*	*2*
- *including: cleaning staff*	*1*	*1*	*1*
• Other personnel	**10**	**10**	**10**

The average was determined considering the part-time personnel for 50%.

10.3 Internal defined benefit pension plans: costs and revenue

Expense/Amount	12/2019	12/2018
Remuneration on supplementary pension fund - interest cost	123	142

10.4 Other employee benefits

Expense/Amount	12/2019	12/2018
Other employee benefits	- 982	- 1,017

This caption mainly comprises training costs of €126 thousand, life, accident and health insurance policies of €341 thousand, lunch vouchers of €452 thousand and other employee benefit payments of €63 thousand.

10.5 Other administrative expenses: breakdown

Components	12/2019	12/2018
1 - credit collection legal fees	- 1,868	- 1,489
2 - sundry and technical legal consultancy	- 1,035	- 1,192
3 - maintenance, repairs, conversions	- 1,111	- 1,095
4 - lease of premises	-	- 977
5 - cleaning services	- 597	- 581
6 - rental of machinery and data transmission lines	- 1,113	- 1,302
7 - security and security transportation	- 572	- 571
8 - lighting and heating	- 531	- 466
9 - stationery and printed matter	- 202	- 186
10 - postal, telegraph, telex, telephone	- 358	- 393
11 - insurance	- 338	- 328
12 - advertising	- 373	- 342
13 - subscriptions and purchases of publications	- 94	- 83
14 - third party service costs	- 4,098	- 3,970
15 - transportation and relocation	- 256	- 265
16 - membership fees	- 293	- 276
17 - contribution to the National Resolution Fund and the Interbank Guarantee Deposit Fund	- 1,263	- 1,238
18 - car leases	- 35	- 100
19 - information and Chamber of Commerce business register file searches	- 615	- 619
20 - other	- 293	- 275
Subtotal of other administrative expenses	**- 15,045**	**- 15,748**
Indirect taxes and duties		
1 - stamp duty	- 3,500	- 3,535
2 - own municipal tax	- 354	- 353
3 - other	- 633	- 556
Total indirect taxes and duties	**- 4,487**	**- 4,444**
Total other administrative expenses	**- 19,532**	**- 20,192**

“Maintenance, repair and conversions” relate to work performed to make the buildings usable. Therefore, they have been expensed even when the amounts involved were significant.

Following the expiry of the nine-year mandate granted to independent auditors KPMG S.p.A., the tender was called to award the independent auditing. The company awarded the service for the next nine years is Deloitte & Touche S.p.A.

As shown in the two tables at the end of this section, the fees due to the independent auditors for their services are as follows:

- statutory audit of the annual financial statements .... € 145,261;
- attestation services due to inclusion of the profit for the year in own funds .... € 11,590;
- translation of financial statements into English .... € 12,200;
- signing of the tax returns .... € 5,456.

In addition, fees for services paid to other entities of the independent auditors' network are shown below:

- contractual assistance provided by "KStudio Associato" €26,644.

These fees include VAT and reimbursement of out-of-pocket expenses.

The following fees are to be paid to the new auditor, as per the proposal:

Service	Service provider	Fees
Statutory audit	Deloitte & Touche S.p.A.	60,000
Attestation services	Deloitte & Touche S.p.A.	8,000
TOTAL		**68,000**

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

11.1 Net accruals for credit risk associated with loan commitments and financial guarantees given

Tax base / Amount	12/2019
Loan commitments:	- 390
- commitments for endorsement credits	- 390
- other commitments	-
Financial guarantees given:	-
- guarantees given	-
- other guarantees given	-
Total	- 390

11.3 Net accruals to other provisions: breakdown

Tax base / Amount	12/2019
1 - accrual for legal disputes	- 398
2 - accrual for claw-back claims	- 271
3 - other	- 500
Total accruals	- 1,169
4 - utilisation to settle legal disputes	766
Total utilisations	766
Total net accruals at 31/12/2019	- 403

The utilisations of these provisions are recognised in caption 170/B of the income statement.

Section 12 - Depreciation and net impairment losses on property, plant and equipment - Caption 180

12.1 Depreciation and net impairment losses on property, plant and equipment: breakdown

Asset/Income statement item	Depreciation (a)	Impairment losses (b)	Impairment gains (c)	Profit for the year (a + b – c)
A. Property, equipment and investment property				
1. Used for operations	- 2,736	-	-	- 2,736
- owned	- *1,452*	-	-	- *1,452*
- rights of use acquired with leases	- *1,284*	-	-	- *1,284*
2. Investment	-	-	-	-
- owned	-	-	-	-
- rights of use acquired with leases	-	-	-	-
3. Inventories		-	-	-
Total	- **2,736**	-	-	- **2,736**

Section 13 - Amortisation and net impairment losses on intangible assets - Caption 190

13.1 Amortisation and net impairment losses on intangible assets: breakdown

Asset / Income statement item	Depreciation (a)	Impairment losses (b)	Impairment gains (c)	Profit for the year (a + b – c)
A. Intangible assets				
A.1 Owned	- 80	-	-	- 80
- Generated internally	-	-	-	-
- Other	*- 80*	-	-	*- 80*
A.2 Rights of use acquired with leases	-	-	-	-
Total	**- 80**	-	-	**- 80**

Section 14 - Other operating income, net - Caption 200

14.1 Other operating expense: breakdown

Tax base / Amount		12/2019
1 - Charitable donations	-	126
2 - Contributions to bodies and municipalities receiving treasury services	-	4
3 - Amortisation of leasehold improvements	-	239
4 - Losses for robberies	-	63
5 - Other	-	1,195
Total other operating expense	-	**1,627**

Item "5 – Other" includes prior year expense of €311 thousand incurred to settle disputes that arose in previous years and for which the bank used the related provision, payments to settle interest expense of €28 thousand accrued in 2018, cost reimbursements on current account payments in 2018 for €13 thousand, and the consideration of €800 thousand paid for a civil litigation not yet settled in court.

14.2 Other operating income: breakdown

Tax base / Amount	12/2019
1 - Recoveries of administrative expenses	4,945
2 - Security box fees	72
3 - Lease income	387
4 - Other income	560
Total other operating income	**5,964**
Total caption 200	**4,337**

Caption "1 - Recoveries of administrative expenses" includes:

- recoveries of indirect taxes (stamp duty, substitute tax on medium- and long-term financing, registration fees) for €3,919 thousand;
- recoveries of legal fees for €421 thousand;
- fast credit processing fees for €333 thousand;
- recoveries of postal, insurance and telephone fees for €272 thousand.

Item "4 - Other income" includes:

- recovery of fines and fees on current accounts and deposits of €10 thousand;
- prior year income of €504 thousand;
- fees for treasury services bodies €17 thousand;
- Enbicredito employment fund contributions of €30 thousand.

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

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

Income statement item / Amount	31/12/2019	31/12/2018
A. Property	-	-
- Gains on sales	-	-
- Losses on sales	-	-
B. Other assets	-	-1
- Gains on sales	2	-
- Losses on sales	-2	-1
Net gain	-	-1

Section 19 - Income taxes - Caption 270

19.1 Income taxes: breakdown

Income statement item / Amount	31/12/2019	31/12/2018
1. Current taxes (-)	- 3,214	- 169
2. Change in current taxes from previous years (+/-)	- 154	-
3. Decrease in current taxes for the year (+)	-	-
3 bis. Decrease in current taxes for the year due to tax assets as per Law no. 214/2011 (+)	-	-
4. Change in deferred tax assets (+/-)	- 297	- 76
5. Change in deferred tax liabilities (+/-)	17	-
6. Utilisation of prior year tax provision (+)	-	1,220
7. Income taxes (-) (-1+/-2+3+/-4+/-5)	**- 3,648**	**- 245**

19.2 Reconciliation between the theoretical and effective tax expense

Income statement item / Tax base	Amounts	Balance
Pre-tax profit	9,645	
Effective IRES tax rate	27.50%	
Theoretical tax expense		2,652
Permanent and temporary differences for IRES purposes		*- 402*
a) dividends	- 617	
b) other	- 844	
IRES tax		**2,250**
Pre-tax profit	9,645	
Effective IRAP tax rate	5.50%	
Theoretical tax expense		530
Permanent differences for IRAP purposes	-	*433*
a) non-deductible personnel expense	1,628	
b) impairment losses/gains on loans and receivables	-	
c) other	6,239	
IRAP tax		**963**
Income tax expense		**3,213**
Utilisation of tax provision for IRES reimbursement pursuant to Law decree no. 201/2011 - tax credit		-
Change in "deferred tax assets", "deferred tax liabilities" and "current taxes from previous years"		434
Income tax benefit		**3,647**

Section 22 – Earnings per share

22.1 Average number of ordinary shares with dilutive effect

	31/12/2019	31/12/2018
Weighted average number of shares	759,750	759,750
Profit attributable to the share categories (Euro)	4,497,549	1,178,013
Basic EPS (Euro)	5.92	1.55
Diluted EPS (Euro)	5.92	1.55

Pursuant to IAS 33.10/33, the basic earnings per share (EPS) are € 5.92. The calculation is made on the amount remaining after allocating 10% of the earnings to the legal reserve and 15% to the statutory reserve according to the provisions of the bylaws of Cassa di Risparmio di Fermo S.p.A.

The bank has not repurchased treasury shares. It has not issued nor does it have shares with dilutive effects.

PART D

Comprehensive income

BREAKDOWN OF COMPREHENSIVE EXPENSE

	Tax base	12/2019	12/2018
10.	**Profit for the year**	**5,997**	**1,571**
	Items that will not be reclassified to profit or loss		
20.	Equity instruments at fair value through other comprehensive income:	48	-427
	a) Fair value losses	*48*	*-427*
	b) Transfers to other equity items	-	-
30.	Financial liabilities designated at fair value through profit or loss (changes in own credit rating):	-	-
	a) Fair value losses	-	-
	b) Transfers to other equity items	-	-
40.	Hedges of equity instruments at fair value through other comprehensive income:	-	-
	a) Fair value gains (losses) (hedged items)	-	-
	b) Fair value gains (losses) (hedges)	-	-
50.	Property, plant and equipment	-	-
60.	Intangible assets	-	-
70.	Defined benefit plans	-344	333
80.	Non-current assets held for sale and disposal groups	-	-
90.	Share of valuation reserves of equity-accounted investees	-	-
100.	Items that will not be reclassified to profit or loss: related tax	-	-
	Items that will be reclassified to profit or loss		
110.	Hedges of investments in foreign operations:	-	-
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
120.	Exchange rate gains (losses):	-	-
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
130.	Cash flow hedges:	-	-
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
	including: on net positions	-	-
140.	Hedging instruments: (non-designated items)	-	-
	a) changes in value	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
150.	Financial assets (other than equity instruments) at fair value through other comprehensive income:	890	-2,291
	a) fair value gains (losses)	*-1,070*	*-1,952*
	b) reclassification to profit or loss	*1,960*	*-339*
	- impairment losses for credit risk	*8*	*124*
	- gains/(losses) on sales	*1,952*	*-463*
	c) other changes	-	-
160	Non-current assets held for sale and disposal groups:	-	-
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
170.	Share of valuation reserves of equity-accounted investees:	-	-
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	- impairment gains (losses)	-	-
	- gains/(losses) on sales	-	-
	c) other changes	-	-
180.	Related tax	-	-
190.	**Total other comprehensive expense**	**594**	**-2,385**
200.	**Comprehensive income (expense) (captions 10 + 130)**	**6,591**	**-814**

PART E
Information on risks and related hedging policies

SECTION 1 - CREDIT RISK

Introduction - General information

Risk management (monitoring, management and measurement) is a fundamental creator of value for the bank and its stakeholders. Accordingly, the bank's control units (the Internal Audit Office, the Risk Governance Office - including the Risk Management and AML units - and Privacy and Compliance Office) are given complete independence and operating powers to ensure the correct and full presentation of risks to the board of directors, the board of statutory auditors, the shareholders and all those who have direct and indirect interests in the bank's equity.

In compliance with the principle of proportionality, risks are managed using methods and processes appropriate for the bank's operations.

The Risk Management Unit of the Risk Governance Office is in charge of monitoring and managing risks. The main duties attributed to the unit are as follows:

- proposing methods, tools and procedures to identify, measure, monitor and manage the most important types of risks to management;
- measuring and assessing the bank's exposure to large risks and reporting thereon;
- checking that bank's risk profiles are in line with the strategies decided by the board of directors;
- regularly reviewing the models and methods used, reporting any weaknesses;
- checking compliance with operating limits defined by both external and internal regulations, proposing adjustments if necessary to the latter;
- working with the IT outsourcer and teams that work on risk management projects;
- monitoring the production and filing of methodological documentation about risk management and control;
- processing analyses and assessments required by the ICAAP (internal capital adequacy assessment process) and ILAAP (internal liquidity adequacy assessment process);
- preparing the data necessary for part E of the notes to the financial statements together with other units;
- checking the quality of the performing exposures portfolio and the classification and measurement of performing and non-performing exposures in the financial statements together with the other units involved;
- regularly preparing reports on trends and risk appetites of the bank's customers;
- preparing the reports on large exposures and, in the case of irregularities, informing the relevant units;
- checking compliance with the prudent regulatory limits as per Bank of Italy Circular no. 263/06, Title V, chapter 5 - Ann. A. (Related party transactions) every quarter.

Once a year, the Risk Management Unit prepares a report for the market when the annual report is published, which includes the "… information about capital adequacy, exposure to risks and the general characteristics of the systems in place to identify, measure and manage such risks" in the "Pillar 3, Market disclosures, situation at 31/12/…" document, posted in the financial reporting section of the bank's internet site www.carifermo.it.

Following the transposition of "Country-by-country reporting" introduced by article 89 of Directive no. 2013/36/EU (the CRD IV) into Italian law, banks are required to publish the information set out in Annex A, Part 1, Title III, Chapter 2 of Circular no. 285/2013 starting from 1 July 2014. The bank publishes this information on its web page: www.carifermo.it/it/bilanci.

In accordance with Bank of Italy Circular no. 285/13, the board of directors defined the bank's risk appetite framework (RAF), identifying the risk objectives, the internal controls, specifying the roles and responsibilities of the internal bodies and units and preparing the related internal regulation and the criteria to identify the more significant transactions to be approved in advance by the Risk Management Unit.

The new internal controls strengthen the role of the control units and, especially, that of the Risk Management Unit which is actively involved in monitoring credit exposure, especially non-performing exposures.

On 1 January 2018, IFRS 9 "Financial instruments" replaced IAS 39, changing the classification and measurement of financial instruments and the related impairment rules. One of the key changes of the new standard IFRS 9 is the calculation of lifetime expected credit losses of all performing exposures that show a "significant increase in credit risk" since initial recognition. The transition to IFRS 9 entailed the bank's revision of the estimation parameters used to calculate collective impairment losses on performing exposures and the definition of a "significant increase in credit risk" of performing exposures.

In accordance with the "Guidance on the management of non-performing loans for Italy's less significant institutions" issued by Bank of Italy in January 2018, the bank prepares an annual update to the operational plan for managing NPE. The "Cassa di Risparmio di Fermo's strategy for managing NPE" document presents the bank's NPE management strategy, which is firstly aimed at its optimisation, by maximising the present value of recoveries. The bank defined its strategy on the basis of an analysis of its operating ability, the market conditions and the characteristics of its NPE portfolio.

The bank and its bodies encourage the circulation and development of a cross-the-board risk culture and employee training about the issue. Accordingly, it provided the internal bodies with information about new legislation that affects the bank's operations, showing the bank's compliance and any necessary actions.

Qualitative disclosure

1. General aspects

In line with its mission, the bank focuses on extending credit to households and SMEs, with products designed to help develop production activities. Its natural inclination towards promoting loans to SMEs is facilitated by its partnership with the underwriting syndicates, especially with those supervised by Bank of Italy. Although it privileges its local social and economic environment, the bank also builds up its customer portfolio in areas where it has a smaller base, partly to mitigate its risks.

The bank is careful when granting and monitoring credit that it does not build up risk concentrations in one sector or industry or, with respect to households, in certain age brackets.

The bank has a policy of ongoing improvement to safeguard both the debtors and their families as well as itself, covering product efficiency, insurance policies for pure risk with cover for death, invalidity and dismissals.

2. Credit risk management policies

2.1 Organisational aspects

Credit risk is the most significant risk for the bank and is the risk of losses due to the non-payment or partial payment of principal, interest or other amounts by the debtor (ordinary and institutional customers). Credit risk includes counterparty risk, i.e., the risk that the counterparty to a transaction involving certain financial instruments defaults before the transaction is settled.

The unit which decides and organises the management of credit risk has different operating powers, depending on whether it is located at the branches/agencies or the head office (board of directors, executive committee, general manager, managing director, Loans Office and Unit, Problem Loans Office and Legal Affairs and Litigation Office). Each level is defined considering the overall risk assessment of each customer and potential connected customers, the type of credit, the direct and indirect exposure and type of guarantee.

The lending procedure also includes activities and controls for risk management carried out by the following head office units:

- Loans Office: oversees the governance of the credit risk process, namely the activities involving the assumption, management and monitoring of that risk. In the assumption and management of risk, examines and assesses the lending proposals sent by the branches/agencies, authorising them directly if within the limits of their delegated powers, or reporting them to the superior decision-making bodies, supporting their decisions. In the control phase, constantly monitors positions exposed to risk, promptly reporting any impairment and suggesting all necessary actions to protect the position. Helps to distribute credit expertise, both by collaborating with the various units of the bank in the analysis and interpretation of relevant credit legislation and by providing the network with training and specialist consulting. Its duties are divided between the Loans Unit and the Loans Monitoring Unit; the latter, through the use of IT procedures (credit monitoring procedure), is tasked with preventing the gradual impairment of the credit and promptly evaluating the appropriate intervention strategies.

- Problem Loans Office: systematically monitors irregularities in the credit risk of unlikely to pay exposures using data from IT procedures, databases, reports from other units and from any other source in order to promptly identify signs of credit impairment. Has the power to recognise/remove exposures smaller than €50 thousand from "Unlikely to pay" (limit increased to €100 thousand for collateral). For larger exposures, proposes, assisted by the Loans Monitoring Unit, the "unlikely to pay" classification to the general manager; encourages the branches to have them return to a "performing" status, coordinating any rescheduling activity; prepares a monthly report for the corporate bodies on the situation and changes in the unlikely to pay exposures.
- Legal Affairs and Litigation Office: manages bad exposures and litigation. Analyses bad exposures to identify the appropriate actions to be taken. Manages insolvency and exposure recovery, by preparing restructuring plans intended to guarantee the extinguishment of bad exposures. Prepares out-of-court or judicial settlement deeds, possibly together with the appointed outside counsel, following dispute settlement.
- Risk Management Unit: assesses and develops credit risk measurement methodologies in line with best practices; carries out static and dynamic analyses of the exposure portfolio's risk profile and reports thereon every quarter and month to the internal bodies and bank risk monitoring units. Analyses trends in the exposures and regularly checks that they are classified and provided for correctly.
- Privacy and Compliance Unit: analyses credit management procedures and processes within its remit, in addition to related contracts to check compliance with current legislation.
- Inspection and Internal Audit Office: performs level 3 controls, including on-site, and checks the bank's regular operations and changes in risks; assesses the completeness, adequacy, working and reliability of the internal controls, informing the corporate bodies of any need for adjustment.

2.2 Management, measuring and control systems

In order to identify any deterioration in customers' credit standing in advance and to analyse trends, the bank focuses on checking its relationships with its customers, including by using the information available in the central risk database, which identifies irregularities with a potential negative impact on risk.

The control functions use a specific early warning procedure, the Credit Position Control (CPC), which gives each borrower a score for their credit riskiness. The CPC is used to monitor customers' behaviour in order to identify any loan deterioration on a timely basis using diagnostic tools. The procedure gives each borrower a score for their credit riskiness

The Risk Management Unit prepares regular reports for management, the branches and relevant internal units. Quarterly reports analysing the entire portfolio's risk and additional in-depth analyses by business and geographical segment are prepared for the board of directors. This report assesses compliance with the main internal limits, monitors the capital absorption of risks assumed and analyses large exposures.

The Risk Management Unit regularly checks the lifetime expected credit losses on the bank's exposures portfolio using the S.A.Ra. application's internal rating system.

The S.A.Ra. rating system, used for management trend monitoring purposes, divides customers into three main segments (Corporate, SME retail and Retail) and classifies counterparties using a scale of ten classes, consisting of nine for performing counterparties (AAA, AA, A, BBB, BB, B CCC, CC and C) and one for defaulting counterparties (D). The system has two different methods to measure probability of default (PD), one for businesses and one for individuals.

The internal rating system has also been included in the loan disbursement process, amending the related "delegated powers". Specifically, when positions are rated as CCC or below, the loan approval powers are automatically transferred to general management and are exercised by no lower than the head of the Loans Office.

The Risk Management Unit checks compliance with the limits and ceilings for credit quality, counterparty concentration and concentration by product every quarter.

The Risk Management Unit also performs stress tests on the capital requirement for credit and counterparty risk, including quantification, in terms of additional capital, of sensitivity to three risk factors:

1. counterparty credit worthiness
2. exposure deterioration rate
3. acceptability as credit risk mitigation tools.

The stress test results are included in the quarterly reports.

As required by the bank's strategy for managing NPE, the Risk Management Unit carries out quarterly checks of actual results and the application of non-performing exposure management. It reports the results of its quarterly checks to the bank's internal bodies.

2.3 Measurement of expected credit losses

IFRS 9 requires that in-scope financial instruments be classified into three stages. The three stages reflect the impairment level of the credit quality:

- stage 1: financial instruments whose credit risk has not significantly increased since initial recognition or with a low credit risk at the reporting date;
- stage 2: financial instruments whose credit risk has increased significantly since initial recognition, but for which there is no objective evidence of impairment;
- stage 3: financial assets with objective evidence of impairment at the reporting date (NPE).

With the resolution of 27 March 2018, the board of directors defined the "significant increase in credit risk", i.e., when a financial asset should be classified into stage 2, by considering certain indicators, such as a worsening in the counterparty's internal rating, a deterioration in the internal score, the number of ongoing past due/overdrawn days and any forbearance measures.

The above rules to reclassify performing exposures from stage 1 to stage 2 are used within a model prepared in collaboration with the outsourcer:

The bank estimated ECL considering forward-looking information, including macroeconomic information.

It identifies its NPE to be classified as stage 3 in accordance with the definitions and non-performing categories provided for by Bank of Italy's requirements set out in Chapter II "Credit quality") of Circular no. 272 "Accounts matrix". These exposures are subject to an analytical measurement process according to Part A of the Accounting Policies.

2.4 Credit risk mitigation techniques

The bank uses credit risk mitigation techniques and tools, the classification and utilisation of which are set out in the "Credit risk mitigation policies" document which requires that:

- the bank obtains qualifiable and acceptable guarantees, such as CRM tools, for its credit exposure on a preferential basis, without waiving those without these requirements as additional protection of credit;
- "collateral or personal guarantees, regardless of their acceptability as CRM tools, are considered to be ancillary compared to the credit transaction and cannot replace or make less effective the assessment of the debtor's repayment ability or be included in the assessment of the counterparty's credit standing or the riskiness of the transaction".

Highly mitigating factors are collateral, mainly consisting of pledges of highly liquid financial assets and mortgages on residential property. Other mitigating guarantees are mortgages on non-residential property, personal guarantees depending on the guarantor's standing and pledges of financial assets other than government bonds.

The concentration level of these guarantees is acceptable given the concentration level of the bank's exposure portfolio (modest).

The credit risk mitigation factors are assessed using a hierarchical classification system for the credit types, based on the intrinsic loss given default (LGD), and the guarantees, based on their risk mitigation potential. Each risk category is given a weighing factor which estimates the overall risk level when applied to the counterparty's overall credit.

With respect to financial collateral acceptable as CRM, the bank meets the requirements of supervisory regulations.

In accordance with the above supervisory regulations and with respect to exposures guaranteed by property, the bank has systems which monitor the property's value on a statistical basis and operating procedures to check its actual value. Over the course of the year it has also updated the rule for the assessment of buildings which sets out the general criteria for property evaluations by experts.

The bank uses standard contracts for guarantees. If they are inadequate, the relevant offices prepare ad hoc contracts which are checked by the Compliance Office and, if necessary, external experts.

The bank did not have credit derivatives at the reporting date.

3. Credit-impaired exposures

3.1 Management policies and strategies

Cassa di Risparmio di Fermo's strategy for managing NPE (non-performing exposures) is firstly aimed at its optimisation, by maximising the present value of recoveries. The bank defined its strategy on the basis of an analysis of its operating ability, the market conditions and the characteristics of its NPE portfolio.

By identifying the optimum combination of various possible actions for the recovery and/or reclassification as performing, the NPE operational plan has defined the trend of the bank's NPE for the 2019-2021 period. The strategy is based on the following key points: reduction in NPE; reduction in the default entry rate; increase in the recovery rate of non-performing exposures; increase in the coverage rate of NPE. The two main quantitative macro objectives set out by the operational plan are a ratio of gross NPE to gross lending of 10% by 2021 and a gradual increase in the coverage rates.

The periodic monitoring of the qualitative and quantitative objectives set out by the operational plan is conducted every month by the competent functions. Every quarter, the Risk Management Unit verifies the effective application of the company policies, preparing reports for the internal bodies. In the event of substantial deviations from the pre-established targets capable of preventing the achievement of those objectives, an assessment is made of which measures to take and any integrations to the plan's strategies.

Management of the past due non-performing financial assets is delegated to the Loans Office – Monitoring Unit. Management of "unlikely to pay exposures" is delegated to the Problem Loans Office. "Bad exposures" is delegated to the Legal Affairs and Litigation Unit.

Based on the information obtained from internal reports on exposure performance and irregularities (monitoring of trends, identification of unpaid instalments and suspect cheques, items to be fixed, past due and/or overdrawn positions, reports from branches/agencies, inspection reports, reports from the Risk Governance Office, etc.) and external sources (central risk database, CAI, external provider reports on injurious positions, press releases, etc.), the competent functions assess whether to adopt measures to contain risk and, if necessary, prepare the preliminary deeds for changes in classification status (from performing to non-performing and/or unlikely to pay, from unlikely to pay to bad).

Classification as "unlikely to pay" derives from an opinion, not necessarily based exclusively on the aforementioned irregularities, related to the improbability that without recourse to measures such as the enforcement of guarantees, the debtor will comply fully with its obligations (capital and/or interest). In the case of reclassification to "bad", the Problem Loans Office provides the Legal Affairs and Litigation Unit with useful information for initiating the credit recovery measures. The Problem Loans Office manages the restructured exposures and forborne exposures as well, limited to the "unlikely to pay exposures"; it prepares a monthly report for the management body on the overall situation, evolution and dynamics of the unlikely to pay exposures.

The classification to "unlikely to pay" is proposed or decided autonomously on the basis of the parameters set out by the credit policy and on the basis of criteria evaluated in depth and with all their possible outcomes; the Problem Loans Office manager recognises positions with credit facilities of not more than €50 thousand as unlikely to pay; the amount is increased to €100 thousand for mortgage loans. For larger exposures, the proposals are submitted to senior management in the report by the Problem Loans Office manager. Reclassification of exposures larger than €5 thousand to the non-performing portfolio requires the general manager's approval; for smaller amounts, approval is required from the Problem Loans Office manager.

Responsibility for monitoring the unlikely to pay positions remains with the branch/agency, assisted by the Problem Loans Office. The branch/agency manager regularly updates the latter Office about any developments and the outcome of the related actions taken.

The Problem Loans Office manager requests the relevant branch/agency officer for a periodic report on the position and examines the customer's financial statements and/or assets and income, to assess and decide whether to:

- maintain the position as unlikely to pay;
- ask the branch/agency to propose to head office that the credit facilities be withdrawn and the subsequent reclassification to bad exposure;
- propose the positions be reclassified as performing, when the original difficulties are overcome;
- classify the position as bad or to propose the position be classified as bad if it exceeds the amount of their proxies.

With respect to the requirements for preparation of annual and interim half year reports, the Problem Loans Office checks all positions classified as unlikely to pay, non-performing past due and/or overdrawn, assisted for the latter by the Loans Office. Based on a review of the customers' financial positions and their guarantees, the Office calculates the percentages to be used to determine the impairment losses and the recoverable amount.

With reference to its credit-impaired exposures, the bank has defined an action plan based on the type of exposure, the underlying guarantee, the position ageing and the progress of legal actions. Specifically, the intervention strategies, also envisaged for the Problem Loans Office, are contained in the document "Cassa di Risparmio di Fermo's strategy for managing NPE" to reduce unlikely to pay and bad exposures and also include out-of-court activities through external credit collection agencies and legal advisors and the factoring of a portion of the NPE portfolio.

3.2 Write-offs

Based on the amount involved and their relevant powers, the heads of the Organisation and Legal Affairs department, Legal Affairs and Litigation Office and Problem Loans Office and senior management may transfer positions for which a loss is expected to the "credit loss account". Positions are written off when they are considered to be irrecoverable due to new events, such as winding ups, unsuccessful enforcement procedures and unsuccessful out-of- court recovery attempts of amounts due from borrowers lacking "foreclosable assets".

3.3 Purchased or originated credit-impaired exposures

The bank did not purchase credit-impaired exposures, nor did they originate internally.

4. Financial assets subject to renegotiations for commercial reasons and forbearance measures

The seventh update of circular no. 272 of 20 January 2015 updated the classification of loans and receivables, based on the definitions of non-performing exposures and forbearance introduced by the implementing technical standards (ITS) defined by the EBA. These new definitions have required a number of adjustments to internal processes and regulations, including the board of directors' approval of the "Credit measurement and classification policy" (last updated on 26 November 2019), which manages the processes to classify and measure loans and receivables, the concepts of performing, non-performing, forbearance, financial difficulties and the default detection parameters.

Forborne exposures (contract modifications or refinancing) are those with borrowers facing financial difficulties whose contractual terms the bank has agreed to modify solely because of such financial difficulties, regardless of their classification as non-performing or the counterparty's default.

Forbearance measures are applied to counterparties that, on the basis of the assessment of their repayment ability, may be reclassified as performing or repay the debt through forbearance measures. These measures are implemented in the following ways:

- reorganisation of the duration of the financing (e.g. transformation from short- to medium- or long-term or extension of the plans to medium- or long-term);
- definition of rescheduling plans for withdrawn or past due exposures;
- renegotiation of the interest rate combined with the above measures;
- total or partial refinancing of the debt.

The Loans Monitoring Unit continuously monitors the effectiveness of the measures applied in order to verify the effective improvement of the exposure.

The definition of forborne exposures does not include contractual amendments or renegotiations for commercial reasons/practices only.

The forborne exposures with customers at 31 December 2019 amount to €54,488 thousand in gross terms; these include exposures subject to forbearance measures with performing counterparties for €20,527 thousand. The non-performing forborne exposures include bad exposures for €12,920 thousand, unlikely to pay for €20,690 thousand and non-performing past due for €351 thousand.

Quantitative disclosure

A. Credit quality

A.1 Non-performing and performing exposures: carrying amount, impairment losses, performance and business breakdown

A.1.1 Breakdown of financial assets by portfolio and credit quality (carrying amount)

Portfolio/quality	Bad exposures	Unlikely to pay exposures	Non-performing past due exposures	Performing past due exposures	Performing assets	Total
1. Financial assets at amortised cost	33,209	36,977	3,112	73,824	1,113,752	**1,260,874**
2. Financial assets at fair value through other comprehensive income	-	-	-	-	187,013	**187,013**
3. Financial assets designated at fair value	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-	216	**216**
5. Financial assets held for sale	-	-	-	-	-	-
31/12/2019	**33,209**	**36,977**	**3,112**	**73,824**	**1,300,981**	**1,448,103**
31/12/2018	**51,080**	**49,708**	**1,565**	**75,851**	**1,095,146**	**1,273,350**

A.1.2 Breakdown of financial assets by portfolio and credit quality (gross amount and carrying amount)

Portfolio/quality	Non-performing exposures				Performing			Total (carrying amount)
	Gross amount	Total impairment	Carrying amount	Partial/total write-offs	Gross amount	Total impairment	Carrying amount	
1. Financial assets at amortised cost	153,684	80,386	73,298	7,916	1,195,647	8,071	1,187,576	1,260,874
2.Financial assets at fair value through other comprehensive income	-	-	-	-	187,148	135	187,013	187,013
3. Financial assets designated at fair value	-	-	-	-			-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-			216	216
5. Financial assets held for sale	-	-	-	-	-	-	-	-
31/12/2019	**153,684**	**80,386**	**73,298**	**7,916**	**1,382,795**	**8,206**	**1,374,805**	**1,448,103**
31/12/2018	**197,126**	**94,773**	**102,353**	**859**	**1,178,918**	**8,410**	**1,170,997**	**1,273,350**

The bank recognised partial write-offs of non-performing exposures of €7,916 thousand during the 2019 financial year.

It had 23 bad exposures under deed of arrangement at 31 December 2019 (€4,798 thousand gross).

The counterparties of 14 exposures (€1,163 thousand gross), which were classified as bad in 2018, were wound up in 2019, including three positions (€338 thousand) that were under deed of arrangement.

Moreover, during 2019 the bank classified two positions (€131 thousand) under deed of arrangement from unlikely to pay to bad exposures.

The unlikely to pay exposures at 31 December 2019 include:

- four positions under deed of arrangement (€4,602 thousand);
- one position under deed of arrangement, currently in the cure period (€4,200 thousand);
- one position under deed of arrangement with reserve (€71 thousand).

Portfolio/quality	Assets with poor credit quality		Other assets
	Accumulated losses	Carrying amount	Carrying amount
1. Financial assets held for trading	-	-	145,870
2. Hedging derivatives	-	-	-
31/12/2019	-	-	145,870
31/12/2018	-	-	275,872

A.1.3 Breakdown of financial assets by past due bracket (carrying amounts)

Portfolio / Risk stage	Stage 1			Stage 2			Stage 3		
	From 1 to 30 days	After 30 to 90 days	After 90 days	Up to 30 days	After 30 to 90 days	After 90 days	Up to 30 days	After 30 to 90 days	After 90 days
1. Financial assets at amortised cost	33,048	-	-	31,333	7,276	2,167	3,429	920	64,833
2. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-	-	-	-
31/12/2019	33,048	-	-	31,333	7,276	2,167	3,429	920	64,833
31/12/2018	44,024	-	5	19,533	9,233	3,057	2,500	3,619	86,922

Financial assets, loan commitments and financial guarantees given: total impairment losses and provisioning

Reason / Risk stage	Total impairment																Total provisioning on loan commitments and financial guarantees given			Total
	Assets classified to Stage 1					Assets classified to Stage 2					Assets classified to Stage 3					Including: purchased or originated credit-impaired financial assets				
	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income	Financial assets held for sale	of which: individual impairment	of which: collective impairment	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income	Financial assets held for sale	of which: individual impairment	of which: collective impairment	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income	Financial assets held for sale	of which: individual impairment	of which: collective impairment		Stage 1	Stage 2	Stage 3	
Opening balance	**4,049**	**124**	-	-	**4,173**	**4,243**	-	-	-	**4,243**	**94,774**	-	-	**94,774**	-	-	**94**	**58**	-	**103,342**
Increase in purchased or originated credit-impaired financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cancellations other than write-offs	-	-	-	-	-	-	-	-	-	-	-2,140	-	-	-2,140	-	-	-	-	-	-2,140
Net impairment losses (gains) for credit risk (+/-)	-334	11	-	-	-323	113	-	-	-	112	19,235	-	-	19,235	-	-	-40	-27	457	19,415
Modification losses (gains)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in estimation methodology	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs not directly recognised in profit or loss	-	-	-	-	-	-	-	-	-	-	-14,122	-	-	-14,122	-	-	-	-	-	-14,122
Other changes	-	-	-	-	-	-	-	-	-	-	-17,362	-	-	-17,362	-	-	-	-	-	-17,362
Closing balance	**3,715**	**135**	-	-	**3,050**	**4,356**	-	-	-	**4,356**	**80,385**	-	-	**80,385**	-	-	**54**	**31**	**457**	**89,133**
Collections of written-off financial assets	-	-	-	-	-	-	-	-	-	-	114	-	-	-	-	-	-	-	-	114
Write-offs recognised directly in profit or loss	-63	-	-	-	-	-	-	-	-	-	-14	-	-	-	-	-	-	-	-	-67

The bank assessed its stage 1 and 2 financial assets collectively, based on its models that included forward looking information used to calculate the one-year and lifetime ECL of stage 1 and stage 2 exposures, respectively.

With the resolution of 27 March 2018, the board of directors defined the “significant increase in credit risk”, i.e., when a financial asset should be classified into stage 2, by considering certain indicators, such as a worsening in the counterparty’s internal rating, a deterioration in the internal score, the number of ongoing past due/overdrawn days and any forbearance measures.

On 23/12/2019 the bank transferred a portfolio of bad exposures for a gross amount of €25.9 million at the price of €10.3 million. "Other" in column 10 "Financial assets at amortised cost" for €17.4 million is the amount of the accumulated impairment losses related to the portfolio of transferred exposures.

Stage 3 financial assets have been assessed individually, also considering the relevant guarantees.

A.1.5 Financial assets, loan commitments and financial guarantees given: transfers among the various credit risk stages (gross and nominal amounts)

Portfolio / Risk stage	Gross/nominal amounts					
	Transfer between stages 1 and 2		Transfer between stages 2 and 3		Transfer between stages 1 and 3	
	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
1. Financial assets at amortised cost	77,369	37,993	6,682	1,005	3,960	1,766
2. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-
4. Loan commitments and financial guarantees given	18,778	19,810	572	26	1,581	253
31/12/2019	**96,147**	**57,803**	**7,254**	**1,031**	**5,541**	**2,019**
31/12/2018	**218,464**	**2,777**	**517**	**24**	**26,613**	**5,776**

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

Exposure / Amount	Gross amount		Total impairment losses and accruals	Net exposure	Partial/total write-offs
	Non-performing exposures	Performing exposures			
A. ON-BALANCE SHEET EXPOSURES					
a) Bad exposures	-		-	-	-
- *including: forborne exposures*	-		-	-	-
b) Unlikely to pay exposures	-		-	-	-
- *including: forborne exposures*	-		-	-	-
c) Non-performing past due exposures	-		-	-	-
- *including: forborne exposures*	-		-	-	-
d) Performing past due exposures		-	-	-	-
- *including: forborne exposures*		-	-	-	-
e) Other performing exposures		45,443	4	45,439	-
- *including: forborne exposures*		-	-	-	-
TOTAL A	**-**	**45,443**	**4**	**45,439**	**-**
B. OFF-BALANCE SHEET EXPOSURES					
a) Non-performing exposures	-		-	-	-
b) Performing exposures		4,783	-	4,783	-
TOTAL B	**-**	**4,783**	**-**	**4,783**	**-**
TOTAL A + B	**-**	**50,226**	**4**	**50,222**	**-**

The amounts shown in item “B. OFF-BALANCE SHEET EXPOSURES - a) Non-performing exposures” and “b) Performing exposures” are broken down in the following table for their better presentation:

A.1.6.1 Breakdown of off-balance sheet exposures with banks

Exposure / Amount	Gross amount		Total impairment losses and accruals	Net exposure	Partial/total write-offs
	Non-performing exposures	Performing exposures			
B. OFF-BALANCE SHEET EXPOSURES					
a) Non-performing exposures	**-**		**-**	**-**	**-**
a.1) Non-performing exposures	-		-	-	-
b) Performing exposures		***4,783***	**-**	***4,783***	**-**
b.1) Deposits for repos		-	-	-	-
b.2) Interbank Deposit Protection Fund (FITD)		4,770	-	4,770	-
b.3) Commitment with CC.OO to purchase securities		-	-	-	-
b.4) Interest rate derivatives		6	-	6	-
b.5) Currency forwards		7	-	7	-
TOTAL B	**-**	**4,783**	**-**	**4,783**	**-**

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

Exposure / Amount	Gross amount		Total impairment losses and accruals	Net exposure	Partial/total write-offs
	Non-performing exposures	Performing exposures			
A. ON-BALANCE SHEET EXPOSURES					
a) Bad exposures	91,790		58,580	33,210	7,916
- including: forborne exposures	*12,920*		*8,250*	*4,670*	*3,073*
b) Unlikely to pay exposures	57,842		20,865	36,977	-
- including: forborne exposures	*20,690*		*7,219*	*13,471*	-
c) Non-performing past due exposures	4,052		940	3,112	-
- including: forborne exposures	*351*		*53*	*298*	-
d) Performing past due exposures		76,550	2,236	74,314	-
- including: forborne exposures		*13,470*	*666*	*12,804*	-
e) Other performing exposures		1,406,834	5,965	1,400,869	-
- including: forborne exposures		*7,057*	*131*	*6,926*	-
TOTAL A	**153,684**	**1,483,384**	**88,586**	**1,548,482**	**7,916**
B. OFF-BALANCE SHEET EXPOSURES					
a) Non-performing exposures	6,746		*458*	*6,288*	-
b) Performing exposures		510,813	84	510,729	-
TOTAL B	**6,746**	**510,813**	**542**	**517,017**	**-**
TOTAL A + B	**160,430**	**1,994,197**	**89,128**	**2,065,499**	**7,916**

Also for this statement, the amounts shown in item “B. OFF-BALANCE SHEET - a) Non-performing exposures” and “b) Performing exposures” are broken down in the following table for their better presentation:

A.1.7.1 Breakdown of off-statement of exposures with customers

Exposure / Amount	Gross amount		Total impairment losses and accruals	Net exposure	Partial/total write-offs
	Non-performing exposures	Performing exposures			
B. OFF-BALANCE SHEET EXPOSURES					
a) Non-performing exposures	***6,746***		***458***	***6,288***	**-**
a.1) Financial endorsement credits	-		-	-	-
a.2) Commercial endorsement credits	1,607		*458*	*1,149*	-
a.3) Commitments of uncertain use	5,139		-	*5,139*	-
b) Performing exposures		***510,813***	***84***	***510,729***	**-**
b.1) Financial endorsement credits		94	-	94	-
b.2) Commercial endorsement credits		20,105	41	20,064	-
b.3) Commitments of uncertain use		489,941	43	489,898	-
b.4) Financing for repos		-	-	-	-
b.5) Commitment with II.CC to purchase securities issued by CC.OO.		-	-	-	-
b.6) Interest rate derivatives and forwards		1	-	1	-
b.7) Currency forwards		39	-	39	-
b.8) Risks associated with SFTs (repos)		-	-	-	-
b.9) Interbank Deposit Protection Fund - voluntary scheme		633	-	633	-
TOTAL B	**6,746**	**510,813**	**542**	**517,017**	**-**

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

This caption has no value in these financial statements.

Reason/Category	Bad exposures	Unlikely to pay exposures	Non-performing past due exposures
A. Gross opening balance	-	-	-
- including: exposures transferred but not derecognised	-	-	-
B. Increases	-	-	-
B.1 from performing exposures	-	-	-
B.2 from purchased or originated credit-impaired exposures	-	-	-
B.3 transfers from other non-performing categories	-	-	-
B.4 modification gains	-	-	-
B.5 other increases	-	-	-
C. Decreases	-	-	-
C.1 transfers to performing exposures	-	-	-
C.2 write-offs	-	-	-
C.3 collections	-	-	-
C.4 sales	-	-	-
C.5 losses on sales	-	-	-
C.6 transfers to other non-performing categories	-	-	-
C.7 modification gains	-	-	-
C.8 Other decreases	-	-	-
D. Gross closing balance	-	-	-
- including: exposures transferred but not derecognised	-	-	-

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

This caption has no value in these financial statements.

Reason/Quality	Performing forborne exposures	Non-performing forborne exposures
A. Gross opening balance	-	-
- including: exposures transferred but not derecognised	-	-
B. Increases	-	-
B.1 transfers from performing exposures not subject to forbearance measures	-	-
B.2 transfers from performing exposures subject to forbearance measures	-	
B.3 transfers from performing forborne exposures		-
B.4 transfers from non-performing exposures not subject to forbearance measures	-	-
B.5 other increases	-	-
C. Decreases	-	-
C.1 transfers to performing exposures not subject to forbearance measures		-
C.2 transfers to performing exposures subject to forbearance measures	-	
C.3 transfers to performing forborne exposures		-
C.4 write-offs	-	-
C.5 collections	-	-
C.6 sales	-	-
C.7 losses on sales	-	-
C.8 other decreases	-	-
D. Gross closing balance	-	-
- including: exposures transferred but not derecognised	-	-

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

Reason/Category	Bad exposures	Unlikely to pay exposures	Non-performing past due exposures
A. Gross opening balance	**132,434**	**62,909**	**1,782**
- including: exposures transferred but not derecognised	-	-	-
B. Increases	**9,045**	**10,607**	**4,687**
B.1 from performing exposures	1,676	7,656	4,205
B.2 from purchased or originated credit-impaired exposures	-	-	-
B.3 transfers from other non-performing categories	4,526	927	15
B.4 modification gains	-	-	-
B.5 other increases	2,843	2,024	467
C. Decreases	**49,689**	**15,674**	**2,417**
C.1 transfers to performing exposures	-	2,059	264
C.2 write-offs	15,330	-	-
C.3 collections	5,955	9,131	1,169
C.4 sales	10,361	-	-
C.5 losses on sales	18,043	-	-
C.6 transfers to other non-performing categories	-	4,484	984
C.7 modification gains	-	-	-
C.8 Other decreases	-	-	-
D. Gross closing balance	**91,790**	**57,842**	**4,052**
- including: exposures transferred but not derecognised	-	-	-

A.1.9-bis On-balance sheet credit exposures to customers: changes in gross forborne exposures broken down by credit quality

Reason/Quality	Performing forborne exposures	Other forborne exposures
A. Gross opening balance	**39,531**	**12,123**
- including: exposures transferred but not derecognised	-	-
B. Increases	**7,525**	**15,889**
B.1 transfers from performing exposures not subject to forbearance	1,661	14,865
B.2 transfers from performing forborne exposures	1,000	
B.3 transfers from performing forborne exposures		486
B.4 transfers from non-performing exposures not subject to forbearance measures	-	-
B.5 other increases	4,864	538
C. Decreases	**13,095**	**7,485**
C.1 transfers to performing exposures not subject to forbearance		1,649
C.2 transfers to performing forborne exposures	486	
C.3 transfers to non-performing forborne exposures		1,000
C.4 cancellations	3,690	-
C.5 collections	2,936	4,650
C.6 sales	1,291	-
C.7 losses on sales	1,701	-
C.8 other decreases	2,991	186
D. Gross closing balance	**33,961**	**20,527**
- including: exposures transferred but not derecognised	-	-

A.1.10 Non-performing on-balance sheet credit exposures to banks: changes in total adjustments

This caption has no value in these financial statements.

Reason/Category	Bad exposures		Unlikely to pay exposures		Non-performing past due exposures	
	Total	Including: forborne exposures	Total	Including: forborne exposures	Total	Including: forborne exposures
A. Opening balance	-	-	-	-	-	-
- including: exposures transferred but not derecognised	-	-	-	-	-	-
B. Increases	-	-	-	-	-	-
B.1 impairment losses of purchased or originated credit-impaired assets	-		-		-	
B.2 other impairment losses	-	-	-	-	-	-
B.3 losses on sales	-	-	-	-	-	-
B.4 transfers from other non-performing categories	-	-	-	-	-	-
B.5 modification gains	-	-	-	-	-	-
B.6 other increases	-	-	-	-	-	-
C. Decreases	-	-	-	-	-	-
C.1 impairment gains from valuation	-	-	-	-	-	-
C.2 impairment gains from collection	-	-	-	-	-	-
C.3 gains on sales	-	-	-	-	-	-
C.4 write-offs	-	-	-	-	-	-
C.5 transfers to other non-performing categories	-	-	-	-	-	-
C.6 modification gains	-	-	-	-	-	-
C.7 other decreases	-	-	-	-	-	-
D. Closing balance	-	-	-	-	-	-
- including: exposures transferred but not derecognised	-	-	-	-	-	-

A.1.11 Non-performing on-balance sheet credit exposures to customers: changes in total adjustments

Reason/Category	Bad exposures		Unlikely to pay exposures		Non-performing past due exposures	
	Total	Including: forborne exposures	Total	Including: forborne exposures	Total	Including: forborne exposures
A. Opening balance	**81,355**	**11,291**	**13,202**	**5,173**	**217**	**2**
- including: exposures transferred but not derecognised	-	-	-	-	-	-
B. Increases	**14,845**	**3,210**	**10,433**	**2,740**	**939**	**52**
B.1 impairment losses from purchased or originated credit-impaired financial assets	-		-		-	
B.2 other impairment losses	11,179	3,089	10,306	2,740	939	52
B.3 losses on sales	-	-	-	-	-	-
B.4 transfers from other non-performing categories	1,232	121	127	-	-	-
B.5 modification gains	-	-	-	-	-	-
B.6 other increases	2,434	-	-	-	-	-
C. Decreases	**37,620**	**6,251**	**2,770**	**694**	**216**	**1**
C.1 impairment gains from valuation	2,222	240	931	475	36	-
C.2 impairment gains from collection	1,480	618	621	99	39	-
C.3 gains on sales	1,753	-	-	-	-	-
C.4 write-offs	14,122	5,393	-	-	-	-
C.5 transfers to other non-performing categories	-	-	1,218	120	141	1
C.6 modification gains	-	-	-	-	-	-
C.7 other decreases	18,043	-	-	-	-	-
D. Closing balance	**58,580**	**8,250**	**20,865**	**7,219**	**940**	**53**
- including: exposures transferred but not derecognised	-	-	-	-	-	-

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

A.2.1 Breakdown of financial assets, loan commitments and financial guarantees given by external rating class (gross amounts)

Moody's provides the external ratings in accordance with the ECAI used to calculate the capital requirements for credit risk on exposures with governments and supervised intermediaries.

The exposure with externally-rated ordinary customers on and off-balance sheet is negligible.

The exposure with institutional and banking counterparties has the rating shown in the following table:

Exposures	External rating class						No rating	Total
	AAA/AA-	A+/A-	BBB+/BBB	BB+/BB-	B+/B-	Lower than B		
A. Financial assets at amortised cost	-	1,654	166,498	-	-	-	1,181,179	1,349,331
- Stage 1	-	1,654	166,376	-	-	-	830,865	998,895
- Stage 2	-	-	122	-	-	-	196,630	196,752
- Stage 3	-	-	-	-	-	-	153,684	153,684
B. Financial assets at fair value through other comprehensive income	-	-	55,582	-	-	-	131,566	187,148
- Stage 1	-	-	55,582	-	-	-	131,566	187,148
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
C. Financial assets held for sale	-	-	-	-	-	-	-	-
- Stage 1	-	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
Total (A + B + C)	-	1,654	222,080	-	-	-	1,312,745	1,536,479
including: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	-	-
D. Loan commitments and financial guarantees given	-	-	-	-	-	-	522,288	522,288
- Stage 1	-	-	-	-	-	-	471,639	471,639
- Stage 2	-	-	-	-	-	-	43,903	43,903
- Stage 3	-	-	-	-	-	-	6,746	6,746
Total D	-	-	-	-	-	-	522,288	522,288
Total (A + B + C + D)	-	1,654	222,080	-	-	-	1,835,033	2,058,767

A.2.2 Breakdown of financial assets, loan commitments and financial guarantees given by internal rating class (gross amounts)

The bank has decided not to use internal rating systems.

A.3 Breakdown of guaranteed exposures by type of guarantee

A.3.2 Guaranteed on- and off-balance sheet credit exposures to customers

Tax base / Amount	Gross amount	Carrying amount	Collateral (1)				Personal guarantees (2)									Total (1)+(2)
							Credit derivatives					Endorsement credits				
								Other derivatives								
			Mortgaged property	Financing for leased property	Securities	Other collateral	CLN	Central counterparties	Banks	Other financial companies	Other	Public administrations	Banks	Other financial companies	Other	
1. Guaranteed exposures:	**829,210**	**760,246**	**466,704**	**-**	**8,810**	**10,513**	**-**	**-**	**-**	**-**	**-**	**10,067**	**6,675**	**32,017**	**216,733**	**751,519**
1.1. fully guaranteed	791,957	732,398	462,125	-	7,652	9,573	-	-	-	-	-	6,793	5,973	26,986	212,554	731,656
- including: non-performing	*119,094*	*65,756*	*58,974*	-	*4*	*45*	-	-	-	-	-	*20*	*246*	*658*	*5,809*	*65,756*
1.2. Partly guaranteed	37,253	27,848	4,579	-	1,158	940	-	-	-	-	-	3,274	702	5,031	4,179	19,863
- including: non-performing	*12,515*	*3,329*	*2,875*	-	*1*	-	-	-	-	-	-	*60*	*101*	*43*	*186*	*3,266*
2. Off-balance sheet guaranteed exposures:	**189,838**	**189,770**	**10,405**	**-**	**1,114**	**2,370**	**-**	**-**	**-**	**-**	**-**	**633**	**573**	**3,228**	**162,673**	**180,996**
2.1. fully guaranteed	176,276	176,214	9,895	-	922	1,875	-	-	-	-	-	160	463	3,091	156,628	173,034
- including: non-performing	*1,081*	*1,081*	*122*	-	-	*3*	-	-	-	-	-	-	-	*11*	*944*	*1,080*
2.2. Partly guaranteed	13,562	13,556	510	-	192	495	-	-	-	-	-	473	110	137	6,045	7,962
- including: non-performing	*266*	*266*	*235*	-	-	-	-	-	-	-	-	-	-	-	*28*	*263*

B. BREAKDOWN AND CONCENTRATION OF CREDIT EXPOSURES

B.1 Breakdown of on- and off-balance sheet credit exposures to customers by business segment

Exposure/Counterparty	Public administrations		Financial companies		Financial companies (including: insurance companies)	
	Carrying amount	Total impairment	Carrying amount	Total impairment	Carrying amount	Total impairment
A. ON-BALANCE SHEET EXPOSURES						
A.1 Bad exposures	-	-	59	466	-	-
- including: forborne exposures	-	-	*2*	*9*	-	-
A.2 Unlikely to pay exposures	-	-	7	3	-	-
- including: forborne exposures	-	-	*1*	-	-	-
A.3 Non-performing past due exposures	-	-	-	-	-	-
- including: forborne exposures	-	-	-	-	-	-
A.4 Performing exposures	502,798	327	55,526	136	1,155	-
- including: forborne exposures	-	-	*11*	*1*	-	-
Total A	**502,798**	**327**	**55,592**	**605**	**1,155**	**-**
B. OFF-BALANCE SHEET EXPOSURES						
B.1 Non-performing exposures	-	-	460	-	-	-
B.2 Performing exposures	35,414	8	8,426	2	89	1
Total B	**35,414**	**8**	**8,886**	**2**	**89**	**1**
Total (A + B) at 31/12/2019	**538,212**	**335**	**64,478**	**607**	**1,244**	**1**
Total (A + B) at 31/12/2018	**543,069**	**562**	**43,003**	**303**	**1,212**	**1**

Exposure/Counterparty	Non-financial companies		Households	
	Carrying amount	Total impairment	Carrying amount	Total impairment
A. ON-BALANCE SHEET EXPOSURES				
A.1 Bad exposures	21,497	40,627	11,654	17,487
- including: forborne exposures	*2,048*	*5,569*	*2,620*	*2,672*
A.2 Unlikely to pay exposures	28,029	18,448	8,941	2,414
- including: forborne exposures	*9,830*	*6,161*	*3,640*	*1,058*
A.3 Non-performing past due exposures	2,210	775	902	165
- including: forborne exposures	*287*	*50*	*11*	*3*
A.4 Performing exposures	558,176	6,081	358,683	1,657
- including: forborne exposures	*11,434*	*659*	*8,285*	*137*
Total A	**609,912**	**65,931**	**380,180**	**21,723**
B. OFF-BALANCE SHEET EXPOSURES				
B.1 Non-performing exposures	5,382	458	446	-
B.2 Performing exposures	407,393	67	59,496	9
Total B	**412,775**	**525**	**59,942**	**9**
Total (A + B) at 31/12/2019	**1,022,687**	**66,456**	**440,122**	**21,732**
Total (A + B) at 31/12/2018	**996,785**	**73,396**	**442,624**	**29,081**

Item "A.1 Bad exposures - including: forborne exposures" includes 181 positions, comprising both those with debt rescheduling agreements and those under deed of arrangement.

Item “A.2 Unlikely to pay exposures - including: forborne exposures” includes 149 positions subject to forbearance measures.

Item “A.3 Non-performing past due exposures - including: forborne exposures” includes 3 positions subject to forbearance measures.

Item “A.4 Performing exposures - including: forborne exposures” comprises 186 positions subject to forbearance measures.

The credit concentration risk is analysed in the directors’ report.

B.2 Breakdown of on- and off-balance sheet credit exposures to customers by geographical segment

Exposure/Geographic area	ITALY		IER EUROPEAN COUNTR		AMERICAS		ASIA		REST OF THE WORLD	
	Carry. amount	Tot. impairment	Carry. amount	Tot. impairment	Carry. amount	Tot. impairment	Carry. amount	Tot. impairment	Carry. amount	Tot. impairment
A. ON-BALANCE SHEET EXPOSURES										
A.1 Bad exposures	33,209	58,580	-	-	-	-	-	-	-	-
A.2 Unlikely to pay exposures	36,977	20,865	-	-	-	-	-	-	-	-
A.3 Non-performing past due exposures	3,112	940	-	-	-	-	-	-	-	-
A.4 Performing exposures	1,382,423	8,199	65,239	3	13,778	-	11,963	-	1,778	-
Total A	**1,455,721**	**88,584**	**65,239**	**3**	**13,778**	**-**	**11,963**	**-**	**1,778**	**-**
B. OFF-BALANCE SHEET EXPOSURES										
B.1 Non-performing exposures	6,288	458	-	-	-	-	-	-	-	-
B.2 Performing exposures	510,723	84	6	-	-	-	-	-	-	-
Total B	**517,011**	**542**	**6**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A + B) at 31/12/2019	**1,972,732**	**89,126**	**65,245**	**3**	**13,778**	**-**	**11,963**	**-**	**1,778**	**-**
Total (A + B) at 31/12/2018	**1,932,795**	**103,337**	**76,739**	**4**	**15,807**	**1**	**139**	**-**	**-**	**-**

B.2.1 Breakdown of on- and off-balance sheet credit exposures to customers by geographical area

Exposure/Geographic area	North-west ITALY		North-east ITALY		Central ITALY		South ITALY and islands	
	Carry. amount	Tot. impairment	Carry. amount	Tot. impairment	Carry. amount	Tot. impairment	Carry. amount	Tot. impairment
A. ON-BALANCE SHEET EXPOSURES								
A.1 Bad exposures	3,306	3,805	55	322	27,611	50,411	2,237	4,043
A.2 Unlikely to pay exposures	109	10	11	6	35,448	20,348	1,408	502
A.3 Non-performing past due exposures	-	-	1	-	3,084	935	27	5
A.4 Performing exposures	47,895	223	5,508	31	1,247,503	7,319	81,517	625
Total A	**51,310**	**4,038**	**5,575**	**359**	**1,313,646**	**79,013**	**85,189**	**5,175**
B. OFF-BALANCE SHEET EXPOSURES								
B.1 Non-performing exposures	1,742	458	-	-	4,420	-	126	-
B.2 Performing exposures	8,606	2	8,763	1	457,816	79	35,537	2
Total B	**10,348**	**460**	**8,763**	**1**	**462,236**	**79**	**35,663**	**2**
Total (A + B) at 31/12/2019	**61,658**	**4,498**	**14,338**	**360**	**1,775,882**	**79,092**	**120,852**	**5,177**
Total (A + B) at 31/12/2018	**25,035**	**5,494**	**12,867**	**310**	**1,791,628**	**92,589**	**103,266**	**4,942**

B.3 Breakdown by geographical area of on- and off-balance sheet credit exposures to banks

Exposure/Geographic area	ITALY		IER EUROPEAN COUNTR		AMERICAS		ASIA		REST OF THE WORLD	
	Carry. amount	Tot. impairment	Carry. amount	Tot. impairment	Carry. amount	Tot. impairment	Carry. amount	Tot. impairment	Carry. amount	Tot. impairment
A. ON-BALANCE SHEET EXPOSURES										
A.1 Bad exposures	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay exposures	-	-	-	-	-	-	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	20,199	1	18,400	-	2,853	3	307	-	3,679	-
Total A	**20,199**	**1**	**18,400**	**-**	**2,853**	**3**	**307**	**-**	**3,679**	**-**
B. OFF-BALANCE SHEET EXPOSURES										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	4,783	-	-	-	-	-	-	-	-	-
Total B	**4,783**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A + B) at 31/12/2019	**24,982**	**1**	**18,400**	**-**	**2,853**	**3**	**307**	**-**	**3,679**	**-**
Total (A + B) at 31/12/2018	**29,078**	**-**	**20,199**	**-**	**6,574**	**-**	**6,622**	**-**	**-**	**-**

B.3.1 Breakdown of on- and off-balance sheet credit exposures to banks by geographical area

Exposure/Geographic area	North-west ITALY		North-east ITALY		Central ITALY		South ITALY and islands	
	Carry. amount	Tot. impairment	Carry. amount	Tot. impairment	Carry. amount	Tot. impairment	Carry. amount	Tot. impairment
A. ON-BALANCE SHEET EXPOSURES								
A.1 Bad exposures	-	-	-	-	-	-	-	-
A.2 Unlikely to pay exposures	-	-	-	-	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-	-	-	-	-
A.4 Performing exposures	2,887	1	-	-	17,313	-	-	-
Total A	**2,887**	**1**	**-**	**-**	**17,313**	**-**	**-**	**-**
B. OFF-BALANCE SHEET EXPOSURES								
B.1 Non-performing exposures	-	-	-	-	-	-	-	-
B.2 Performing exposures	13	-	-	-	4,770	-	-	-
Total B	**13**	**-**	**-**	**-**	**4,770**	**-**	**-**	**-**
Total (A + B) at 31/12/2019	**2,900**	**1**	**-**	**-**	**22,083**	**-**	**-**	**-**
Total (A + B) at 31/12/2018	**7,489**	**-**	**-**	**-**	**21,590**	**-**	**-**	**-**

B.4 Large exposures

Tax base / Amount	31/12/2019	31/12/2018
a) Carrying amount	622,785	590,785
b) Weighted amount	45,164	41,291
c) Number	6	5

The above table shows both the weighted and carrying amount of the large exposures. The number of positions increased to six compared to 31 December 2018, mostly relating to institutional counterparties and in one case to ordinary customers.
Their weighted amount increased from €41,291 thousand at 31 December 2018 to €45,164 thousand at the reporting date.

SECTION 2 - MARKET RISK

2.1 Interest rate and price risks - supervisory trading portfolio

Qualitative disclosure

A. General aspects

The securities portfolio was almost entirely comprised of securities issued by governments or banks in 2019, like in the previous year, in order to minimise interest rate risks. The bank also pledged bank and government bonds from different portfolios as security with the ECB, pursuant to the Bank of Italy instructions about open market operations.

Other interest rate swaps include mirroring contracts for corporate customers, hedged specifically with institutional counterparties. As a result, derivatives do not entail the bank's taking on of risk.

In short, therefore, the bank's policy for trading on its own behalf consists of medium-term repurchase transactions, monitoring the performance and risk profiles, in order to achieve returns on a portfolio mainly composed of fixed rate securities.

As part of its ordinary trading activities, the bank undertook transactions directly for government bonds and bonds, mostly issued by banks. It also managed the organised trades system for its own bonds.

B. Interest rate and price risk management processes and measurement methods

The bank applies the standardised method as per Regulation (EU) no. 575/2013 and the related supervisory regulations to calculate its prudent capital requirements. It has specific market risk control procedures in place as well as ensuring and checking compliance with the prudent rules.

Specifically, internal control regulations establish that the securities portfolio's exposure to market risks is checked by the Risk Management Unit using the VaR method.

In June 2016, the board of directors approved the transfer of part of its banking book to a portfolio managed by Epsilon SGR S.p.A. (total amount of €120 million). The bank gave the fund manager an additional cash management mandate of €25 million to optimise excess short-term liquidity in 2017.

The bank checks the operating and total risk limits set in the "Policies for financial risk management" using the portfolio not transferred to Epsilon S.p.A., while it checks compliance with the limits set in the mandate's guidelines for the transferred assets.

The bank measures VaR of the internally-managed portfolio based on a variance-covariance type parametric model with a confidence interval of 99% and a holding period of ten days. The VaR has a reliability factor of 99% and measures the maximum loss that the portfolio could incur in the ten days after the analysis date.

The bank measures VaR using the procedures that estimate the potential losses due to generic risk (market, interest rate and currency) and specific risk (the risk of losses due to an unfavourable change in the price of a traded financial instrument due to factors related to the issuer's situation). The procedure also performs a sensitivity analysis for each security in the bank's portfolio measuring variations in value of financial instruments (present value) caused by a variation in the interest rate curve, assuming a parallel change in the curve of 1 bps.

The calculation of the VaR of the banking book (not included in the mandate) includes financial instruments, comprising shares, bonds and OEIC units of the FVTPL, FVOCI and AC portfolios, excluding foreign currency swaps and futures and derivatives.

The objective is to constantly check the exposure to market risk and compliance with the internally-established limits using the VaR method and the VaR component (VaRC). The VaR monitoring is performed daily and the Risk Management Unit prepares a monthly summary for the board of directors.

At present, the VaR model is solely used for management and internal control purposes. The backtesting procedure of the VaR DEaR (one-day) is performed daily to check the calculation model's reliability.

Backtesting checks how accurately the VaR model reflects real changes in value of the securities portfolio being analysed. It compares the results (profits or losses) for a certain period directly observed by the bank with the VaR results. The backtesting shows how often losses incurred are greater than those estimated using the VaR model. Actual losses should be higher than the VaR with a frequency in line with that defined by the 99% confidence level, i.e., 1%.

With respect to the financial instruments managed by Epsilon, the manager provides the 1-month VaR with a probability level of 99% on a daily basis and the stress test results at each month end. The Risk Management Unit monitors the manager's compliance with the limits set in the mandate's guidelines once a month.

With respect to price risk, the bank's operations in price risk sensitive financial instruments (equity instruments, OEIC units, derivatives on OEIC units, share indexes, precious metals, commodities and other assets) are checked by measuring VaR using the Ermas application and as provided by the asset manager.

Quantitative disclosure

1. Regulatory trading book: breakdown by residual maturity (repricing date) of financial assets and liabilities and financial derivatives.

Currency denomination: Euro

Type/Residual maturity	on demand	up to 3 months	after 3 to 6 months	after 6 months to 1 year	after 1 to 5 years	after 5 to 10 years	after 10 years	open term
1. Assets	-	**44,205**	**13,853**	**14,366**	**50,646**	**9,128**	-	-
1.1 Debt instruments	-	44,205	13,853	14,366	50,646	9,128	-	-
- with early repayment option	-	*5,022*	*3,924*	*1,219*	*4,428*	-	-	-
- other	-	*39,183*	*9,929*	*13,147*	*46,218*	*9,128*	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Liabilities	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	**98**	**38,511**	**387**	**319**	**2,926**	**16,409**	**8,754**	-
3.1 With underlying security	-	3,346	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	*3,346*	-	-	-	-	-	-
+ long positions	-	*1,674*	-	-	-	-	-	-
+ short positions	-	*1,672*	-	-	-	-	-	-
3.2 Without underlying security	98	35,165	387	319	2,926	16,409	8,754	-
- Options	-	-	-	*3*	*2,926*	*16,409*	*8,754*	-
+ long positions	-	-	-	*1*	*1,458*	*8,211*	*4,376*	-
+ short positions	-	-	-	*2*	*1,468*	*8,198*	*4,378*	-
- Other derivatives	*98*	*35,165*	*387*	*316*	-	-	-	-
+ long positions	*49*	*16,875*	*192*	*158*	-	-	-	-
+ short positions	*49*	*18,290*	*195*	*158*	-	-	-	-

Currency denomination: Other currencies

Type/Residual maturity	on demand	up to 3 months	after 3 to 6 months	after 6 months to 1 year	after 1 to 5 years	after 5 to 10 years	after 10 years	open term
1. Assets	-	-	**1,769**	**4,792**	**6,230**	-	-	-
1.1 Debt instruments	-	-	1,769	4,792	6,230	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	*1,769*	*4,792*	*6,230*	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Liabilities	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	-	**56,279**	**298**	**316**	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	56,279	298	316	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	*56,279*	*298*	*316*	-	-	-	-
+ long positions	-	*28,847*	*150*	*158*	-	-	-	-
+ short positions	-	*27,432*	*148*	*158*	-	-	-	-

The amounts shown in item 3.2 “Financial derivatives without underlying security - Options” of the above table include data about the remaining term of the cap options, calculated as a series of forward rate agreement options equal in number of the options for which the bank receives (pays) the fixed rate and pays (receives) the fair value of the indexed reference rate. These options are implicitly included in the loans granted to customers and are tied to the variability of interest rates.

Item 3.2. “Financial derivatives without underlying security - Other derivatives” includes futures comprised in the assets managed by Epsilon SGR S.p.A.

2. Regulatory trading book: breakdown of exposure in equity instruments and share indexes by main stock exchange

The bank has no exposure in equity instruments and share indexes in the trading book.

3. Regulatory trading book: internal models and other methodologies for sensitivity analyses

The bank does not use internal models to quantify the capital absorbed by market risks. As shown above, for management purposes only, the daily VaR of the trading book not included in the mandate is measured.
During 2019, the VaR of the trading book (part managed internally) achieved a maximum value of approximately €3 million, while the average value was around €1 million. At 31 December 2019, the VaR amounted to €472 thousand.
With respect to the asset management financial instruments, present exclusively in the trading book, the manager provides the 1-month VaR with a probability level of 99% on a daily basis and the stress test results at each month end. Over the course of the year the VaR limits set by the management mandates were always respected.

2.2 Interest rate and price risk - banking book

Qualitative disclosure

A. General aspects, management and measurement of interest rate and price risks

The banking book includes all financial assets and liabilities not included in the trading book. The duration mismatching of funding and lending products generates interest rate risk.

The Risk Management Unit measures the banking book's interest rate risk every quarter using the A2 matrix data and every month for internal monitoring purposes using Prometeia's Ermas application. The unit applies the methodology required by the prudential supervisory instructions (Bank of Italy Circular no. 285/2013).

The model breaks down the assets and liabilities by maturity or interest rate review date and considers annual changes in daily interest rates recorded over an observation period of six years to determine internal capital in ordinary conditions, considering a 1% (downward) and 99% (upward) trend. In stress conditions, the model assumes a 200 bps change in the interest rates and quantifies the change in the total economic value of the instruments included in the banking book, on which the supervisory test is performed compared to the bank's own funds. The bank also assesses the impact on the interest rate risk deriving from additional internal scenarios, defined on the basis of the indications of legislation, intended to capture further vulnerabilities of the bank with respect to interest rate risk on the banking book.

For management and monitoring purposes only, the bank's interest rate risk is subjected to additional monthly analyses to assess the impact of changes in interest rates on profit (repricing gap) and the economic value of the bank's assets and liabilities (duration gap) using the Ermas application. The analyses also include on-demand items and assessing the stickiness effect (i.e., how long it takes to adapt to changes in interest rates) and the beta effect (how changes in market rates are absorbed by rates applied to on-demand products).

In order to ensure the proper monitoring of the banking book's interest rate risk, it is measured every month while monthly and quarterly reports are prepared for the general manager and the board of directors, respectively.

With reference to price risk, there is no indication of risk that the banking book's value decreases due to changes in demand and offer on the reference market.

Quantitative disclosure

1. Banking book: breakdown by residual maturity (by repricing date) of financial assets and liabilities

Currency denomination: Euro

Type/Residual maturity	on demand	up to 3 months	after 3 to 6 months	after 6 months to 1 year	after 1 to 5 years	after 5 to 10 years	after 10 years	Open term
1. Assets	**275,713**	**614,060**	**96,668**	**25,288**	**224,173**	**113,381**	**93,613**	-
1.1 Debt instruments	-	106,972	77,659	-	121,527	54,597	55,125	-
- with early repayment option	-	-	-	-	-	*216*	*988*	-
- other	-	*106,972*	*77,659*	-	*121,527*	*54,381*	*54,137*	-
1.2 Financing to banks	553	14,186	-	-	-	-	-	-
1.3 Financing to customers	**275,160**	**492,902**	**19,009**	**25,288**	**102,646**	**58,784**	**38,488**	-
- current accounts	*148,425*	*449*	*848*	*2,215*	*15,300*	*4,336*	-	-
- other financing	*126,735*	*492,453*	*18,161*	*23,073*	*87,346*	*54,448*	*38,488*	-
- with early repayment option	*45,171*	*479,749*	*16,882*	*18,456*	*76,664*	*47,432*	*38,478*	-
- other	*81,564*	*12,704*	*1,279*	*4,617*	*10,682*	*7,016*	*10*	-
2. Liabilities	**1,451,715**	**11,031**	**8,529**	**10,787**	**53,919**	**4,610**	**5,672**	-
2.1 Due to customers	1,448,028	4,636	4,652	569	5,614	4,610	5,672	-
- current accounts	*1,343,446*	-	-	-	-	-	-	-
- other liabilities	*104,582*	*4,636*	*4,652*	*569*	*5,614*	*4,610*	*5,672*	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	*104,582*	*4,636*	*4,652*	*569*	*5,614*	*4,610*	*5,672*	-
2.2 Due to banks	*2,677*	-	-	-	-	-	-	-
- current accounts	*2,677*	-	-	-	-	-	-	-
- other liabilities	-	-	-	-	-	-	-	-
2.3 Debt instruments	1,010	6,395	3,877	10,218	48,305	-	-	-
- with early repayment option	-	*2,275*	*1,585*	*4,454*	*48,280*	-	-	-
- other	*1,010*	*4,120*	*2,292*	*5,764*	*25*	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	-	**74,116**	**18,022**	**8,903**	**50,785**	**18,909**	**8,056**	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	74,116	18,022	8,903	50,785	18,909	8,056	-
- Options	-	***74,116***	***18,022***	***8,903***	***50,785***	***18,909***	***8,056***	-
+ long positions	-	*2,266*	*3,001*	*6,667*	*50,700*	*18,770*	*7,991*	-
+ short positions	-	*71,850*	*15,021*	*2,236*	*85*	*139*	*65*	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4. Other off-statement of financial position transactions	***12,044***	***8,263***	-	-	-	***67***	***3,714***	-
+ long positions	-	*8,263*	-	-	-	*67*	*3,714*	-
+ short positions	*12,044*	-	-	-	-	-	-	-

Currency denomination: Other currencies

Type/Residual maturity	on demand	up to 3 months	after 3 to 6 months	after 6 months to 1 year	after 1 to 5 years	after 5 to 10 years	after 10 years	Open term
1. Assets	**4,974**	**234**	-	-	-	-	-	-
1.1 Debt instruments	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Financing to banks	3,866	101	-	-	-	-	-	-
1.3 Financing to customers	**1,108**	**133**	-	-	-	-	-	-
- current accounts	*1,108*	-	-	-	-	-	-	-
- other financing	-	*133*	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	*133*	-	-	-	-	-	-
2. Liabilities	**4,127**	**82**	-	-	-	-	-	-
2.1 Due to customers	4,127	-	-	-	-	-	-	-
- current accounts	*4,109*	-	-	-	-	-	-	-
- other liabilities	*18*	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	*18*	-	-	-	-	-	-	-
2.2 Due to banks	-	82	-	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other liabilities	-	*82*	-	-	-	-	-	-
2.3 Debt instruments	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early repayment 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-statement of financial position transactions	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-

2. Banking book: internal models and other methodologies for sensitivity analyses

The impact on interest income of a 1% increase or decrease in interest rates is calculated using the Ermas software for management purposes, assuming that the maturity dates do not change for a year.

The analyses carried out consider these captions' trends ("behavioural model") with assessment of the stickiness effect (i.e. how long it takes the bank interest rates to adapt to changes in market rates, or the average repricing times), the asymmetry in the convergence (i.e. the different speeds of adjustment based on whether the market rate increases or decreases) and the beta effect (i.e. the elasticity of the bank rates, which indicates how the changes in market rates are absorbed by the interest rates of the on-demand products offered by the bank). For comparative purposes, the bank checks the impact of the shocks even when modelling does not take place.

At 31 December 2019, the difference in net interest income (with modelling of on-demand items) amounts to approximately 5.7 million in the event of a parallel shift of +100 bps and -4.9 million in the event of a shift to -100 bps.

2.3 Currency risk

Qualitative disclosure

A. General aspects, management and measurement of currency risk

Currency risk is the risk that the bank may incur losses due to adverse changes in foreign exchange rates affecting its positions.

The bank's currency risk mainly arises on its transactions in foreign currency securities held in the asset management portfolio. Foreign currency activities also include spot and forward purchases and sales with customers, which are concurrently matched on the market by agreeing very short-term short/long positions that give rise to immaterial price risk. The bank mainly operates in the US dollar.

The relevant operating offices that carry out first level controls monitor the currency positions. The Risk Management Unit performs checks of the internal limits once a month. The bank does not usually take on large risky positions in the currencies market.

Internal models to calculate the capital requirements for market risk are not used.

B. Currency hedges

The bank does not agree specific currency hedges. For operating and economic efficiency purposes, transactions with customers are not immediately matched on the market but may be offset, including cumulatively, during the same day or the following day, against other transactions in the same currency of a spot or forward nature and an opposite sign.
Currency risk hedges for the assets managed by the external manager are managed through hedges agreed by Epsilon SGR S.p.A.

Quantitative disclosure

1. Breakdown of assets, liabilities and derivatives by currency

Tax base	Currencies					
	US dollar	Pound sterling	Yen	Canadian dollar	Swiss franc	Other currencies
A. Financial assets	**4,790**	**192**	**24**	**206**	**181**	**12,796**
A.1 Debt instruments	926	-	-	-	-	12,055
A.2 Equity instruments	-	-	-	-	-	-
A.3 Financing to banks	2,883	192	6	206	181	500
A.4 Financing to customers	981	-	18	-	-	241
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**149**	**65**	**10**	**5**	**19**	**36**
C. Financial liabilities	**2,985**	**261**	**82**	**214**	**203**	**464**
C.1 Due to banks	-	-	82	-	-	-
C.2 Due to customers	2,985	261	-	214	203	464
C.3 Debt instruments	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	-	-	-	-	-	-
E. Financial derivatives	**11,808**	-	**3,703**	-	**5**	**1,854**
- Options	-	-	-	-	-	-
+ *long positions*	-	-	-	-	-	-
+ *short positions*	-	-	-	-	-	-
- Other derivatives	11,808	-	3,703	-	5	1,854
+ *long positions*	*5,691*	-	*3,703*	-	-	-
+ *short positions*	*6,117*	-	-	-	*5*	*1,854*
Total assets	**10,630**	**257**	**3,737**	**211**	**200**	**12,832**
Total liabilities	**9,102**	**261**	**82**	**214**	**208**	**2,318**
Difference (+/-)	**1,528**	**- 4**	**3,655**	**- 3**	**- 8**	**10,514**

2. Internal models and other methodologies for sensitivity analyses

The bank does not use internal models to measure currency risk or other methodologies for sensitivity analyses.

SECTION 3 – DERIVATIVES AND HEDGING POLICIES

3.1 - Trading derivatives

A. Financial derivatives

A.1 Trading financial derivatives: reporting-date notional amounts

Underlying asset / Derivative	31/12/2019				31/12/2018			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Debt instruments and interest rates	-	-	**19,905**	**28,961**	-	-	**23,993**	**20,822**
a) Options	-	-	19,807	-	-	-	23,860	-
b) Swaps	-	-	98	-	-	-	133	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	28,961	-	-	-	20,822
e) Other	-	-	-	-	-	-	-	-
2. Equity instruments and share indexes	-	-	-	-	-	-	-	**12,056**
a) Options	-	-	-	-	-	-	-	12,000
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	56
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold	-	-	**17,202**	-	-	-	**20,099**	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	17,202	-	-	-	20,099	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5. Other underlying assets	-	-	-	-	-	-	-	-
Total	-	-	**37,107**	**28,961**	-	-	**44,092**	**32,878**

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

Type of derivative	31/12/2019				31/12/2018			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Positive fair value								
a) Options	-	-	6	-	-	-	30	49
b) Interest rate swaps	-	-	1	-	-	-	4	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	-	46	-	-	-	192	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	-	-	53	-	-	-	226	49
1. Negative fair value								
a) Options	-	-	6	-	-	-	32	117
b) Interest rate swaps	-	-	1	-	-	-	4	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	-	144	-	-	-	137	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	-	-	151	-	-	-	173	117

A.3 OTC financial derivatives: notional amounts, gross positive and negative fair value by counterparty

Underlying assets	Government and central banks	Banks	Other financial companies	Other
Contracts not covered by netting agreements				
1. Debt instruments and interest rates		9,954	107	9,859
- notional amount		9,947	107	9,852
- positive fair value		6	-	1
- negative fair value		1	-	6
2. Equity instruments and share indexes		-	-	-
- notional amount		-	-	-
- positive fair value		-	-	-
- negative fair value		-	-	-
3. Currencies and gold		2,076	13,242	2,074
- notional amount		2,049	13,107	2,046
- positive fair value		7	18	21
- negative fair value		20	117	7
4) Commodities		-	-	-
- notional amount		-	-	-
- positive fair value		-	-	-
- negative fair value		-	-	-
5. Other		-	-	-
- notional amount		-	-	-
- positive fair value		-	-	-
- negative fair value		-	-	-
Contracts covered by netting agreements				
1. Debt instruments and interest rates	-	-	-	-
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
2. Equity instruments and share indexes	-	-	-	-
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3. Currencies and gold	-	-	-	-
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Commodities	-	-	-	-
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5. Other	-	-	-	-
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual life of OTC trading financial derivatives: notional amounts

Underlying / Residual life	Up to 1 year	After 1 year and up to 5 years	After 5 years	Total
A.1 Financial derivatives on debt instruments and interest rates	4,515	9,452	5,939	19,906
A.2 Financial derivatives on equity instruments and equity indexes	-	-	-	-
A.3 Financial derivatives on currencies and gold	17,202	-	-	17,202
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
31/12/2019	**21,717**	**9,452**	**5,939**	**37,108**
31/12/2018	**23,864**	**12,193**	**8,036**	**44,093**

B. Credit derivatives

The bank has not agreed credit derivatives.

3.3 Other disclosures on trading and hedging derivatives

A. Financial and credit derivatives

A.1 OTC financial and credit derivatives: net fair value by counterparty

Tax base / Amount	Central counterparties	Banks	Other financial companies	Other
A. Financial derivatives				
1) Debt instruments and interest rates	-	**9,954**	**107**	**9,859**
- notional amount	-	9,947	107	9,852
- positive fair value	-	6	-	1
- negative fair value	-	1	-	6
2) Equity instruments and share indexes	-	-	-	-
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Currencies and gold	-	**2,076**	**13,242**	**2,074**
- notional amount	-	2,049	13,107	2,046
- positive fair value	-	7	18	21
- negative fair value	-	20	117	7
4) Commodities	-	-	-	-
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other	-	-	-	-
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
Credit derivatives				
1) Purchase and protection	-	-	-	-
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
2) Sale and protection	-	-	-	-
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

SECTION 4 - LIQUIDITY RISK

Qualitative disclosure

A. General aspects, management and measurement of liquidity risk

Liquidity risk is the risk that the bank is unable to meet its payment commitments due to its inability to raise funds on the market (funding liquidity risk) and/or to free its assets (market liquidity risk), thus jeopardising daily operations or its financial position.

The bank's liquidity risk management strategy is based on ensuring a steady flow of liquidity, as required by the supervisory regulations and its healthy and prudent management policies. The "Liquidity risk governance and management policy", whose latest version was approved by the board of directors in June 2018, defines the bank's liquidity and funding management policies, the risk objectives and the main stages of the risk management and monitoring process, specifying the roles and responsibilities of the relevant internal bodies and units. The document also includes the contingency funding plan that sets out the strategies for handling any liquidity crises and the procedures for obtaining funds in the case of emergency.

The Finance Unit Head is in charge of managing liquidity, including by investing any surplus on the interbank deposit market. The Risk Management Unit regularly monitors the overall liquidity conditions and reports to the general manager.

Regular risk monitoring requires the monthly check that the limits set by regulations and in the RAF by the board of directors are complied with in respect of short-term and structural liquidity and the ordinary customers' lending/liquidity ratio.

Prometeia's Ermas application feeds the internal risk assessment model, which has differentiated weighing ratios depending on the type of asset, liability and commitment and classifies each item into residual maturity categories (maturity ladder). Any differences and certain synthetic indexes are used to assess the structural liquidity situation over the entire timeframe.

Once a month, the bank checks the regulatory operating liquidity ratio (LCR - liquidity coverage ratio), which measures its ability to cover its forecast net cash outflows over 30 days, and the stable funding ratio which estimates the degree of coverage of medium-term funding through stable forms of funding.

Both ratios were always stable and higher than the regulatory and internal limits, set by the RAF, in the year in question. The highly liquid assets, which are the numerator in the LCR ratio, mainly consist of uncommitted government bonds plus other liquidity items and the bank's exposure to the central bank which can be monetised in stress conditions.

In addition, after enactment of the Commission Implementing Regulation (EU) no. 313/2016 about additional liquidity monitoring metrics (ALMM), subsequently transposed by the seventh update to Circular no. 286, the bank supplemented its liquidity risk monitoring procedures to include the ALMM report, prepared once a quarter using the Ermas application. Starting from 31 March 2018, the ALMM reports is prepared in line with the new requirements of the updated Regulation (EU) no. 680/2014.

The Risk Management Unit also performs monthly stress tests and the results are used to define ex-ante limits and ex-post assessments of their adequacy, to plan and undertake transactions to remedy any differences and to define and periodically overview the liquidity risk mitigation systems.

The bank uses a judgement-based approach to estimate cash flows, based on subjective forecasts drawing on past experience and the guidance received from the supervisory authorities. Identification of appropriate risk factors is essential for the suitability of the stress tests. Given the bank's operations and related vulnerabilities, the main liquidity risk factors relate to its capacity to fund itself on the interbank and retail markets, to cover on-demand liabilities, the use of credit facilities granted and the usability of those received, losses due to non-repayment of large positions and the degree of liquidability of its assets.

Based on these factors, the Risk Management Unit uses stress tests that include increases in the haircuts of highly liquid assets and cash outflows of the maturity ladder based on scenarios that it intends to analyse (increase in withdrawals by customers and greater use of current account credit facilities).

Over the course of 2019, the data of the internal structural liquidity model showed the bank's good liquidity position, confirmed by the regulatory ratios.

At 31 December 2019, the top 15 customers (excluding banks) accounted for roughly 13.5% of the direct funding (calculated using carrying amounts).

Quantitative disclosure

1. Breakdown of financial assets and liabilities by residual contractual maturity

The breakdown of financial assets and liabilities by residual contractual maturity show an overall balance both in relation to deposits/financing and spot and forward exchange rates.

Therefore, currency risks are immaterial thanks to the bank's careful management of foreign currency.

Currency denomination: Euro

Tax base/Time frame	on demand	after 1 to 7 days	after 7 to 15 days	after 15 days to 1 month	after 1 to 3 months	after 3 to 6 months	after 6 months to 1 year	after 1 to 5 years	After 5 years	Open term
Assets	**233,577**	**2,357**	**34,138**	**23,140**	**54,489**	**63,020**	**107,144**	**561,829**	**535,330**	**14,186**
A.1 Government bonds	-	-	30,001	-	2,999	7,086	10,445	152,893	275,096	-
A.2 Other debt instruments	-	-	-	342	3,555	3,244	6,396	54,141	5,585	-
A.3 OEIC units	28,988	-	-	-	-	-	-	-	-	-
A.4 Financing	204,589	2,357	4,137	22,798	47,935	52,690	90,303	354,795	254,649	14,186
- Banks	*553*	-	-	-	-	-	-	-	-	*14,186*
- Customers	*204,036*	*2,357*	*4,137*	*22,798*	*47,935*	*52,690*	*90,303*	*354,795*	*254,649*	-
Liabilities	**1,451,715**	**494**	**467**	**2,816**	**7,333**	**8,793**	**11,134**	**53,703**	**10,278**	-
B.1 Deposits and current accounts	1,448,332	162	155	730	3,335	4,264	-	-	-	-
- Banks	*2,677*	-	-	-	-	-	-	-	-	-
- Customers	*1,445,655*	*162*	*155*	*730*	*3,335*	*4,264*	-	-	-	-
B.2 Debt instruments	1,010	332	309	2,086	3,746	4,034	10,464	48,089	-	-
B3 Other liabilities	2,373	-	3	-	252	495	670	5,614	10,278	-
Off-statement of financial position transactions	**16,900**	**1,842**	**676**	**2,529**	**13,383**	**338**	**347**	**2,215**	**11,515**	-
C.1 Financial derivatives with exchange of capital	-	1,842	676	2,529	13,383	298	316	1,665	-	-
- Long positions	-	*1,842*	*338*	*2,191*	*4,974*	*148*	*159*	-	-	-
- Short positions	-	-	*338*	*338*	*8,409*	*150*	*158*	*1,665*	-	-
C.2 Financial derivatives without exchange of capital	**14**	-	-	-	-	-	-	-	-	-
- Long positions	*7*	-	-	-	-	-	-	-	-	-
- Short positions	*7*	-	-	-	-	-	-	-	-	-
C.3 Deposits and financing to be received	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	**12,093**	-	-	-	-	-	-	550	**11,515**	-
- Long positions	*14*	-	-	-	-	-	-	*550*	*11,515*	-
- Short positions	*12,079*	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	4,793	-	-	-	-	40	31	-	-	-
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	-	-	-	-	-	-	-	-	-	-

At the reporting date, the bank had received guarantees of €16,338 thousand which are not shown in the above table as there is no evidence to reasonably suggest that they will be enforced or when they will be used. Guarantees enforced in the last four years are as follows:
2016: two positions for a total of €10 thousand;
2017: six positions for a total of €442 thousand;
2018: four positions for a total of €128 thousand;
2019: two positions for a total of €31 thousand.

Currency denomination: Other currencies

Tax base/Time frame	on demand	after 1 to 7 days	after 7 to 15 days	after 15 days to 1 month	after 1 to 3 months	after 3 to 6 months	after 6 months to 1 year	after 1 to 5 years	After 5 years	Open term
Assets	**4,978**	-	**50**	**132**	**128**	**2,002**	**5,009**	**6,088**	-	-
A.1 Government bonds	-	-	-	-	-	-	-	-	-	-
A.2 Other debt instruments	-	-	47	-	29	2,002	5,009	6,088	-	-
A.3 OEIC units	-	-	-	-	-	-	-	-	-	-
A.4 Financing	4,978	-	3	132	99	-	-	-	-	-
- Banks	*3,870*	-	-	*101*	-	-	-	-	-	-
- Customers	*1,108*	-	*3*	*31*	*99*	-	-	-	-	-
Liabilities	**4,127**	-	-	**82**	-	-	-	-	-	-
B.1 Deposits and current accounts	4,109	-	-	82	-	-	-	-	-	-
- Banks	-	-	-	*82*	-	-	-	-	-	-
- Customers	*4,109*	-	-	-	-	-	-	-	-	-
B.2 Debt instruments	-	-	-	-	-	-	-	-	-	-
B3 Other liabilities	18	-	-	-	-	-	-	-	-	-
Off-statement of financial position transactions	-	**168**	**676**	**2,529**	**13,383**	**298**	**316**	-	-	-
C.1 Financial derivatives with exchange of capital	-	168	676	2,529	13,383	298	316	-	-	-
- Long positions	-	-	*338*	*338*	*8,409*	*150*	*158*	-	-	-
- Short positions	-	*168*	*338*	*2,191*	*4,974*	*148*	*158*	-	-	-
C.2 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and financing to be received	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-	-	-

SECTION 5 - OPERATIONAL RISK

Qualitative disclosure

A. General aspects, management and assessment of operational risk

Operational risk is the risk of losses arising from errors or shortfalls in internal procedures, human resources or systems and external factors. This risk includes losses caused by fraud, human error, business discontinuity, system breakdowns, contractual defaults and natural disasters. It also comprises legal risk but not strategic or reputational risk.

In line with the proportionality principle, the bank uses the basic method (basic indicator approach of 15% of the average total income for the last three years) to measure its capital requirements to cover operational risk. The operational risk assessment is also integrated annually through an internal qualitative valuation of the losses incurred and the definition of the residual risk.

The Risk Management Unit was defined in the "Operational risk mitigation policy" approved by the board of directors on 24 June 2014. Specifically:

- the board of directors defines the guidelines to control and mitigate operational risk, regularly checking that they are correctly implemented and reflect the bank's operations as well as the transparent and appropriate allocation of duties and responsibilities;
- the general manager defines the operating rules and practices, activities, procedures and most appropriate units to manage the operational risk mitigation process assisted by the competent units and in line with the policies set by the board of directors; they also check their suitability over time in terms of the adequacy and functionality and ensures steps are taken to eliminate any weaknesses or dysfunctions;
- as a control body, the board of statutory auditors monitors the adequacy of the risk management and control system and internal controls;
- the Risk Management Unit designs and updates the methods to measure risks and assists the Organisation Office to assign the first and second level controls when new products, processes or activities are introduced, amendments are made to legislation and regulations, changes take place in the market conditions or other external factors;
- the Internal Audit Unit carries out regular audits of the operational risk management system; it works with the Risk Management Unit to develop, implement and maintain the operational risk management system; it liaises promptly with the board of directors on its findings when they identify effective weaknesses in the controls adopted to mitigate operational risks that would expose the bank to the risk of large losses.

With respect to the operational risk mitigation tools, the bank focused on the transfer of risk through the agreement of insurance policies, suitable for low frequency events with a high financial impact. These policies cover risks of losses from:

- fraud or misconduct;
- damage to third parties caused by errors made during banking operations;
- non-intentional violations of legal, regulatory and by-laws obligations by directors and specific employees;
- third-party fraud;
- damage to property and equipment as a result of natural or criminal events;
- accidents and slight or serious injuries to third parties inside the bank's premises.

Legal risks

Legal risk is identified as the risk of impairment or reduction in value of the assets due to inadequate or incorrect contracts or legal documents, which could lead to significantly sizeable disputes. This risk is a manifestation of operational risk.

Situations that lead to legal risks principally relate to operations covered by the main special regulations such as, specifically, entities' administrative liability (Legislative decree no. 231/2001), occupational safety (Legislative decree no. 81/2008), building site regulations (Legislative decree no. 494/96), privacy (Legislative decree no. 196/2003), anti-money laundering (Legislative decree no. 231/2007), banking transparency, usury, investment services, etc.

With respect to Legislative decree no. 231/01, the bank implemented the organisational model proposed by the ABI, approved by the Ministry for Justice, and set up a supervisory body to ensure the working and compliance of the models. Since March 2014, the board of statutory auditors has carried out the supervisory body's duties, with the assistance of the pro tempore heads of the bank's control units: Internal Audit, Risk Management, Compliance and AML.

The Compliance Unit is responsible for monitoring legal risks and the bank's compliance with external and internal rules and regulations. It also checks new products/services' compliance in order to identify any potential risks in advance and make the necessary amendments.

The "Compliance Unit's Regulation" regulates the risk of non-compliance and its management as well as the methods adopted by the Unit to carry out its duties. Pursuant to Bank of Italy Circular no. 285/13, the regulation defines the scope of the Unit's duties and specific controls, as well as a special function to perform the compliance tests.

The Anti-money Laundering Unit performs ongoing controls and encourages a culture of compliance with internal and external regulations.

With respect to the correct management and keeping of the centralised computer database, the Unit ensures the network is constantly monitored and kept aware of the issue, assisted by other general management units.

The main legal disputes are described below.

Compound interest disputes

In line with the banking sector's general practice, the bank does not agree with the decision reiterated by the Supreme Court since 1999 which confirms the "negotiating" rather than the "regulatory" nature of the quarterly capitalisation clause for interest expense and, therefore, the illegality of its application to bank current accounts. The bank maintains its opinion in court as well.

The banks' position is supported by numerous merits rulings which emphasise different legal points, which are valid, and that may lead the Supreme Court to rethink its position in the future.

At present, the bank is obliged to make adequate provision for its ongoing disputes with customers about compound interest, based on the calculations made when the dispute arose.

Claw-back claims

The bank assesses individual requests for the return of amounts from the official receivers, estimating the inherent risks. It assesses the cost/benefits ratio only when it deems it more useful and proposes out-of-court settlements to the counterparties, which are often successful and avoid going to court.

Should a legal proceeding be commenced, the bank evaluates its possibility of losing, updates its risk estimates and defends itself suitably in court, also based on its understanding of the counterparty's insolvency. Once such legal proceedings commence, provision is made for the risks related to the amounts deemed re-obtainable based on internal assessments.

Disputes involving securities

Supported by a number of court rulings in its favour, the bank reviews each dispute and only makes adequate provision when it deems that it may effectively have to pay.

Moreover, the number of proceedings commenced against the bank for the acquisition of securities by customers (mostly Argentine and Parmalat bonds) is very modest compared to the number of transactions performed. The bank does not expect it to increase significantly.

Tax regulations

In 2012, the Italian Inland Revenue carried out an inspection of the bank. The extremely comforting results confirmed that the bank's procedures were correctly used thus ensuring compliance with the sector regulations.

PART F
Equity

Section 1 - Equity

Qualitative disclosure

Regulation (EU) no. 575/2013 (CRR) and Directive no. 2013/36/EU (CRD IV) of 26 June 2013 covering banks and investment companies became effective on 1 January 2014. They transposed the supervisory standards for banks defined by the Basel Committee in the European Union.

On 19 December 2013, Bank of Italy published Circular no. 285 "Prudential reporting instructions for banks", setting out guidance on how to implement CRD IV. The central bank subsequently issued Circular no. 286 "Instructions for preparing prudential reports for banks and investment companies", which regulates the prudent supervisory reports prepared on a separate and consolidated basis.

Equity management covers all the policies and decisions necessary to ensure that the bank's own funds are adequate to cover its assets and risks. The bank has to comply with capital adequacy requirements established by the above regulations.

Checks of compliance with the minimum prudential requirements are ongoing and consider possible changes in risks and the Risk Appetite Framework (RAF).

Moreover and in accordance with the ECB's recommendation of 28 January 2015, compliance with the minimum requirements is also ensured by observance of a pay out policy tied to attainment of the above-mentioned minimum capital requirements.

The directors' report discloses and comments on the main financial statements indicators which include, in particular, the capitalisation ratios, useful to analyse the bank's equity on a qualitative basis.

Since 1 January 2014, the Italian banks are required to have a minimum CET1 ratio of 4.5%, a TIER1 ratio of 5.5% (6% from 2015) and a Total Capital Ratio of 8%. These minimum requirements have been supplemented by the following CET1 buffers: Capital conservation buffer of 2.5% from 1 January 2014 and, from 2016, Countercyclical buffer in periods of high credit growth and Systematic buffer for major international or local banks. Non-compliance with the sum of these buffers (combined requirement) leads to limits on distributions and the requirement to introduce a capital conservation plan.
The SREP requirements set out by the Bank of Italy for 2019 are listed below:

- Common Equity Tier1 Ratio (CET1R) 7.364%
- TIER1R 8.988%
- Total capital ratio (TCR) 11.150%

On 12 December 2017, the European Parliament and Council issued Regulation (EU) no. 2017/2395, amending Regulation (EU) no. 575/2013 (CRR) as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds, introducing article 473-bis "introduction of IFRS 9" which give banks the possibility of mitigating the impact of FTA over a transitory period of five years (from 2018 to 2022), by using decreasing rates in order to sterilise the effect on CET1. The bank chose to apply the "static approach" to recognise the IFRS 9 FTA at 01/01/2018 adjustments to the IAS 39 impairment losses at 31/12/2017. Banks opting for this transitory treatment from 2018 are nevertheless required to provide disclosures about available capital and the fully loaded CET1 ratio in accordance with the supervisory guidelines.

Quantitative disclosure

B.1 Equity: breakdown

Tax base/Amount	Balance at 31/12/2019	Balance at 31/12/2018
1. Share capital	**39,241**	**39,241**
2. Share premium	**34,660**	**34,660**
3. Reserves	**67,826**	**67,015**
- income-related	61,696	60,885
a) legal reserve	*19,003*	*18,846*
b) statutory reserve	*55,958*	*55,304*
c) treasury shares	-	-
d) other	*-13,265*	*-13,265*
- other	6,130	6,130
4. Equity instruments	-	-
5. (Treasury shares)	-	-
6. Valuation reserves	**11,018**	**10,424**
- Equity instruments at fair value through other comprehensive income	-211	-259
- Hedges of equity instruments at fair value through other comprehensive income	-	-
- Financial assets (other than equity instruments) at fair value through other comprehensive income	-938	-1,828
- Property, equipment and investment property	-	-
- Intangible assets	-	-
- Hedges of investments in foreign operations	-	-
- Cash flow hedges	-	-
- Hedging instruments (non-designated items)	-	-
- Exchange gains (losses)	-	-
- Non-current assets held for sale and disposal groups	-	-
- Financial liabilities designated at fair value through profit or loss (changes in own credit rating)	-	-
- Actuarial gains (losses) on defined benefit pension plans	-2,955	-2,611
- Portion of valuation reserves of equity-accounted investees	-	-
- Special revaluation laws	15,122	15,122
7. Profit for the year	**5,997**	**1,571**
Total	**158,742**	**152,911**

Item "3. Reserves – d) other" of €13,265 thousand includes the fair value losses of equity generated during the first-time adoption of IAS (FTA) for €2,860 thousand, and the fair value losses from FTA generated following introduction of IFRS 9 for €10,405 thousand. The item "Other reserves" of €6,130 thousand relates to the contribution reserve required by Law no. 218/90.

B.2 Fair value reserve: breakdown

Asset / Amount	31/12/2019		31/12/2018	
	Fair value gains	Fair value losses	Fair value gains	Fair value losses
1. Debt instruments	135	1,074	238	2,067
2. Equity instruments	-	211	142	401
3. OEIC units	-	-	-	-
4. Financing	-	-	-	-
Total	**135**	**1,285**	**380**	**2,468**

B.3 Fair value reserve: changes

Tax base / Amount	Debt instruments	Equity instruments	OEIC units	Financing
1. Opening balance	**- 1,829**	**- 259**	-	-
2. Increases	**3,212**	**76**	-	-
2.1 Fair value gains	96	51	-	-
2.2 Impairment losses for credit risk	11	-	-	-
2.3 Reclassification of fair value losses to profit or loss on sale	3,080	-	-	-
2.4 Transfers to other equity reserves (equity instruments)	-	-	-	-
2.5Other increases	25	25	-	-
3. Decreases	**2,322**	**28**	-	-
3.1 Fair value losses	1,694	14	-	-
3.2 Impairment gains for credit risk	-	-	-	-
3.3 Reclassification of fair value gains to profit or loss	171	-	-	-
3.4 Transfers to other equity reserves (equity instruments)	-	-	-	-
3.5Other increases	457	14	-	-
4. Closing balance	**- 939**	**- 211**	-	-

B.4 Actuarial reserves: changes

	Fip (pension fund)	Post-employment benefits
1. Opening balance	**- 1,665**	**- 945**
2. Increases	**109**	**21**
2.1 Actuarial gains	-	-
2.2 Change in deferred tax assets	109	21
3. Decreases	**398**	**77**
3.1 Actuarial losses	398	77
3.2 Change in deferred tax liabilities	-	-
4. Total	**- 1,954**	**- 1,001**

Section 2 – Own funds and ratios

More information is available in the disclosure to the public on own funds and capital adequacy ("Third Pillar").

2.1 Own funds

A. Qualitative disclosure.

The reforms of the Basel Committee agreements (Basel 3), aimed at strengthening banks' ability to absorb shocks caused by financial and economic tensions, became part of the EU legislation on 1 January 2014.

The Committee maintained the three-pillar approach at the base of the previous capital agreement (Basel 2), which it integrated and strengthened to improve the amount and quality of intermediaries' capital. It also introduced countercyclical supervisory tools and rules about liquidity risk management and financial leverage containment.

The above EU laws were integrated by the instructions issued by Bank of Italy in Circular no. 285 of 17 December 2013, which grouped the prudential supervisory regulations applicable to banks and Italian banking groups.

The transition to IFRS 9 on 1 January 2018 affected the bank's regulatory capital and prudential ratios.

Specifically:

- The increase in impairment losses reduced CET1 as a result of the decrease in equity:
- the application of phasing-in rules sterilised the effect of the 2019 impairment losses on loans and receivables by 85%;
- The RWA on standard positions reduced thanks to the increase in impairment losses, but they are concurrently affected by the application of the scaling-factor under the phased-in rules.

Voci / Valori	IFRS9 31/12/2019	
	fully loaded	phased in
A.CET1 before application of prudential filters (excluding IFRS 9 impact)	169,146,618	169,146,618
A1. IFRS 9 impact	-10,405,217	-10,405,217
B.CET1 prudential filters (+/-)	-378,899	-378,899
C.CET1 including the elements to be deducted and the effects of the transitional regime (A +/- B)	158,362,502	158,362,502
D.Elements to be deducted from CET1	136,422	136,422
E.Transitional regime - Impact on CET1 (+/-)	0	8,899,906
F.Total CET1 (C– D +/-E)	158,226,080	167,125,986
G.AT1 including the elements to be deducted and the effects of the transitional regime	0	0
H.Elements to be deducted from AT1	0	0
I.Transitional regime – Impact on AT1 (+/-)	0	0
L.Total AT1 (G - H +/-I)	0	0
M.T2 including the elements to be deducted and the effects of the transitional regime	0	0
N.Elements to be deducted from T2	0	0
O.Transitional regime - Impact on T2 (+/-)	0	0
P.Total T2 (M - N +/- O)	0	0
Q.Total own funds (F + L + P)	158,226,080	167,125,986
C.1 Risk-weighted assets	1,136,431,045	1,126,637,500
C.2 CET1/Risk-weighted assets (CET1 ratio)	13,92%	14,83%

The above table shows CET1 at 31/12/2019 in accordance with the transitory phasing-in rules provided for by article 473-bis of the CRR, compared with the fully loaded approach and does not provide for dividend distribution as proposed in section 12.4.2 “Proposed allocation of the profit for the year”.

B. Quantitative disclosure

Tax base / Amount	Total at 12/2019	Total at 12/2018
A. Common Equity Tier1 (CET1) before application of prudential filters	158,741	152,150
including CET1 instruments covered by the transitional measures	-	-
B. CET1 prudential filters (+/-)	- 379	- 385
C. CET1 including the elements to be deducted and the effects of the transitional regime (A +/- B)	158,362	151,765
D. Elements to be deducted from CET1	- 136	- 122
E. Transitional regime - Impact on CET1 (+/-)	-	-
E.2 Phased-in effect of IFRS 9 (article 473-bis of CRR)	8,900	9,947
F. Total CET1 (C– D +/-E+/-E.2)	167,126	161,590
G. Additional Tier1 (AT1) including the elements to be deducted and the effects of the transitional regime	-	-
including AT1 instruments covered by the transitional measures	-	-
H. Elements to be deducted from AT1	-	-
I. Transitional regime – Impact on AT1 (+/-)	-	-
L. Total AT1 (G - H +/-I)	-	-
M. Tier2 (T2) including the elements to be deducted and the effects of the transitional regime	-	-
including T2 instruments covered by the transitional measures	-	-
N. Elements to be deducted from T2	-	-
O. Transitional regime – Impact on T2 (+/-)	-	-
P. Total T2 (M - N +/- O)	-	-
Q. Total own funds (F + L + P)	167,126	161,590

The phased-in quantitative effect of IFRS 9 FTA is equal to the post-tax difference between the impairment losses recognised upon transition to IFRS 9 (€10,470 thousand) and 85% thereof (€8,900 thousand).

2.2 Capital adequacy

A. Qualitative disclosure

As shown in the table on the bank's risk-weighted assets and capital ratios, it had a CET1 ratio of 14.83%, a Tier1 ratio of 14.83% and a Total capital ratio of 14.83% at 31/12/2019, well above the minimum mandatory requirements of CRR/CRD IV and Bank of Italy's instructions in its Circular no. 285/2013.

The prudential capital requirements of €90.1 million refer to credit, operational and market risks. The lending business requires the largest portion of capital, with credit risk requirements of €64.6 million.

Credit risk-weighted assets amount to €808 million. There has been a slight increase in such assets for market risks and credit risks.

B. Quantitative disclosure

Category/Amount	Unweighted amounts		Weighted amounts/requirements	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
A. EXPOSURES				
A.1 Credit and counterparty risk	**1,645,144**	**1,433,813**	**807,645**	**765,760**
1. Standard method	1,645,144	1,433,813	807,645	765,760
2. IRB approach	-	-	-	-
2.1 Basic	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	-	-	-	-
B. CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			**64,612**	**61,261**
B.2 Risk of adjustments to credit rating			**5**	**9**
B.3 Regulation risk			-	-
B.4 Market risk			**16,610**	**15,935**
1. Standard method			16,610	15,935
2. Internal models			-	-
3. Concentration risk			-	-
B.5 Operational risk			**8,904**	**8,441**
1. Basic method			8,904	8,441
2. Standard method			-	-
3. Advanced method			-	-
B.6 Other calculation elements			-	-
B.7 Total prudential requirements			**90,131**	**85,646**
C. EXPOSURES AND CAPITAL RATIOS				
C.1 Risk-weighted assets			**1,126,638**	**1,070,575**
C.2 CET1/risk-weighted assets (CET1 ratio)			**14.83%**	**15.09%**
C.3 Tier1/risk-weighted assets (Tier1 ratio)			**14.83%**	**15.09%**
C.4 Total own funds/risk-weighted assets (Total capital ratio)			**14.83%**	**15.09%**

PART H
Related party transactions

General information

The bank's board of directors has identified the entities that qualify as related parties pursuant to IAS 24.
They are:

1. Fondazione Cassa di Risparmio di Fermo, which holds 66.67% of the bank's ordinary shares and controls it;
2. Banca Intesa S.p.A., which holds 33.33% of the bank's ordinary shares and has significant influence thereover;
3. directors and managers, due to their strategic powers;
4. the statutory auditors, due to their supervisory powers;
5. spouses and immediate descendants of the parties listed in points 3 and 4;
6. subsidiaries of or companies over which the parties listed in points 3, 4 and 5 have significant influence.

The key managers' remuneration is given with separate mention of the directors' and statutory auditors' fees compared to the remuneration of directors which receive (as provided for by IAS 24.16) short-term benefits, which include direct and indirect costs, and termination benefits. All other forms of remuneration covered by the standard are excluded. Specifically, managers do not have incentive plans tied to profits, further to that provided for in the second level national labour contracts, or pension plans other than those existing for employees. There are no stock option plans.

Transactions undertaken by the bank with its related parties (as defined above) comply with the ruling legislation, are fair and take place at market prices.

The bank has not performed atypical or unusual transactions with related parties during the year, i.e., transactions that do not form part of its normal operations or that would have a significant impact on its financial position, results of operations and cash flows.

1. Key managers' remuneration (in Euros)

Tax base / Amount	Balances at 31/12/2019
C. Managers	**722,282**
Short-term benefits	517,871
Current termination benefits	204,411
Total termination benefits	165,520
A. Directors	**396,545**
Remuneration	396,545
B. Statutory auditors	**191,240**
Remuneration	191,240

(values expressed in Euros)

The short-term benefits of €517,871 include salaries and indirect costs relating to three managers, two of which were appointed on 30/04/2019. On the same date, one manager retired from employment, meaning that "Current termination benefits" includes the employee termination indemnities remaining in the company and paid during the year for €182,494, while the portion in the "Previd System" open fund for €136,079 was disbursed by that fund.

“Total termination benefits” for €165,520 includes the costs employee termination indemnities accrued in favour of the two managers appointed on 30/04/2019, already employees of the bank.

“Fees” relating to directors (€397 thousand) and statutory auditors (€191 thousand) include the amounts relating to their individual remits, therefore excluding the amounts paid to them as cost reimbursements and premiums for liability insurance.

2. Related party transactions (€’000)

	Assets	Liabilities	Costs	Revenue	Guarantees received
A. Directors	22	736	14	12	424
B. Statutory auditors	-	676	1	2	20
C. Managers	-	31	-	3	50
D. Family members	190	482	4	23	292
E. Other related parties	8,239	23,170	180	200	10,921
Total	**8,451**	**25,095**	**199**	**240**	**11,707**

PART M
Lease reporting

Section 1 – Lessee

Qualitative disclosure

IFRS16 applies to all types of contracts containing a lease, i.e. to contracts that provide the lessee with the right to control the use of an identified asset for a certain period of time (period of use) in exchange for a fee.

The analysis of the contracts falling within the scope of application of the standard mainly involved those related to: (i) property, (ii) vehicles and (iii) hardware.

Property lease contracts represent the most significant impact area of implementation since they make up 87% of the value of the rights of use. Vehicles make up a negligible amount of the right of use.

The impacts of the hardware segment are marginal.

All contracts refer to operational leases.

The property lease contracts mostly include properties used as offices or banking branches and have terms longer than 12 months and typically include options for renewal and termination that can be exercised by the lessor or lessee according to the law or specific contractual provisions. These contracts do not include the option to purchase at the end of the lease or significant reinstatement costs for the bank.

For vehicles, these are 4- or 5-year rental contracts referring to the company fleet provided to employees (private and business use) or the bank's company units.

The contracts related to electronic machinery range from 5 to 7 years. These long-term contracts have no options for renewal and do not include the option to purchase the asset.

During FTA of IFRS16, the bank adopted some simplifications set out by the standard under section C10 et seq.; in particular, short-term contracts (term equal to or less than 12 months) were excluded. The bank also opted not to apply the new standard to contracts with an overall term equal to or less than 12 months and to low-value contracts (underlying asset worth €5,000 or less when new). In this case, the fees related to these leases are recognised at cost – similarly to how they were recognised in the past. During 2019, no short-term contracts were signed. However, one low-value contract was signed for the tablets required for the "AdES" (advanced electronic signature) and the related costs posted to profit or loss were €9 thousand.

With specific reference to property leases, the bank decided to only consider the initial period of renewal as reasonably certain for all new contracts (including at the date of FTA). On the basis of the characteristics of the Italian lease contracts and the provisions of Law no. 392/1978, when signing a new lease contract with a contractual term of six years and the optional automatic renewal of the contract every six years, the overall duration of the lease will be at least twelve years. Future payment flows, pursuant to the accounting standard in question, have been subject to a discounting process in order to form the lease liability. The discounting rate takes into account the following considerations:

1) The interbank interest rates are very limited: the main refinancing rate is zero and the rate on deposits with the ECB is -0.40%;

2) The discounting effects are in any case modest even in the case of higher interest rates applied in light of the short-term trend of cash flows tied to these contracts;

3) High discounting rates would nullify the transparency of the balance of the values recognised in future financial statements, therefore imposing the need for a significant disclosure.

In consideration of the above, during FTA, the zero rate was considered when discounting the lease liabilities, meaning the discounting effect is null.

The quantitative impacts have been described in the relative sections in the notes to the financial statements, specifically:

- in Section 8 of Assets - Property, plant and equipment;
- in Section 1 of Liabilities - Table 1.2 - Financial liabilities at amortised cost: breakdown of due to customers by product;
- in Section 12 of Profit or loss - Table 12.1 - Net impairment losses on property, plant and equipment - Caption 180.

Annexes to the financial statements

The annexes include:

a) – a list of the sections and financial statements captions that have not been presented;

b) – a list of property;

c) – a list of HTCS equity investments;

d) – treasury and cash services.

Sections and tables not presented

This list shows the tables in the notes that have not been presented due to the lack of amounts/operating information:

PART B – NOTES TO THE BALANCE SHEET

ASSETS

SECTION 2 – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

2.3 Financial assets at fair value through profit or loss: breakdown by product

2.4 Financial assets at fair value through profit or loss: breakdown by debtor/issuer

SECTION 5 - HEDGING DERIVATIVES

5.1 Hedging derivatives: breakdown by type and level

5.2 Hedging derivatives: breakdown by hedged item and type

SECTION 6 - MACRO-HEDGING ADJUSTMENTS TO FINANCIAL ASSETS

6.1 Adjustments to hedged assets: breakdown by hedged portfolio

SECTION 7 - EQUITY INVESTMENTS

7.1 Equity investments: information

7.2 Significant equity investments: carrying amount, fair value and dividends received

7.3 Significant equity investments: financial information

7.4 Non-significant equity investments: financial information

7.5 Equity investments: changes

7.6 Commitments for interests in jointly controlled entities

7.7 Commitments for investments in associates

7.8 Material restrictions

7.9 Other information

SECTION 8 – PROPERTY, PLANT AND EQUIPMENT

8.3 Property, plant and equipment: breakdown of revalued assets

8.4 Investment property: breakdown of assets measured at fair value

8.5 Inventories of property, plant and equipment covered by IAS 2: breakdown

8.8 Inventories of property, plant and equipment covered by IAS 2: changes

8.9 Commitments to purchase property, plant and equipment

SECTION 9 - INTANGIBLE ASSETS

9.3 Intangible assets: other disclosures

SECTION 11 - NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE AND DISPOSAL GROUPS

11.1 Non-current assets classified as held for sale and disposal groups: breakdown by type

11.2 Other information

LIABILITIES

OTHER INFORMATION

PART C - NOTES TO THE INCOME STATEMENT

PART E - RISKS AND RELATED HEDGING POLICIES

C.2 Exposures of the main "third party" securitisations broken down by securitised asset and type of exposure

C.3 Securitisation vehicles

C.4 Unconsolidated securitisation vehicles

C.5 Servicer - own securitisations: collection of securitised loans and redemption of securities issued by the securitisation vehicle

D. DISCLOSURE ON UNCONSOLIDATED STRUCTURED ENTITIES (OTHER THAN SECURITISATION SPVs)

Qualitative disclosure

Quantitative disclosure

E. TRANSFERS

A. Financial assets transferred and not fully derecognised

Qualitative disclosure

Quantitative disclosure

E.1 Financial assets transferred and not derecognised and associated financial liabilities: carrying amount

E.2 Financial assets transferred and not fully derecognised and associated financial liabilities: carrying amount

E.3 Transfers with liabilities that can solely be covered by the assets transferred and not fully derecognised: fair value

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

Qualitative disclosure

Quantitative disclosure

E.4 Covered bond transactions

CREDIT RISK MEASUREMENT MODELS

SECTION 3 – DERIVATIVES AND HEDGING POLICIES

3.1 - Trading derivatives

B. Credit derivatives

B.1 Trading credit derivatives: reporting date notional amounts

B.2 Trading credit derivatives: gross positive and negative fair value - breakdown by product

B.3 OTC trading credit derivatives - notional amounts, gross positive and negative fair value by counterparty

B.4 Residual life of OTC trading credit derivatives: notional amounts

B.5 Credit derivatives associated with fair value option: changes

3.2 – Hedge accounting

Qualitative disclosure

A. Fair value hedges

B. Cash flow hedges

PART L – SEGMENT REPORTING

PART M – LEASE REPORTING

SECTION 1 – LESSEE

Quantitative disclosure

SECTION 2 – LESSOR

Qualitative disclosure

Quantitative disclosure

1. Notes to the statement of balance sheet and the income statement
2. Finance leases

   2.1 Classification by time bracket of the payments to be received and reconciliation with financing for leases recognised in the assets

   2.2 Other information
3. Operational leases

   3.1 Classification by time bracket of the payments to be received

   3.2 Other information

Property

PROPERTY	REVALUATION			GROSS AMOUNT	including: land	including: buildings	CARRYING AMOUNT OF BUILDINGS
	pursuant to Law 72/83	pursuant to Law 218/90	pursuant to Law 413/91				
Fermo Via Don E. Ricci,1	1,011,739.07	2,017,280.65	401,803.47	3,498,627.99	349,862.81	3,148,765.18	348,348.13
Fermo Campoleggio Corso Marconi, 19	103,291.38	274,755.07	42,865.92	432,750.15	43,275.02	389,475.13	45,737.37
Fermo Campoleggio - extension Corso Marconi, 19	-	-	1,549.37	19,039.38	1,903.94	17,135.44	380.57
Carassai Piazza Leopardi 8/9	25,822.84	24,273.47	11,362.05	66,563.76	8,653.29	57,910.47	4,960.46
Cupramarittima Via E. Ruzzi, 9	-	211,230.87	47,514.03	436,910.79	-	436,910.79	41,399.14
Grottazzolina Via Verdi, 5	51,645.69	32,020.33	25,306.39	124,894.81	-	124,894.81	9,172.30
Montegranaro Piazza Mazzini	175,595.35	47,867.29	41,501.96	200,509.38	-	200,509.38	14,299.03
Monterubbiano Piazza Calzecchi Onesti, 9	46,481.12	63,007.74	18,592.45	131,741.32	13,174.13	118,567.19	11,750.38
Monte San Pietrangeli Via S. Antonio, 6	-	64,040.66	4,131.66	140,636.48	-	140,636.48	22,501.91
Montottone Piazza Leopardi, 8	37,184.90	29,954.50	14,977.25	85,204.37	10,224.52	74,979.85	6,326.34
Monturano Via Gramsci, 32/A	232,405.60	583,079.84	129,114.22	1,058,503.84	158,775.58	899,728.26	96,858.33
Petritoli Via Mannocchi Tornabuoni, 25	28,405.13	88,314.13	12,911.42	135,285.44	13,528.54	121,756.90	14,576.51
Falerone fraz. Piane di Falerone Viale della Resistenza, 95	51,645.69	205,549.85	26,339.30	301,981.85	75,495.47	226,486.38	27,826.76
Porto S. Elpidio Via S.Giovanni Bosco, 10	180,759.91	203,484.02	76,952.08	487,019.99	97,404.00	389,615.99	35,895.78
Porto S. Elpidio - Faleriense Via Marina, 1	180,759.91	167,848.49	81,600.19	499,256.17	70,224.58	429,031.59	57,511.68
Porto S. Giorgio - registered office Via Annibal Caro, 11	-	2,471,246.26	73,853.34	5,703,013.66	1,140,602.74	4,562,410.92	589,193.23
S. Elpidio a Mare Via Roma, 31	129,114.22	523,170.84	65,590.03	764,747.17	-	764,747.17	94,201.66
S. Elpidio a Mare extension 1981 Via Roma, 31	-	-	34,602.61	127,207.59	-	127,207.59	5,536.39
S. Elpidio a Mare extension 1983 Via Roma, 31	-	-	33,569.70	139,393.78	-	139,393.78	5,371.17
Fermo Piazza Mascagni, 4	154,937.07	211,747.33	66,106.48	455,484.95	-	455,484.95	44,456.69
Fermo - Piazza Mascagni extension 1984	-	-	5,164.57	25,169.18	-	25,169.18	826.28
Fermo Via Ognissanti	-	11,878.51	4,648.11	29,035.21	3,484.22	25,550.99	2,326.98
Fermo Corso Cavour, 104	-	1,066,999.95	217,428.35	2,647,791.16	264,779.13	2,383,012.03	186,440.58
S. Elpidio a Mare - Casette d'Ete Corso Garibaldi, 3	-	203,484.02	83,149.56	678,504.31	33,925.22	644,579.09	43,568.38
Fermo Viale Trento, 182	-	3,083,247.69	601,672.29	7,454,739.36	1,490,947.88	5,963,791.48	474,825.74
S. Benedetto del Tronto Via Liberazione, 190	-	820,650.01	211,230.87	2,356,260.19	164,938.21	2,191,321.98	153,543.82

PROPERTY	REVALUATION			GROSS AMOUNT	including: land	including: buildings	CARRYING AMOUNT OF BUILDINGS
	pursuant to Law 72/83	pursuant to Law 218/90	pursuant to Law 413/91				
Civitanova Marche Via Cairoli, 22	-	388,375.59	30,967.41	804,859.80	-	804,859.80	82,518.03
Porto S. Elpidio - Faleriense Piazza Giovanni XXIII, 14	232,405.60	108,455.95	-	419,019.11	-	419,019.11	264,146.10
Fermo Area di Viale Ciccolungo	-	-	-	0.01	-	0.01	-
Grottazzolina Via Fonterotta	-	-	-	476,932.12	-	476,932.12	476,932.12
Pescara Piazza Duca d'Aosta, 30	-	-	-	1,908,478.18	-	1,908,478.18	362,610.76
Montegranaro Via Gramsci	-	-	-	465,720.02	-	465,720.02	179,302.22
Recanati Santacroce 34/E	-	-	-	301,285.46	60,257.09	241,028.37	92,795.96
Rome Via Puglie 15/21	-	-	-	2,932,724.03	-	2,932,724.03	1,569,007.37
Colli del Tronto Via Matteotti, 2	-	-	-	342,295.20	-	342,295.20	184,915.63
Porto S. Elpidio - Renovation Via S. Giovanni Bosco, 10	-	-	-	497,084.46	99,416.89	397,667.57	212,752.11
Fermo - Loc. Molini Girola	-	-	-	30,250.00	6,050.00	24,200.00	15,062.08
Falerone fraz. Piane - Renovation Viale della Resistenza, 95	-	-	-	111,836.61	-	111,836.61	74,919.33
Montegiorgio - Loc. Piane Via A. Einstein, 8	-	-	-	869,227.16	116,000.00	753,227.16	594,220.94
Fermo Via G. da Palestrina 13/19	-	-	-	418,945.49	-	418,945.49	329,584.45
Fermo Piazza del Popolo, 38	-	-	-	16,400.00	-	16,400.00	13,218.40
San Benedetto del Tronto Via Francesco Fiscaletti	-	-	-	918,260.22	-	918,260.22	752,789.71
Recanati Via Villa Musone, no street number	-	-	-	306,356.00	-	306,356.00	258,778.91
Magliano di Tenna Via Monti Sibillini, 9	-	-	-	272,000.00	-	272,000.00	272,000.00
TOTAL	**2,642,193.48**	**12,901,963.06**	**2,364,525.08**	**39,091,946.15**	**4,222,923.26**	**34,869,022.89**	**8,073,389.73**

List of HTCS equity investments

OTHER FUNCTIONAL INVESTMENTS	31/12/2018	Changes in 2019			31/12/2019	including: remeasurement of contribution value	including: valuation
		(+) Purchases	(-) Sales/ reimbursements	(+/-) Fair value			
SEDA - Soc.Elaborazione Dati S.p.A.	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BANK OF ITALY	7,500,000.00	2,500,000.00	0.00	0.00	10,000,000.00	0.00	0.00
Intesa Sanpaolo S.p.A.	78,264.40	0.00	0.00	16,721.71	94,986.11	0.00	-1,139.47
SIA S.p.A. (former Società Servizi Bancari S.p.A.)	161,770.00	0.00	0.00	0.00	161,770.00	0.00	139,703.54
Bancomat S.p.A.	1,144.00	0.00	0.00	0.00	1,144.00	0.00	0.00
CBI S.c.p.a.	0.00	3,022.00	0.00	0.00	3,022.00	0.00	0.00
Alipicene S.r.l.	2,582.00	0.00	0.00	0.00	2,582.00	0.00	0.00
S.W.I.F.T. - Brussels	2,529.08	0.00	0.00	0.00	2,529.08	0.00	0.00
Fermano Leader s.c.a.r.l.	3,000.00	0.00	0.00	0.00	3,000.00	0.00	0.00
CSE Consorzio Servizi Bancari S.r.l.	6,250,000.00	0.00	0.00	0.00	6,250,000.00	0.00	-80,000.00
CARICESE S.r.l.	20,000.00	0.00	0.00	0.00	20,000.00	0.00	0.00
ENEL ORD RAGG.	1,052,417.60	0.00	-1,087,007.94	34,590.34	0.00	0.00	91,482.72
CONFIDICOOP MARCHE	100,000.00	0.00	0.00	0.00	100,000.00	0.00	0.00
Voluntary Scheme c/o Interbank Guarantee Deposit Fund (C.R. CESENA)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Voluntary Scheme c/o Interbank Guarantee Deposit Fund	36,367.14	0.00	0.00	-14,026.80	22,340.34	0.00	-28,685.85
Italian Dream Factory S.r.l.	0.00	0.00	0.00	0.00	0.00	0.00	-315,793.00
TOTAL AS PER ACCOUNTING RECORDS	**15,208,074.22**	**2,503,022.00**	**-1,087,007.94**	**37,285.25**	**16,661,373.53**	**0.00**	**-194,432.06**

Treasury and cash services

Treasury services	
Body	**Municipality**
Municipality of Altidona	Altidona (FM)
Municipality of Belmonte Piceno	Belmonte Piceno (FM)
Municipality of Campofilone	Campofilone (FM)
Municipality of Carassai	Carassai (AP)
Municipality of Fermo	FERMO
Municipality of Grottazzolina	Grottazzolina (FM)
Municipality of Lapedona	Lapedona (FM)
Municipality of Mogliano	Mogliano (MC)
Municipality of Monte Vidon Combatte	Monte Vidon Combatte (FM)
Municipality of Monte San Pietrangeli	Monte S. Pietrangeli (FM)
Municipality of Monsampietro Morico	Monsampietro Morico (FM)
Municipality of Monte Giberto	Monte Giberto (FM)
Municipality of Montegiorgio	Montegiorgio (FM)
Municipality of Montefiore dell'Aso	Montefiore dell'Aso (AP)
Municipality of Monteleone	Monteleone di Fermo (FM)
Municipality of Monterubbiano	Monterubbiano (FM)
Municipality of Montottone	Montottone (FM)
Municipality of Moresco	Moresco (FM)
Municipality of Pedaso	Pedaso (FM)
Municipality of Petritoli	Petritoli (FM)
Municipality of Ponzano di Fermo	Ponzano di Fermo (FM)
Municipality of Porto San Giorgio	Porto San Giorgio (FM)
Municipality of Rapagnano	Rapagnano (FM)
Municipality of Ripe San Ginesio	Ripe San Ginesio (MC)
Municipality of Rotella	Rotella (AP)
Municipality of Sant'Elpidio a Mare	Sant'Elpidio a Mare (FM)
Municipality of Servigliano	Servigliano (FM)
Municipality of Torre San Patrizio	Torre S. Patrizio (FM)
Province of Fermo	FERMO
Unione Montana dei Sibillini	Comunanza (AP)

Cash services	
Body	**Municipality**
Casa Riposo Sassatelli	FERMO
Camera di Commercio I.A.A. - AZ. FERMO PROMUOVE	FERMO
Cons.Intercom.Servizio Smaltimento Rifiuti Solidi Urbani T.S. Patrizio	Torre San Patrizio (FM)
Conservatorio Musicale "G.B. Pergolesi"	FERMO
Istituto Tecnico Industriale Statale "G. Montani"	FERMO
Liceo Ginnasio "Annibal Caro"	FERMO
Fondazione "G. Didari"	Francavilla D'Ete (FM)
Fondazione Ric. Montegranaro	Montegranaro (FM)
Ospizio Marino	FERMO
Pia Casa "F. Falconi"	Sant'Elpidio a Mare (FM)
Ordine Dottori Commercialisti ed Esperti Contabili	FERMO

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INDEPENDENT AUDITOR'S REPORT
PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010
AND ARTICLE 10 OF THE EU REGULATION 537/2014

To the Shareholders of
Cassa di Risparmio di Fermo S.p.A.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Cassa di Risparmio di Fermo S.p.A. (the Bank), which comprise the balance sheet as at December 31, 2019, the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at December 31, 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant art. 43 of Italian Legislative Decree no. 136/15.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Classification of performing loans to customers measured at amortized cost classified in Stage 2	
Description of the key audit matter	As reported in paragraph "Lending" of the Directors' report and in Part B – Notes to the Balance Sheet as at December 31, 2019, performing loans to customers measured at amortized cost of Cassa di Risparmio di Fermo S.p.A. show a gross amount of Euro 948.1 million, reduced by portfolio adjustments of Euro 7.9 million, to come to a net amount of Euro 940.2 million, resulting in a coverage ratio of 0.83%. As reported in Part B – Notes to the Balance Sheet as at December 31, 2019, a gross amount of Euro 196.8 million is classified in Stage 2 with a coverage ratio of 2.21%. As reported in the explanatory notes - Part E – Information on risks and related hedging policies, as part of its policies for managing loans to customers, the Bank adopted rules and processes for monitoring credit exposures, which have entailed, among other things, a structured action of classification into homogeneous risk categories (stage). Given the complexity of the process of classifying loans to customers in homogeneous risk categories followed by the Bank (stage), we considered the classification of performing loans to customers measured at amortized cost classified in Stage 2 a key audit matter of the financial statements of Cassa di Risparmio di Fermo S.p.A. as at December 31, 2019.
Audit procedures performed	The main procedures carried out as part of our audit work were, among others, as follows: • gaining an understanding of the internal regulations and processes implemented by the Bank for classifying loans to customers measured at amortized cost and monitoring their quality, in order to verify the compliance with the regulatory framework; • checking the implementation and operating effectiveness of the key controls identified in relation to those processes, also supported by IT processes and systems specialists of the Deloitte network; • checking, on a sample basis, the classification of performing loans to customers measured at amortized cost classified in Stage 2 in accordance with the regulatory framework; • checking the completeness and the compliance of the disclosures provided in the financial statements in accordance with the regulatory framework and applicable accounting standards.

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Classification and valuation of non-performing loans to customers measured at amortized cost	
Description of the key audit matter	As reported in paragraph "Lending" of the Directors' report and in the quantitative information relating to credit risk disclosed in Part E – Information on risks and related hedging policies of the explanatory notes as at December 31, 2019, non-performing loans to customers measured at amortized cost of Cassa di Risparmio di Fermo S.p.A. show a gross amount of Euro 153.7 million, reduced by specific adjustments of Euro 80.4 million, resulting in a net amount of Euro 73.3 million. The Directors' report also shows that the coverage ratio of non-performing loans to customers measured at amortized cost as at December 31, 2019 is equal to 52.3%. Regarding the process of classifying loans to customers in homogeneous risk categories, the Bank refers to the sector regulations and internal rules that regulate the criteria of classification and the transfer within the different categories of risk. In determining the recoverable amount of non-performing loans to customers measured at amortized cost, the Bank, as part of its valuation policies, has used valuation processes and methods characterized by elements of subjectivity and estimate of certain variables such as, mainly, expected cash flows, time of recovery and the collaterals' recoverable amount, where present, whose modification may lead to a change in the final recoverable amount; this quantification has been made on the basis of information available at the valuation date. Furthermore, the quantification of the recoverable amount of non-performing loans that are included in the Bank's strategy which envisages the recovery of such loans through disposal transactions, reflects also the estimate of their disposal value, duly weighting the probability of the "workout" and "disposal" scenarios. In Part A – Accounting policies and Part E – Information on risks and related hedging policies of the explanatory notes – disclosures are provided on these aspects. Given the significance of the amount of non-performing loans to customers measured at amortized cost recorded in the financial statements, the complexity of the valuation processes adopted by the Bank, which entailed a structured action of classification into homogeneous risk categories, as well as the relevance of the discretionary components linked to the estimate of the recoverable amount (such as the estimate of expected cash flows, the time of recovery, the collaterals' value and the possible recovery strategies), we considered the classification and valuation of non-performing loans to customers measured at amortized cost a key audit matter of the financial statements of Cassa di Risparmio di Fermo S.p.A. as at December 31, 2019.

Audit procedures performed	The main procedures carried out as part of our audit work were, among others, as follows: • gaining an understanding of the internal regulations and processes implemented by the Bank for the classification and valuation of non-performing loans to customers measured at amortized cost, in order to verify the relevant compliance with the regulatory framework and applicable accounting standards; • checking the implementation of the key controls identified in relation to those processes; • drawing qualitative and trend analysis of non-performing loans to customers measured at amortized cost by calculating appropriate qualitative and quantitative indicators in order to identify possible matters of interest; • checking on a sample of credit files, selected also on the basis of the matters of interest emerging from the analysis referred to in the previous point, the relevant classification and determination of the recoverable amount of non-performing loans to customers measured at amortized cost in accordance with the regulatory framework and applicable accounting standards, also by obtaining and examining written confirmations by the lawyers appointed for their collection; • checking the completeness and the compliance of the disclosures provided in the financial statements in accordance with the regulatory framework and applicable accounting standards.

Other considerations

The financial statements of Cassa di Risparmio di Fermo S.p.A. as at December 31, 2018 were audited by another auditor who, on April 5, 2019, issued an unmodified opinion on these financial statements.

Responsibilities of the Directors and the Board of Statutory Auditors for the Financial Statements

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

In preparing the financial statements, the Directors are responsible for assessing the Bank’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Bank or for the termination of the business or have no realistic alternatives to such choices.

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

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Auditor’s Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;

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

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

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

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

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

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Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of Cassa di Risparmio di Fermo S.p.A. has appointed us on April 30, 2019 as auditors of the Bank for the years from December 31, 2019 to December 31, 2027.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Bank in conducting the audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14, paragraph 2 (e), of Legislative Decree 39/10

The Directors of Cassa di Risparmio di Fermo S.p.A. are responsible for the preparation of the Directors' report of Cassa di Risparmio di Fermo S.p.A. as at December 31, 2019, including their consistency with the related financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the Directors' report with the financial statements of Cassa di Risparmio di Fermo S.p.A. as at December 31, 2019 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the Directors' report on operations is consistent with the financial statements of Cassa di Risparmio di Fermo S.p.A. as at December 31, 2019 and are prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the entity and of the related context acquired during the audit, we have nothing to report.

DELOITTE & TOUCHE S.p.A.

Signed by
Marco Benini
Partner

Bologna, Italy
April 9, 2020

This report has been translated into the English language solely for the convenience of international readers.