(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)

cassa di risparmio di fermo s.p.a.

FINANCIAL STATEMENTS AT 31/12/2020

- CONTENTS -

BOARD OF DIRECTORS
Meeting of 30 March 2021

Directors' report at 31/12/2020

Dear shareholders,

The 2020 financial year was complex and characterised by extraordinary events in terms of impact and duration in Italy and across the world. 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. The ongoing pandemic and uncertainty around healthcare, society and the economy continued to weigh on consumer and investment decisions, with significant repercussions on manufacturing, employment and income. The introduction of the first vaccines at the start of 2020 fed hopes that the health emergency might be effectively countered over the course of this year.

Despite the difficult situation in 2020, when the bank's operations were profoundly impacted by the total and partial lockdowns and the need to adapt to new organisational structures linked to the health emergency, the financial year closed with a profit for the year of € 4.6 million and saw the capital, income and efficiency indicators improve.

In March 2020 we chose *#IlNostroImpegnoEsserci* (#OurCommitmentToBeThere) as a theme not only for communication but also as a commitment and sign of our affinity with the local area alongside its families and SMEs. One year later, we want to spread a new message: *#InsiemePerIlFuturo* (#TogetherForTheFuture) to reaffirm our bank's role as 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. and represents the implementation of the social responsibility that constitutes the real added value that our business enjoys over larger banks.

INTERNATIONAL SITUATION

The international macroeconomic situation in 2020 was affected by the health crisis linked to the spread of COVID-19, which triggered an upheaval of gigantic proportion on the real economy and the financial markets – markets that had never before been so interactive. Beginning with the slowdown in the Chinese economy (China represents 16% of the world's GDP), the crisis worsened shortly after with the World Health Organization declaring the transition of "COVID-19" from epidemic to pandemic, thus negatively influencing expectations and consequently the financial markets. The situation collapsed further following the block on economic activity imposed by various national government measures in order to contain the spread of the virus, and the spread of panic in stock exchanges across the world.

Between February and March, the epidemic hit the European Union's major countries hard, in particular Italy, then the USA. All countries affected had to adopt containment measures based on social distancing, the closure of many commercial activities and travel restrictions. The crisis was initially felt by numerous international sectors such as tourism and transport, before extending to all economic sectors, including nationally, hit by the effects of the lockdowns. In the first quarter of 2020, international trade was down by over 11%.

After a greater recovery than expected in the summer, global economy activity slowed in the third quarter of 2020, affected by the new wave of the pandemic, which was particularly intense in the European Union and the United States, and the consequent reinforcement in many countries of the containment measures translated to another slowdown in the global economy at the end of 2020.

The launch of the vaccination campaigns had a positive effect on longer-term forecasts, but the vaccine distribution and administration times on a large scale, on which the effects on the economic cycle will depend, remain uncertain.
In late 2020, the manufacturing sector indices remained above the expansion threshold in the United States, the Eurozone and the United Kingdom. In the services sector, which was hit hardest by the pandemic containment measures, the outlook was negative a whole, especially in the tourism and recreational services segments. Only in China, where infection rates had been at nearly zero since last spring, did the indicators show an expansion in all sectors. These performances were reflected in global trade, which, following a recovery in trade in the third quarter of 2020, saw a slowdown in the fourth. Global trade contracted by around 9% overall in 2020. Inflation in the main advanced economies remained below the pre-pandemic levels and the pricing dynamics especially reflected the weakness of aggregate demand. The long-term inflation outlook seen on the financial markets increased following the positive news about the efficacy of the vaccines, which led to more favourable valuations on medium-term growth.

According to the OECD's outlook issued in December, global product should expand by 4.2% in 2021, surpassing the pre-pandemic levels before the end of the year. The projections reflect the continued support of expansive economic policies in the international context and large-scale vaccination by the end of 2021 and incorporate the effects of the EU-UK Trade and Cooperation Agreement. With reference to the Eurozone, the projections made in December by Eurosystem experts indicated that the fall in GDP in 2020 would be 7.3% and that in the following three years the product would grow by 3.9%, 4.2% and 2.1%. At the meeting on 10 December 2020, the European Council reached an agreement on the EU budget and the EU recovery package, the Next Generation EU (NGEU) fund. Following the agreement, the EU Council approved the multiannual financial framework for 2021-2027 with a long-term budget of 1,074.3 billion (of which 166 for 2021). For the effective launch of the NGEU, ratification of the decision on EU own funds is still required from all Member States, according to national constitutional rules.

FINANCIAL MARKET TRENDS

There was serious disturbance on the financial markets from January 2020, which drove share prices down and caused mass fluctuations on returns on government bonds, in a context of reduced liquidity, increased risk aversion and high volatility. From mid-January, long-term rates decreased in all the main advanced economies, reflecting growing fears of a general slowdown in global activity (see sec. 1.1). In March, following the gradual expansion of the epidemic containment measures to the main advanced countries, investor preference for more secure financial assets was strongly accentuated (flight to quality). Between mid-February and mid-April, the return on 10-year government bonds decreased by around 90 bps in the United States, to 0.7%, while in Germany it rose by around 10 bps, to -0.3%. In the Eurozone, in a situation of extreme rarefaction of liquidity and transactions on the markets, the yield spread compared to German securities increased in all countries, and to a greater extent in Greece, Italy and Portugal. Global share prices fell rapidly following news that the epidemic had spread in Europe and the other main advanced countries; prices then recovered slightly after the announcement of additional measures from the central banks and governments.
As of the third quarter of 2020, the conditions of the financial markets in Italy, like the global ones, were driven forward by the optimism generated by news about vaccine effectiveness, additional monetary and budget support and resolved uncertainty around the US presidential elections. Nevertheless, the outlook for the financial markets was still affected by possible future changes in the pandemic. Long-term rates remained at limited or slightly negative levels in the main advanced economies, where the monetary policies stayed largely accommodative. At the start of 2021, returns on 10-year government bonds were around 1.1% in the United States, 0.3% in the United Kingdom and -0.6% in Germany. After the first ten days in October, the yield spread compared to German securities decreased by 29 bps in Greece, 21 in Portugal and 14 in Spain.
From October, returns on Italian government bonds decreased on all maturities. The decline was mainly driven by the reduction in the premium for country risk. From year end, the yield spread of the German 10-year government bonds fell by 20 bps, remaining at lower values than those observed before the pandemic. In December, the Governing Council of the ECB recalibrated the monetary policy instruments in an expansive sense, in order to help protect favourable financing conditions with respect to the effects of the pandemic on the economy and prices, which were envisaged to last much longer than previously expected. On 16 December the sixth allotment of the third series of Targeted Longer-Term Refinancing Operations (TLTRO3) was settled: 50 billion was allocated to counterparties in the Eurozone, of which 11 to Italian ones. The total funds disbursed with these operations increased to 1,749 and 350 billion respectively. At the meeting on 11 March 2021, the Governing Council of the European Central Bank confirmed that the benchmark rate would remain at zero, while the rate on deposits would stay negative at -0.5%. The Governing Council confirmed € 1,850 billion for the pandemic emergency purchase programme (PEPP), alongside the provision of continuing net purchases at least until the end of March 2022 and, in any case, until the critical phase related to the coronavirus was over. The ECB will continue to provide generous liquidity through its refinancing operations. In particular, the third series of targeted longer-term refinancing operations (TLTRO-III) remains an interesting source of financing for the banks, to support bank loans for businesses and households.

ITALY

The COVID-19 health crisis seriously affected our country, which had already only recorded growth of 0.3% in 2019. At the end of 2019, the Italian economy showed clear signs of stagnation, offset only in part, in the first months of 2020, by a number of positive signs from industrial production and overseas trade. From the end of February, the spread of the COVID-19 epidemic and the consequent containment measures imposed by the Government profoundly impacted the economy, altering decisions and the possibility for production, investment, consumption and the functioning of the employment market. Additionally, the rapid spread of the epidemic at global level drastically reduced international trade and therefore the overseas demand directed at Italian companies. Growth in the summer of 2020 was higher than expected, indicating a significant ability of our economy to recover. In the fourth quarter as a whole, however, activity decreased again with the fresh outbreak of the pandemic. Based on the available information, the decrease in GDP in 2020 was around 8.9% compared to 2019. In the third quarter, GDP increased by 15.9%, driven upward by the strong upturn in both export and internal demand, which was particularly pronounced due to gross fixed investments, and exceeded the levels of late 2019. Added value rose in all sectors; in construction it exceeded pre-pandemic values. For services, recovery was partial for sectors such as commerce, transport, hospitality, professional activities and recreational, cultural and personal care services. GDP decreased once more overall in the final quarter of 2020 following the sharp increase in infection rates. Following the strong recovery in the summer, industrial production decreased slightly in the final months of the year. In company valuations, investment conditions worsened, even though businesses increased their investment spending in 2021, especially in industry, whereas this outlook was not shared by the services sector, which was heavily impacted by higher infection rates and the restrictive measures to contain them. In the third quarter, following the strong contraction in the first half of the year, household spending grew by 12.4% compared to the previous period, with a widespread increase across all components and a particularly marked increase in purchases of durable goods. Disposable income in real terms also recorded a strong recovery (6.6% compared to the previous quarter, albeit remaining below pre-pandemic levels). The propensity to save dropped significantly, but remained high, reflecting both financial precaution, and the waiver of a number of expenses in order to prevent infection. In October and November, there was a sharp drop in spending for services, in particular recreational services and those connected to tourism, against steadfast purchases of goods. Daily data on payments indicated a contraction in spending from the start of November. Household confidence started to improve again in December, driven upward especially by the forward-looking component, even if the index level was still much lower than the pre-pandemic level.

In the third quarter, recovery in Italian exports of goods and services was remarkable and significantly higher than that of global trade. Trade with overseas markets then slowed in the autumn. The increase also impacted markets in the Eurozone and the rest of the world to the same extent; growth came especially from the transport, mechanical, leather and clothing sectors. Exports of services saw a more decisive upturn, also due to the partial recovery in international tourism linked to improvements in the epidemic in summer. In October/November, exports of goods to non-EU markets slowed; in October sales to EU countries became stagnant again. Trade of services was more heavily impacted by the worsening of the pandemic, especially for services related to tourism.

With reference to the employment market, the unemployment rate in December 2020 increased to 9% from 8.8% in the previous month (9.6% twelve months prior). Youth unemployment (15-24 years) rose to 29.7% in the same month (29.4% the month before; 28.4% one year prior). The employment rate fell slightly compared to the previous month to
58% (58.2% in the previous month; 58.9% one year prior).

MARCHE REGION

The spread of the COVID-19 pandemic and the measures adopted to tackle it had much more serious repercussions on economic activity in the Marche region than in the rest of Italy. The impact on employees and added value in the sectors where activity was suspended following government measures in March was higher than the national average, as a result of the accentuated regional specialisation in industry, and within that, the sectors of fashion, durable goods for the home and engineering, production sectors classed by the legislation as non-essential. Also considering supply chain effects and recourse to working from home, the block on activities affected 30% of the regional added value. Internal demand fell sharply in the first half of 2020; in the first quarter overseas sales also recorded a sharp decline. Information taken from the extraordinary survey carried out by the Bank of Italy between mid-March and mid-May suggests that in the Marche the decrease in industrial turnover in the first half of 2020 was considerable and higher than the Italian average. The manufacturing sectors affected most heavily include the region's traditional specialisations, such as shoemaking, afflicted by a crisis lasting nearly a decade, and household goods (domestic electrical appliances and furniture); the foodstuff and chemical-pharmaceutical sectors, where activity was not suspended, achieved better results. The high liquidity of companies in the region helped meet the liquidity requirement that emerged with the decline in operations.
The figure for the fourth quarter of 2020 still reflects the negative impact that the pandemic continued to have on the main sectors of the regional economy, despite a number of sectors having recorded a notable improvement compared to the months of lockdown. Albeit with much different intensities, all sectors benefited from the upswing in activities following the removal of the block on production. Nevertheless, the drive from the overseas market still remains uncertain, given the spread of the pandemic in the main export markets and the closure measures adopted by the majority of the countries where the regional products are exported. According to the results of the Quarterly Survey by Confindustria Marche, in October-December 2020 industrial production decreased by 2.9% in terms of business trends, a result in line with the national figure recorded in the October-December quarter (-1.9%). All the sectors included in the survey performed negatively, except for Wood and Furniture and Rubber and Plastics. Mechanical was stable.
Total commercial activities fell in the last quarter of 2020: sales in real terms were down 3.5% compared to the corresponding period of 2019, with a negative performance seen in both the domestic market and the foreign market. The average employment figures for October-December 2020 notably decreased (-1.1%), albeit with performances varying between sectors. In the same period, following the extraordinary support measures for companies in order to tackle the effects of the COVID-19 epidemic, government-sponsored lay-off scheme hours increased by 332% compared to the fourth quarter in 2019, increasing from 5.8 to 25.1 million. The increase is attributable to both ordinary measures, which increased from 1.1 million hours in the fourth quarter of 2019 to 19.5 million hours in the fourth quarter of 2020, and to the exceptional measures, which went from 135 hours in the fourth quarter of 2019 to 4.9 million hours in the fourth quarter of 2020. An analysis of the figures by business sector shows that growth was seen in all sectors and in particular trade, from 1,129 hours to 4.6 million hours; industry, from 5.7 million hours to 19.8 million hours; construction, from 102 thousand hours to 569 thousand hours. The fall in production levels recorded in the fourth quarter of 2020 reflects different dynamics between the Marche provinces in relation to the local production specialisations. The provinces of Ancona and Macerata recorded a contraction in activity levels, whereas the province of Pesaro-Urbino and Ascoli Piceno-Fermo closed the quarter with moderate growth. Performance of commercial activity on the internal market was negative for all provinces, except for the province of Pesaro-Urbino, which increased. For the overseas market, the decreases also affected all provinces except for Pesaro-Urbino.
Loans granted by banks to businesses and households in the Marche during 2020 increased compared to the end of 2019. At the end of December, approximately € 33.1 billion had been disbursed, up +3.1% compared to the end of the previous year. Within the loans disbursed, loans granted to businesses increased by 5.1%, while those to households decreased by 0.1%. The amount of bad exposures held by the regional banks at the end of November 2020 was 6% of the loans disbursed.

THE ITALIAN BANKING SYSTEM

The containment measures adopted by the Government in order to limit the spread of the virus during the health emergency strongly increased the liquidity requirements of both companies and households, to counter the decrease in turnover and financial revenues. In addition, the extraordinary measures adopted by the Government, the ECB and the supervisory authorities notably contributed to the sharp expansion in financing.
The banks continued to meet the demand for funds from companies. The supply conditions remained relaxed as a whole also thanks to the monetary policy measures and government measures in support of liquidity. The cost of bank bond funding dropped further.
According to the initial estimates of the ABI in December 2020, funding from customers of all banks operating in Italy was € 1,955 billion, up by 7.8% compared to the end of 2019. In detail, deposits from resident customers recorded, in December 2020, a year-on-year increase of +10.3%, while annual differences in bonds were negative at -8.6%. Interest rates on bank funding remained below the previous financial year. In particular, the rate on deposits in euro applied to households and non-financial companies was 0.33% (0.37% in December 2019), bonds 1.93% (2.15% in December 2019) and reverse repurchase agreements 0.88% (0.4% at the end of 2019).
Total loans to residents in Italy at December 2020 amounted to € 1,721 billion, with an annual increase of +3.9%. Loans to residents in Italy in the private sector increased by 4.3% compared to one year prior, while loans to households and non-financial companies increased by +5.5%. In December 2020, the rate on loans in euro to households for property purchases was 1.27% (1.44% at the end of 2019; 5.72% at the end of 2007). Of all new financing disbursed, 89.1% were fixed-rate loans. The average rate on new loans in euro to non-financial companies dropped to 1.30% from 1.37% at the end of 2019 (5.48% at the end of 2007). The weighted average rate on all loans to households and non-financial companies, on the other hand, was 2.28% (2.48% the month before; 6.16% at the end of 2007). In December 2020, the spread between interest rates on loans and rates on funding was particularly low.
Non-performing bank exposures, net of impairment losses and accruals, totalled € 20.7 billion in December 2020, a decrease compared to the 27.0 billion in December 2019 (-6.3 billion, or -23.4%) and to the 31.9 billion in December 2018 (-11.2 billion, or -35.1%). The ratio of net bad exposures to total lending was 1.19% (1.58% in December 2019, 1.85% in December 2018).
In December 2020, total securities in the portfolio of banks operating in Italy was € 636.5 billion, an increase compared to the previous month (630.7 billion). According to the official data of the Bank of Italy, updated at November 2020, the amount of government bonds in bank financial statements was 404 billion, corresponding to around 64% of the total portfolio.

THE BANK'S OPERATIONS

The bank's operations throughout 2020 were strongly influenced by the COVID-19 emergency, which redesigned the present and future scenarios of the global economy and led our bank to reflect deeply on this in the 2019-2021 Business Plan.

In terms of the COVID-19 emergency, operations were on the one hand intended to guarantee the safety of employees and customers, and on the other, to follow up on all government measures that support the local economy.

With reference to the first aspect, over the course of the months of emergency the bank gradually adopted provisions, protocols and precautions that were completely in line with the provisions of the government health authority, in accordance with the head of the prevention and protection service and the bank's employee representatives for safety.

Throughout 2020, the bank was strongly committed to implementing the measures put in place by the Government to favour the recovery of the Italian industry. In brief, the activities carried out included:

- Joining 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 extension.
- Implementing, as of 26 March 2020, the "Cura Italia" Decree, as well as additional exceptional measures specific to Carifermo, valid until 31 December 2020.
- Joining supplementation of the solidarity fund for first-time home buyers (the Gasperrini Fund): supplementation following Decree law no. 9/2020 of 02/03/2020, MEF Decree 25/03/2020 and Decree law no. 23/2020 known as "Liquidity" in line with art.54 of Decree Law 18/2020 known as "Cura Italia"
- Joining the agreement for the one-year suspension of the capital portion of loans in the municipalities and provinces, signed on 6 April 2020 by ABI, ANCI (national association of Italian municipalities) and UPI (union of Italian provinces).
- Implementing, as of 16 April 2020, the "Liquidity Decree", converted into law in June 2020 with the related supplementations. In this context, a ceiling of € 200 million was agreed to be made available to customers with respect to the economic emergency.
- Supplementation of the existing agreement with Uni.Co. Società Cooperativa, with financial products in line with Legislative Decree no. 13 of 8/4/2020 and Regional Law 13 of 10/4/2020 with the aim of meeting the needs of customers who use the Credit Guarantee Consortia collaboration and who have suffered losses due to the COVID-19 emergency.
- Signing an agreement with Cerved for the service relating to the acquisition and monitoring of the "662" guarantee. Launching the agreement so as to make use of the ISMEA guarantee.
- Joining the Addendum to the 2019 Credit Agreement which extends the application of the "recovering companies 2.0" measure to financing disbursed in favour of Italian companies larger than SMEs.
- From October 2020, the procedure was also launched for application to the central guarantee fund for SMEs for the guarantee of 33% of amounts suspended or extended pursuant to Art. 56, paragraph 2, letters a, b, and c of Decree Law 18/2020, starting an ad hoc working group back up. This activity continued until mid-December and made it possible to acquire the fund's fallback guarantee for a significant amount on over 1000 positions (details already presented to the board of directors at the meeting on 22 December 2020)

The bank also extended the scope of actions to support customers, extending the possibility to suspend instalments, already envisaged by the "Cura Italia" Decree Law for SMEs only, also to larger companies. The possibility to request the suspension of any type of instalment financing granted was also extended to individuals (self-employed workers and professionals). Other relevant measures adopted to assist companies involved flexibility in the management of relations, and in particular the possibility to extend the maturity of deferred Italian loans by up to a maximum of 9 months from the invoice issue date, the possibility to present for collection unpaid loans at the maturity dates in March and April, the possibility to extend existing import financing to 12 months from the date of the advance, the possibility to extend the maturity of the existing export advances up to a maximum of 9 months from the invoice date.

During 2020, exposure monitoring activities were implemented and the bank's customers were mapped. The aim of the mapping was to predict and contain the risk of any insolvency that might arise as a result of the economic crisis caused by the COVID-19 epidemic on performing exposures positions.

There were also many training/information measures with reference to the network, which looked at ordinary operating plans, measures of various presidential decrees and new rules related to the new definition of default, the classification of performing forborne positions and calendar provisioning.

In terms of communication, as soon as the health emergency began the bank defined a communication plan, choosing our motto, "Il Nostro Impegno? Esserci" (Our Commitment? To Be There) as the underlying principle of our internal and external communication. A section dedicated to COVID-19 was created on the bank's website, to download and send the documentation for the main requests set out by the government decrees. As regards communication channels with customers, a dedicated "initial assistance" number was set up, alongside private messaging on Facebook and the form on the carifermo.it website, as well as the freephone number for assistance on IB. In terms of external communication, the institutional campaign was updated, an editorial plan created with posts on social media (Facebook, Instagram, LinkedIn, YouTube), notices published on monitors, interactive media stations and ATMs and messages posted on Carifermonline and Prima Web.

In addition to the development of the products already in the catalogue and the information mentioned in relation to the COVID-19 emergency, commercial activities in 2020 involved launching the agreement with Italcredi for the promotion of exposures with salary-backed loans, pension-backed loans or repayment from salaries and launching the measure to suspend the payment of loan instalments pursuant to civil protection decree no.622 of 17 December 2019, following the weather events in November 2019 in the affected areas in the Abruzzo, Basilicata, Calabria, Campania, Emilia-Romagna, Friuli Venezia Giulia, Liguria, Marche, Piedmont, Apulia, Tuscany and Veneto regions and the agreement with Alba Leasing was updated. For digital payments, "PAGO@PA" was launched in collaboration with Nexi, which allowed public bodies to accept payments via a POS terminal. In the final part of the year, the offer was also launched for the purchase of the tax credit SUPERBONUS 110% as per Decree Law no.34 of 19 March 2020 in collaboration with the companies CRIF and Ernst & Young. In this context, the bank acted with respect to companies and individuals as both assignee of the tax credit and as lender of "bridge" transactions.

In collaboration with Arca Vita, for subscribers to the Ingeno multi-class insurance solution, the possibility to diversify the asset allocation was launched with 46 new funds with leading global investment firms, making it possible to offer customers an even more personalised proposal in line with their needs, objectives and time frame. In the third quarter of 2020, the new class I policy "Piano Cassaforte PRIVATE" by Arca Vita was added to the product catalogue, in order to expand on the innovative solutions for investment and succession planning. In terms of asset management, 3 additional thematic funds by Eurizon were launched, plus a specific fund dedicated to companies. The services offered to customers in 2020 were implemented with asset management by Eurizon Capital SGR, reserved for financial consultants from the Private Client Office.

In order to encourage remote payments, an agreement was signed with Nexi to enrich the offer of mobile payments, providing its cardholders with the Apple Pay service which makes it possible for holders of a payment card issued or managed by Nexi to pay using their iOS device (iPhone, Apple Watch, iPad or Mac) at physical POS using contactless or on the web via a QR code. As of August, the new user-friendly app and strong customer authentication (SCA) methods were rolled out for Carifermonline internet banking users.

The bank has been committed for some time to investments in projects intended to improve the quality of the services offered to customers via digital channels and "self-service areas". Said investments include the use of new Sitrade TCR (teller cash recycler) machines, available in branches 1 - Fermo Headquarters and 17 - Porto San Giorgio, which act as automated information desks and can be used by customers when the branch is open to the public. Customers were adequately informed about government cashback (L.160/2019) and the instruments made available by the bank for its use. All Carifermo debit cards were adapted to the PSD2 legislation on strong customer authentication (SCA) with the review of Nexi's 3D Secure system.

A collaboration agreement was also signed with Confindustria Centro Adriatico to promote and distribute the "Bancopass" tool which provides services to associated companies in order to promote access to bank loans.

During the year, the new "Revolving Fund" Regulation came into force for the disbursement of subsidised loans to employees signed between trade unions and Cassa di Risparmio di Fermo S.p.A.

With reference to organisational processes, 2020 saw the launch across all branches of the graphometric signature, an advanced electronic signature (AdES) with the aim of facilitating and streamlining the signing process for branch accounting, which will also be extended to the signing of contracts for products offered by the bank. Certified email addresses were also activated for all the agencies and the new MailDocPro management procedure was launched. A new video conferencing service for internal use was also implemented, which made it possible to hold meetings even during lockdown periods. The bank also provided customers with a service underpinned by the pillars of time and experience by setting up the Private Client Office. During the year, the company organisational chart, delegated powers and company function flow chart were updated, with the introduction of the "Senior Individual Business Accounts Manager", "Individual Business Accounts Manager", "Senior Corporate Accounts Manager" and "Corporate Accounts Manager" roles. Updates to policies and regulations involved: "Policy for management of conflicts of interest", "Policy for management of personal transactions of relevant parties", Policy on product governance for financial instruments and insurance products", "Policy for personnel management", "Regulations on transactions with related parties of Cassa di Risparmio di Fermo S.p.A.". The "Policy on product governance of bank products" and the "Policy for management of operational and security risks of payment services" were also adopted. Lastly, the bank's Business Continuity Plan (BCP) was revised.

In terms of combating money laundering and the financing of terrorism, the "Policy to combat money laundering and the financing of terrorism" and the "anti-money laundering regulations" were updated, new questionnaires were adopted for collecting additional information for adequate checks on customers and instructions were issued for collecting additional information for adequate checks on surrendering or changing policyholder for insurance products. The enhanced due diligence measures were also updated for relations, services and operations involving "high-risk third countries" and the "Anti-Money Laundering – Operator Guide" was distributed to all personnel. From July 2020, the new threshold of € 2 thousand was implemented for the transfer of cash and securities to the holder pursuant to art. 49 of Legislative Decree no. 231/2007 (art.18 of Decree Law no.124 of 26 October 2019, converted with amendments by Law no. 157 of 19 December 2019).

Throughout 2020, activities continued for the management of non-performing exposures, albeit with slowdowns due to the COVID-19 emergency. In September, the bank joined a new operation of the "Single Name Italy" platform by Banca Akros, similar to the one carried out last year. In late December, non-binding offers were received from 2 investors and in the second half of January the due diligence phase began, in order to obtain the binding offers.

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 31 treasury services compared to 30 at the end of 2019, as well as cash services for 13 local bodies. The annexes to the financial statements include a list of the bodies to which the bank provides treasury and/or cash services.

From late October, the bank was inspected by the Bank of Italy pursuant to art.54 of Legislative Decree no. 385/93. The inspection team completed the on-site checks on 12 February. No inspection report had yet been received at the reporting date.

Similarly to all less significant institutions, in late November our bank received a request from the supervisory body for the assessment of the effective sustainability of our business model. The bank took prompt action, with the support of a leading consulting company, to perform the analysis and prepare an action plan to reinforce its business model to be implemented as part of its strategic guidelines and within the framework of the overall market context. The "Self-assessment of the strategic alignment of banks to post-COVID-19 scenarios and structural changes in the market" ended in March 2021, reaffirming the full sustainability of Cassa di

Risparmio di Fermo's business model through autonomous development even in the current market scenario.

ORGANISATION AND WORKFORCE

With reference to the distribution network, with a view to increasing efficiency while maintaining local oversight and guaranteeing the same quality of service across all branches, the bank optimised the opening hours of smaller branches and launched the alternating opening of pairs of neighbouring branches in areas with declining numbers of inhabitants or low possibility of customer development and in August the branch in Ripatransone was closed. Furthermore, following an analysis of the commercial and local organisation of the hub branches, the decision was made to reduce them from 8 to 4, as of 16 November last year. 10 branches open on alternating days (open in the morning only), while 14 branches open every day but only in the morning.

At year end, the bank's 57 branches were located in seven provinces and three regions as shown in the following table:

REGION	PROVINCE	No. of branches at 31/12/2020
Marche	Fermo	27
Marche	Ascoli Piceno	10
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 25,657 square metres while its leased property has a total surface of roughly 6,691 square metres.

The bank also owns properties which it leases for a total surface of 5,944 square metres.

In relation to property maintenance, lockdown restrictions delayed the activities scheduled in the first part of the year. In February, extraordinary maintenance works were completed for a roof leak and for the renovation of the bathrooms at the branch in Porto S. Elpidio - Faleriense. In June, works were completed to remove the revolving doors and install the cash-in/cash-outs that became necessary following the removal of the reception service at the branch in Porto San Giorgio. In the second half of 2020, the renovation of the 1st floor of the branch in Porto San Giorgio and the branch in Piane di Falerone was also completed. In October and November, the hub in San Benedetto del Tronto was renovated, which included the complete restyling of the interior and extraordinary maintenance to the façade and roof.

At 31/12/2020, the bank had a total workforce of 351 employees, 11 less than at the end of the previous financial year, as follows:

	Workforce at 31/12/2020	Workforce at 31/12/2019
Managers	2	2
Junior managers, 3rd and 4th level	47	49
Junior managers, 1st and 2nd level	50	54
3rd professional group	251	254
2nd professional group	1	2
Total	**351**	**361**
Cleaning staff	*0*	*1*

24 employees left the bank while 13 people joined it.

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

	Workforce at 31/12/2020	2020 departures	2020 entries
Managers	2	0	0
Junior managers, 3rd and 4th level	47	-4	1
Junior managers, 1st and 2nd level	50	-4	0
3rd professional group	251	-14	12
2nd professional group	1	-1	0
Cleaning staff	0	-1	0
Total	**351**	**-24**	**13**

At year end, all employees had open-term contracts, 26 had part-time contracts, compared to 28 at the end of the previous financial year. The workforce includes 240 employees (68.4%) in the branches and the remaining 111 (31.6%) 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 policy on personnel management and development, compulsory, managerial and specialist training was carried out in 2020. The compulsory training attributable to customer service activities involved compulsory privacy, transparency and anti-money laundering courses and refresher courses on IVASS, MiFId, Legislative Decree no. 81/2008, occupational safety and IT security for Swift employees.

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, through courses aimed at all personnel with the aim of promoting discussion dynamics, encouraging motivation and improving team work through greater awareness of one's own role within the business. Role-based workshops were also launched, held by the Quality Office with the support of the Commercial Department and the Private Client Office, aimed at network individuals and intended to promote dialogue and discussion between roles and functions in the organisational structure. Audio/video conferences were also launched, held by the Loans Department and the Commercial Department/Private MKT Unit, aimed at network individuals for updates on "SuperBonus 110%" (with support from CRIF and Ernst & Young), review plans, reduction of past due payments - credit monitoring, new definition of default, '662' (with support from the Guarantee Fund) and focus sessions for junior customer assistants.

Specialist training involved: a) training on legislation updates (bookkeeping, loans and legal, compliance, finance, personnel, risk); b) "technical" procedural training (CSE, inclusion of FIDO practices).

In 2020, approximately 13,357 hours of training were provided, of which 3,524 in the classroom, 50624 in e-learning format and 4,209 by video conference during the lockdown months.

MULTI-CHANNEL TOOL

The internet banking service, which includes on-line trading, is well met by customers and 28,862 customers had activated the service at year end compared to 27,162 at the end of the previous year (+6.3%). With reference to Corporate Banking services for businesses, 5,651 businesses had registered with this service compared to 5,443 in the previous financial year (+3.8%).

2020 ATM DEPOSITS				
TAX BASE	No. of transactions		Amount of transactions (€'000)	
	2020	2019	2020	2019
Cash	93,988	95,908	161,369	161,483
Cheques	31,918	33,665	44,327	43,037

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.

Internal Audit

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 Prometeia, 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 (Executive Committee) and the Strategic Function Body. The bank sends the amended recovery plan to Bank of Italy by 30 April every second year.

Operational plan for managing NPE

As required by the "Guidance on the management of non-performing loans for Italy's less significant institutions", the board of directors annually updates 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 Executive Committee, the Risk Management Unit in collaboration 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.

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 2020 important updates were made to anti-money laundering legislation with an impact on company regulations. The most significant updates are as follows:

- European Commission - Delegated Regulation (EU) 2020/855 of 7 May 2020 amending Delegated Regulation (EU) 2016/1675 as regards high-risk third countries;
- Council of the European Union - Conclusions of the Council of 18 February 2020 on the revised EU list of non-cooperative jurisdictions for tax purposes;
- Bank of Italy - Provisions of 30 July 2019 regarding adequate checks on customers to combat money laundering and the financing of terrorism;
- Bank of Italy - Provisions of 24 March 2020 for the storage and provision of documents, data and information to combat money laundering and the financing of terrorism;
- Financial Intelligence Unit - Communication of 16 April 2020 regarding prevention of financial crime associated with the COVID-19 emergency;
- Financial Intelligence Unit - Measure of 25 August 2020 for sending aggregated AML reports.

In compliance with the new legislative dictates and the changing context of risk associated with the COVID-19 pandemic, during the year the bank started and/or finished updating certain processes and procedures, assisted by the IT outsourcer.

For 2020, the compulsory training was conducted almost exclusively remotely as a result of the "health risk", with the support of the trade association and a leading specialised consulting firm.

In June 2020, the bank concluded the "Self-assessment on risks of money laundering and financing of terrorism", documented and described in the Anti-Money Laundering Unit's annual report, presented to the board of directors on 30 June 2020. 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 ICT regulations and a specific policy given the fundamental importance of IT security.

The bank's primary objective is the security of company IT assets and, therefore, the document has been prepared to ensure the correct performance of the 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

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 2020 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.

The Bank adopted a "data protection policy" which defines roles and responsibilities in the context of personal data processing, and "privacy regulations", which outline the operating methods and provide instructions to data processing staff; they are periodically given specific training with the objective of strengthening the controls intended to mitigate the risk of a data breach.

Particular attention is paid to the selection of suppliers qualified as data processors pursuant to art.28 of the GDPR and to the drafting of commercial agreements in terms of compliance with the applicable legislation.

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 lending by product							
Description	Financial year			Annual Difference		Half year difference	
	12/2020	12/2019	06/2020	Amount	%	Amount	%
Current accounts	73,961	108,927	90,623	-34,966	-47.3%	-16,662	-18.4%
Postal current accounts	79	737	16	-658	-832.9%	63	393.8%
Financing for advances	89,347	133,707	102,664	-44,360	-49.6%	-13,317	-13.0%
Loans	837,548	677,654	729,832	159,894	19.1%	107,716	14.8%
Subsidies not settled through	35,199	53,966	44,545	-18,767	-53.3%	-9,346	-21.0%
Loans against pledges	51	59	51	-8	-15.7%	0	0.0%
Salary-backed loans	4,448	4,970	4,687	-522	-11.7%	-239	-5.1%
Bad exposures	29,202	33,210	32,059	-4,008	-13.7%	-2,857	-8.9%
Portfolio risk	377	287	250	90	23.9%	127	50.8%
Transactions with the Treasur	0	0		0	0.0%	0	0.0%
Total lending	**1,070,212**	**1,013,517**	**1,004,727**	**56,695**	**5.3%**	**65,485**	**6.5%**
- including: in Euros	1,069,238	1,012,277	1,003,390	56,961	5.3%	65,848	6.6%
- including: in foreign currenc	974	1,240	1,337	-266	-27.3%	-363	-27.2%
Own HTC securities	275,698	228,650	268,500	47,048	17.1%	7,198	2.7%
Total caption 40. b)	**1,345,910**	**1,242,167**	**1,273,227**	103,743	7.7%	72,683	5.7%

Table 1

Lending performance was strongly affected by the difficult economic situation linked to the spread of COVID-19 and the measures adopted to address this by the Italian government. The interruption in economic activities in the months of lockdown, the sharp decline in internal demand and sales overseas led to a strong slowdown in requests for financing from businesses and households, in addition to the lack of use of commercial credit facilities.

Given said context, lending, net of allowance for impairment, amounted to € 1,070 thousand, up by around 5.3% on an annual basis, whereas gross performing exposures totalled approximately € 1,010.5 thousand, compared to € 948.1 thousand at the end of 2019, recording a significant increase of +6.6%.

An analysis of net lending by product (see Table 1) shows a decrease in the main short-term and revocable products mainly caused by the interruption in economy activity in the months of lockdown and by the subsequent restrictions after summer as a result of the second wave of the pandemic.

The following decreased: current account assets (-47.3%), advances for financing (-49.6%) and subsidies settled through current accounts (-53.3%). Loans increased by around 160 million (+19.1%) compared to 31 December 2019, driven by the measures in support of the economy, as described above.

The results achieved are even more significant if correlated with the increase by around 2% of lending in the Marche region recorded in October 2020.

3,607 moratoria were received in the year, 2,300 approved and/or disbursed loans guaranteed by the central guarantee fund for SMEs up to 100%, 464 approved and/or disbursed loans guaranteed for 80 to 90% by the central guarantee fund for SMEs and over € 30,000.

In 2020, Carifermo was once more confirmed as the main bank of reference for households and local businesses. New financing disbursed amounted to over € 323 million, or 4,748 transactions (€ 257 million and 3,077 transactions in 2019).

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	Individual impairment loss	Collective impairment loss	Carrying amount
412000	Construction of residential and non-residential buildings	68,965,711.15	16,950,471.04	912,963.75	51,102,276.36
152010	Footwear	54,382,455.57	3,892,791.61	431,577.66	50,058,086.30
682001	Property leases	48,231,451.13	3,849,186.22	518,010.80	43,864,254.11
681000	Buying and selling of own real estate	26,482,584.89	5,015,238.42	434,977.26	21,032,369.21
682000	Lease and management of owned or (rented) property	20,483,493.87	182,955.87	326,151.43	19,974,386.57
561011	Catering	15,933,080.15	364,079.90	451,622.11	15,117,378.14
152020	Leather parts for footwear	14,883,751.11	430,146.46	129,182.08	14,324,422.57
152000	Footwear	17,492,492.94	6,178,242.19	127,018.56	11,187,232.19
551000	Hotels and similar structures	11,571,981.34	680,318.29	418,003.36	10,473,659.69
494100	Goods transportation by road	9,067,272.02	314,136.39	118,126.86	8,635,008.77
451101	Wholesale and retail sale of cars and light vehicles	8,300,174.69	498,453.14	119,030.04	7,682,691.51
251100	Manufacturing of metal structures and assembled structural parts	6,075,777.67	77,595.12	33,982.55	5,964,200.00
289420	Manufacturing of machines and appliances for skins, leather and footwear industry	5,963,966.70	14,436.94	9,427.71	5,940,102.05
462110	Wholesale of grain and dried pulses	5,794,980.07	-	108,816.78	5,686,163.29
462410	Wholesale of leather and raw and worked skins (excluding fur skins)	7,344,779.97	1,757,667.92	36,138.30	5,550,973.75
553000	Camping areas and areas equipped for campers and caravans	5,609,055.15	-	63,704.43	5,545,350.72
151209	Manufacturing of other travel items, bags and similar, leather goods and saddlery	5,566,398.16	111,085.10	44,650.42	5,410,662.64
201600	Manufacturing of plastic materials in primary forms	5,402,113.80	-	15,178.69	5,386,935.11
324020	Manufacturing of toys (including tricycles and toy musical instruments)	5,341,193.83	-	55,896.88	5,285,296.95
464240	Wholesale of footwear and accessories	5,609,727.54	320,656.16	49,712.88	5,239,358.50
101100	Production of non-bird meat and slaughter by-products (slaughterhouse activity)	5,539,195.76	325,339.83	49,684.89	5,164,171.04
222901	Plastic parts for footwear	5,203,402.41	-	75,153.61	5,128,248.80
591400	Film projection activities	7,130,736.54	2,216,721.55	135.36	4,913,879.63
201500	Manufacturing of fertilizers and nitrogen compounds (excluding the manufacture of compost)	7,253,324.00	4,654,703.71	-	2,598,620.29
	TOTAL	**373,629,100.46**	**47,834,225.86**	**4,529,146.41**	**321,265,728.19**

Table 2

With reference to non-performing exposures, the bank implemented the strategies indicated in the NPE plan and the business plan. An analysis of irregular exposures shows new exposures reclassified as unlikely to pay for € 29,292 thousand, of which 3,280 coming from other categories of non-performing exposures, while the amount of positions reclassified as bad exposures in 2020 was € 8,454 thousand, of which € 7,765 thousand from exposures already classified as non-performing. Total and partial write-offs were made during the year for around € 9,285 thousand. The volume of collections of unlikely to pay exposures increased to € 10,521 thousand (+15.2% compared to 31 December 2019). The volume of collections of bad exposures also increased to € 6,684 thousand, up on the figure from the previous year (+12.2%).

Gross non-performing exposures increased overall by € 3.9 million (+2.52%). As part of this caption, bad exposures decreased by 6.13%, while unlikely to pay exposures increased by € 13.3 million, or 23%; non-performing past due exposures recorded a negligible level and decreased by 94% compared to the previous year.

Despite the increase in the gross figure, net non-performing exposures showed a sharp decrease (-3.8%) deriving from the increase in impairment losses.

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

NON-PERFORMING EXPOSURES					
		31/12/2020	31/12/2019	Difference amount	Difference %
Total non-performing exposures	Gross amount	157,553	153,684	3,869	2.52%
	Impairment losses	87,045	80,385	6,660	8.29%
	Carrying amount	**70,508**	**73,299**	**-2,791**	**-3.81%**
coverage rate		*55.25%*	*52.31%*		
Bad exposures	Gross amount	86,166	91,790	-5,624	-6.13%
	Impairment losses	56,964	58,580	-1,616	-2.76%
	Carrying amount	**29,202**	**33,210**	**-4,008**	**-12.07%**
coverage rate		*66.11%*	*63.82%*		
Unlikely to pay exposures	Gross amount	71,146	57,842	13,304	23.00%
	Impairment losses	30,042	20,865	9,177	43.98%
	Carrying amount	**41,104**	**36,977**	**4,127**	**11.16%**
coverage rate		*42.23%*	*36.07%*		
Past Due	Gross amount	241	4,052	-3,811	-94.05%
	Impairment losses	39	940	-901	-95.85%
	Carrying amount	**202**	**3,112**	**-2,910**	**-93.51%**
coverage rate		*16.18%*	*23.20%*		

Table 3

The gross bad exposures/gross lending and gross NPE/gross total exposures indicators decreased from 8.33% to 7.38% and from 13.95% to 13.49% respectively.

The ratio of net bad exposures to net exposures decreased and was 2.73% compared to 3.28% in 2019, while the ratio of net NPE to net exposures was 6.59% compared to 7.23% at the end of 2019.

Overall, the coverage of irregular exposures increased to 55.25%, up on the figure from December 2019 (52.31%), while the total exposures recorded a coverage of 8.38%, an increase compared to the end of the previous year (8.01%).

CREDIT RISK at 31.12.2020											
LENDING	31/12/2020			31/12/19		Difference gross exposures		Difference net exposures		Coverage	
	Gross amount	Total impairment	Carrying amount	Gross amount	Carrying amount	Amount	%	Amount	%	31/12/2020	31/12/2019
A. NPE	**157.553**	**87.044**	**70.509**	**153.684**	**73.299**	**3.869**	**2,52%**	**-2.790**	**-3,81%**	**55,25%**	**52,31%**
A.1. Bad exposures	86.166	56.964	29.202	91.790	33.210	-5.624	-6,13%	-4.008	-12,07%	66,11%	63,82%
A.3. Unlikely to pay exposures	71.146	30.041	41.105	57.842	36.977	13.304	23,00%	4.128	11,16%	42,22%	36,07%
A.2. Past due exposures	241	39	202	4.052	3.112	-3.811	-94,05%	-2.910	-93,51%	16,18%	23,20%
B. Performing exposures	1.010.549	10.846	999.703	948.122	940.219	62.427	6,58%	59.484	6,33%	1,0733%	0,83%
TOTAL	**1.168.102**	**97.890**	**1.070.212**	**1.101.806**	**1.013.518**	**66.296**	**6,02%**	**56.694**	**5,59%**	**8,38%**	**8,01%**
Bad exposures/total exposures									**NET**	**2,73%**	**3,28%**
NPE/total exposures										**6,59%**	**7,23%**
Bad exposures/total exposures									**GROSS**	**7,38%**	**8,33%**
NPE/total exposures										**13,488%**	**13,95%**

Table 4

Collective impairment losses on performing exposures were recognised using the impairment rules of 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 division of performing exposures into Stage 1 and Stage 2 is shown below:

Stage	financing with customers	Impairment losses	% hedged
Stage 1	839,392	6,194	0.74%
Stage 2	171,062	4,652	2.72%
Total	**1,010,454**	**10,846**	**1.07%**

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 a 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.

As described in more depth in part E of the explanatory notes, during 2020 the bank implemented close monitoring of the performing exposures subject to moratoria in order to assess their correct classification in the financial statements.

The allowance for collective impairment losses related to the sole financing component, which covers the implicit risk on performing exposures, was € 10,846 thousand at year end, up on the € 7,903 thousand balance in the previous year. This implied that the coverage rate of these exposures was 1.07% (0.83% at 31 December 2019). The increase in accruals on performing exposures also derives from the update to the risk components concerning “forward-looking information” related to the expected macroeconomic scenario. As is known, IFRS 9 requires that banks also take into consideration information regarding the outlook on future economic conditions when calculating expected credit loss (ECL). Given the particular context of reference (COVID-19 pandemic), the risk curves (PD and LGD) were therefore updated, including the new scenario components prepared by a leading consulting company.

The bank’s support of the local economy was not limited to the above lending transactions during 2020 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 in collaboration with Fraer Leasing S.p.A., leading to the execution of 23 contracts worth € 1.9 million in addition to 13 contracts agreed with Alba Leasing for € 3.4 million.

Credit cards: the bank was again very active in this sector with a total 18,238 credit cards issued at year end, with an increase in 393 new cards. The issue of Viacard and Telepass cards recorded 10,046 cards, an increase of 23 cards over the previous financial year.

Consumer credit: given the particular economic situation linked to the spread of the pandemic, consumer credit granted directly by the bank and through major specialised companies decreased in terms of the number of transactions and amounts involved.

Investments

In 2020, the financial markets were characterised by great uncertainty and strong volatility. Fundamental aspects included the COVID-19 pandemic, the trade war between the USA and China and the US presidential elections.

In the first two months of the year, the stock markets slowed as a result of the macroeconomic data which showed a general slowdown in the economies caused by the epidemic, the first signs of which were already being seen in China in late January.
In March the COVID-19 pandemic led to the block on economic activities on a global scale and triggered the collapse of stock exchanges across the world. The bond markets also reacted negatively and the financially weakest countries were affected the most, the worst of which being Italy. Only high-rating government bonds, such as US treasury bonds and the German Bund, limited their volatility, since they were considered as having store of value.
From April, the fiscal and monetary measures of all governments and central banks, the drop in infection rates and the partial reopening of activities favoured a recovery in the financial markets. The ECB extended the monetary policy measures and launched unlimited QE, while the FED cut rates to zero.
In October, the second wave of the virus caused new decreases on the main stock listings, mitigated by the success of the tests on the vaccines which brought the market trend back into positive territory.

The American and Japan stock indexes reached new maximum levels, with the S&P 500 gaining 19% in the year and the Nikkei 22.50%, whereas in Europe only the Frankfurt index recorded a positive performance of 5% in the year, and the other main listings, including Milan, fell between 2 and 3%.
The bond indexes also saw good recovery in this context, with returns on ten-year securities decreasing again during the year. At year end, the US ten-year rate was 0.55%, while the German Bund was -0.57% and the return on the BTP Italian government bonds was 0.54%.
While the German and American government bonds continued to benefit from the flight to quality, Italian government bonds benefited, especially in the second half of the year, from the agreement reached by the European Commission on aid to the EU countries affected by the pandemic via the Recovery Plan.
During the reporting period, the euro appreciated against the US dollar by 9.26%, against the pound sterling by more than 5% and against the yen by 3.73%.

Asset management

From the end of the first quarter, stock market positions were reconstructed in the Total Return management, via structures in options on the S&P 500 and the Euro Stoxx 50, with an exposure of around 5% of the entire portfolio. Exposure on the stock markets increased gradually over the months, reaching a maximum level of 10%, before decreasing to 2% in the second half of the year, due to taking profit and a more cautious approach towards the markets.

Exposure on bonds did not significantly change. 48% of the portfolio investments were corporate securities, 42% government bonds and 8% global bonds in foreign currency.

In the final part of the year, the duration, which had fluctuated between 1.7 and 2.3 years in 2020, decreased at the end of the year to 1.3 years, via the decrease in exposure to the German curve via options.

In terms of currency exposure, the weighting of emerging currencies was increased to 5.5%, with no changes to other currency exposure with around 3% yen, 1.5% dollar and 0.5% in other developed country currencies.

Annual operating performance was 2.98%.

Nearly no changes were made to the breakdown of the short-term bond management with a 77% exposure on Italian government bonds and 23% on corporate securities. The duration was around 9 months, while the annual performance was 0.29%.

In May, the bank reduced investment in the “European Loan” Fund managed by the investment firm M&G by around 83%. The total value of the shares held at year end was € 4.73 million.

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.

Due to the economic effects of the pandemic, the Fund performed negatively for most of the year, before recovering in the final months of 2020; performance was positive for around 1.17%.

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 Italian government bonds with the small 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.

The value of the bank's entire securities portfolio (excluding equity investments for € 16,664 thousand at fair value) was around € 897.7 million, an increase compared to € 590.6 million at 31/12/2019. The increase is due to the partial use of liquidity deriving from the following ECB refinancing operations:

- PELTRO (Pandemic Emergency LTRO), allotment on 20 May 2020 with maturity on 30 September 2021 for an amount of € 70 million;
- TLTRO III, allotment on 18 June 2020 with settlement and maturity on 28 June 2023, for € 90 million

The bank also participated in the tender on 17 March 2020 for an LTRO, matured and settled on 24 June 2020, for an amount of € 100 million.

In May 2020, settlement of 5/6 of the portions of the M&G European Loan Fund was requested, also in order to reduce capital requirements for market risk. The settlement was measured at the price of 102.01 on 31 May.

At year end, the securities portfolio was distributed as follows:

HTC portfolio Nominal amount				
	Financial year		difference	
	12/2020	12/2019	amount	%
BOT Italian treasury bills and zero coupon bonds	0	0	0	0.00%
CCT Italian treasury certificates	61,850	54,350	7,500	13.80%
BTP Italian government bonds	208,141	174,761	33,380	19.10%
Bonds	5,000	0	5,000	0.00%
Total	**274,991**	**229,111**	**45,880**	**20.03%**

HTCS portfolio Nominal amount				
	Financial year		difference	
	12/2020	12/2019	amount	%
BOT Italian treasury bills and zero coupon bonds	0	0	0	0.00%
CCT Italian treasury certificates	218,000	66,155	151,845	229.53%
BTP Italian government bonds	250,082	120,519	129,563	107.50%
Bonds	6,800	2,000	4,800	240.00%
Total	**474,882**	**188,674**	**286,208**	**151.69%**

HTS portfolio Nominal amount				
	Financial year		difference	
	12/2020	12/2019	amount	%
BOT Italian treasury bills and zero coupon bonds	19,050	25,550	-6,500	-25.44%
CCT Italian treasury certificates	0	2,000	-2,000	-100.00%
BTP Italian government bonds	1,650	750	900	120.00%
Bonds	110,383	114,154	-3,771	-3.30%
Shares and OEIC	4,729	28,988	-24,259	-83.69%
Total	**135,812**	**171,442**	**-35,630**	**-20.78%**

Table 5

The HTC (hold to collect) portfolio at nominal value amounted to € 274,991 million, up by around € 45.8 million compared to the previous year; the carrying amount was € 275,698 thousand. Investments made as part of the HTC portfolio mainly targeting the coupon flow were nearly entirely represented by Italian government bonds. 2020 was an extremely profitable year for investments in bond assets. The opportunities found on the markets as a result of Italy's changing economic and political situation, as well as signs of an upturn in market rates in the final period of the year, led the bank to sell securities from the HTC portfolio for a total nominal amount of € 102 million, making total gains of € 5,268 thousand. The securities sold were replaced with Italian government bonds in line with the business model's objective to support net interest income. The sales were carried out in full compliance with IFRS 9 and the bank's policy for financial risk.

The financial assets at fair value through other comprehensive income (HTCS) totalled a nominal amount of € 474,882 thousand, with an increase of around € 286.2 million compared to 31/12/2019. The carrying amount at fair value totalled € 499,684 thousand. The significant increase is mainly attributable to the use of the liquidity deriving from the ECB refinancing operations mentioned above. An assessment of the HTCS portfolio showed a positive change of € 6,861 thousand, compared to the reporting date in 2019, in the equity valuation reserve which at year end came to € 5,259 thousand before tax. The gain made from the sale of securities in the year was € 10,219 thousand.

Financial assets held for trading (HTS), excluding derivatives, totalled a nominal amount of € 135,812 thousand, with a decrease of around € 35.6 million compared to 31/12/2019, mainly attributable to the partial disposal of the MG Fund in the first half of 2020; the carrying amount at 31 December 2020 was € 138,947 thousand. At year end, the HTS portfolio generated a net loss of € 23 thousand posted to profit or loss. At the same time, changes in the securities of the HTS portfolio recorded net losses from trading for a total of € 132 thousand. Net trading income (expense) includes the gains made by futures contracts, linked to the Epsilon asset management, for € 2,116 thousand and negative exchange losses for € 618 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.
The bank had equity investments of € 16,664 thousand at year end compared to € 16,661 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:

During the year, **direct funding** had a positive performance with reference to both households and companies. The dreaded liquidity crisis due to the spread of COVID-19 did not in fact happen, and the drop in consumption and investments due to the lockdown actually increased the cash equivalents of customers. The bank was able to increase the already notable levels of direct funding thanks to financial stability and security passed on to account holders.

The balance of € 1,787.4 million against an amount of € 1,547.7 million in the previous year shows a significant increase of 15.5%.

The following table analyses the direct funding, breaking the caption down into individual product:

Breakdown of direct funding by product							
Description	**Financial year**			**Annual difference**		**Half year difference**	
	12/2020	**12/2019**	**06/2020**	**Amount**	**%**	**Amount**	**%**
Savings deposits	107,747	110,854	108,086	- 3,107	-2.9%	- 339	-0.3%
Current accounts	1,579,570	1,349,615	1,369,872	229,955	14.6%	209,698	15.3%
Certificates of deposit	70,428	69,805	72,635	623	0.9%	- 2,207	-3.0%
Third party funds under administration	21,918	8,677	15,562	13,241	60.4%	6,356	40.8%
Liabilities for assets acquired under lease	7,722	8,762	8,039	- 1,040	-13.5%	- 317	-3.9%
Total direct funding	**1,787,385**	**1,547,713**	**1,574,194**	**239,672**	**15.5%**	**213,191**	**13.5%**

Table 6

Euro and foreign currency current account overdraft runs, which are the most important product, increased again on an annual basis by € 229,955 thousand (14.6%) to € 1,579,570 thousand, equal to over 88% of the bank's entire direct funding. Savings deposits lost ground, totalling € 107,747 thousand (-2.9%). Certificates of deposit increased slightly by 0.9% to € 70,428 thousand. "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.

The following table shows the amounts due to customers by business segment and how funding from households equal to 49.5% of the total direct funding decreased compared to 52.3% in the previous year. Funding from businesses increased from 30.6% in 2019 to 34.6% at the end of 2020, while funding from artisans and family businesses remained stable at 9.6%.

DUE TO CUSTOMERS			
SAE type	**Description**	**Amount**	**% OF TOTAL**
4	COMPANIES	619,323	34.6%
61	ARTISANS AND FAMILY BUSINESSES	172,136	9.6%
60	HOUSEHOLDS	885,059	49.5%
99	OTHER	110,867	6.2%
	TOTAL	**1,787,385**	**100.0%**

Table 7

Indirect funding at year end may be analysed as follows:

Description	Dec- 20	Dec 19	June 19	Annual difference		Half year difference	
				Amount	%	Amount	%
Government bonds	140,970	143,372	154,058	-2,402	-1.70%	-13,088	-8.50%
Bonds	25,076	32,297	26,206	-7,221	-28.80%	-1,130	-4.31%
Shares	97,947	92,098	89,211	5,849	5.97%	8,736	9.79%
Total administered	**263,993**	**267,767**	**269,475**	**-3,774**	**-1.43%**	**-5,482**	**-2.03%**
Funds and OEIC units	466,968	477,226	456,266	-10,258	-2.20%	10,702	2.35%
Asset management	15,391	16,154	14,782	-763	-4.96%	609	4.12%
Total managed fund	***482,359***	***493,380***	***471,048***	***-11,021***	***-2.28%***	***11,311***	***2.40%***
Total indirect fundi	***746,352***	***761,147***	***740,523***	***-14,795***	***-1.98%***	***5,829***	***0.79%***
Insurance and pension products	531,218	490,549	507,757	40,669	7.66%	23,461	4.62%
Total	**1,277,570**	**1,251,696**	**1,248,280**	**25,874**	**2.03%**	**29,290**	**2.35%**

Table 8

The entire aggregate of indirect funding, including insurance and pension products, amounted to a total of € 1,277,570 thousand, up by 2.03% compared to the figure at the end of 2019.

The component related to administered and managed funds came to a total of € 746,352 thousand, down by 1.98% compared to 12/2019. There was a decrease in net funding for 13,925 thousand in the year.

In detail, shares increased by around 5.97% in administered funds, while bonds decreased by around 29%.

The managed funds sector decreased, recording a total balance in the year of € 482,359 thousand compared to 12/2019, down by -2.28%, strongly influenced by the performance of the markets and the restrictions linked to the spread of COVID-19.

Insurance products performed very well, and alongside pension products totalled € 531,218 thousand compared to 490,549 at 12/2019, up by 7.66%.

As a whole, the administered assets, against the aforesaid performance of direct and indirect funding, grew by 9.49%:

Description	Dec- 20	Dec 19	June 19	Annual difference		Half year difference	
				Amount	%	Amount	%
Direct funding	1,787,385	1,547,713	1,574,194	239,672	13.41%	213,191	13.54%
Indirect funding	1,277,570	1,251,696	1,248,280	25,874	2.03%	29,290	2.35%
Total	**3,064,955**	**2,799,409**	**2,822,474**	**265,546**	**9.49%**	**242,481**	**8.59%**

Table 9

INCOME STATEMENT

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

Tax base	12/2020	12/2019	difference	
			amount	%
Net interest income	31,161	30,344	817	2.69%
Net operating income	77,770	79,772	-2,002	-2.51%
Operating costs	-47,038	-48,937	1,899	-3.88%
Operating profit	30,732	30,835	-103	-0.33%
Pre-tax profit from continuing operations	8,514	9,645	-1,131	-11.73%
Net gain	4,632	5,997	-1,365	-22.76%

Table 10

The individual balances are shown below.

Net interest income

Tax base	12/2020	12/2019	difference	
			amount	%
Interest income:	***33,374***	***33,307***	***67***	***0.20%***
- Ordinary customers	27,853	27,852	1	0.00%
- Securities portfolio	5,510	5,393	117	2.17%
- Banks	11	62	-51	-82.26%
Interest expense:	***-2,213***	***-2,963***	***750***	***-25.31%***
- Ordinary customers	-1,576	-2,215	639	-28.85%
- Bonds	-584	-510	-74	14.51%
- Banks	-53	-238	185	-77.73%
Net interest income	**31,161**	**30,344**	**817**	**2.69%**

Table 11

Net interest income closed the year with a final balance of € 31,161 thousand, up by 2.7%, and was affected positively by the increase in interest rates in the finance sector, up by around 2.2%, due both to the increase in volumes and the different breakdown of portfolios. Interest income from customers for € 27,853 thousand remained stable. The decrease in interest expense for € 2,213 thousand (-25.32% compared to the end of 2019) seemed significant, mainly determined by the drop in the average rate of funding from customers which decreased from 0.17% to 0.12%.

During the year, instalments were settled or financing was extinguished early for a total amount of around € 193 million at the average rate of 1.89%, while financial portfolio payments involved new financing for 323 million at the average rate of 1.40%.

As regards lending, there was a decrease in interest income from 2.76% on average in the previous year to 2.42% on average in 2020, down 34 bps, also due to the decision to target customers with higher ratings. In terms of funding, interest expense decreased from 0.17% to 0.12%, down 5 bps, lower than the decrease in interest income. That being said, the margin on rates for ordinary customers decreased by 29 bps, falling from 2.59% on average in 2019 to 2.30% in 2020.

The dynamic of the spread on customer rates is shown below:

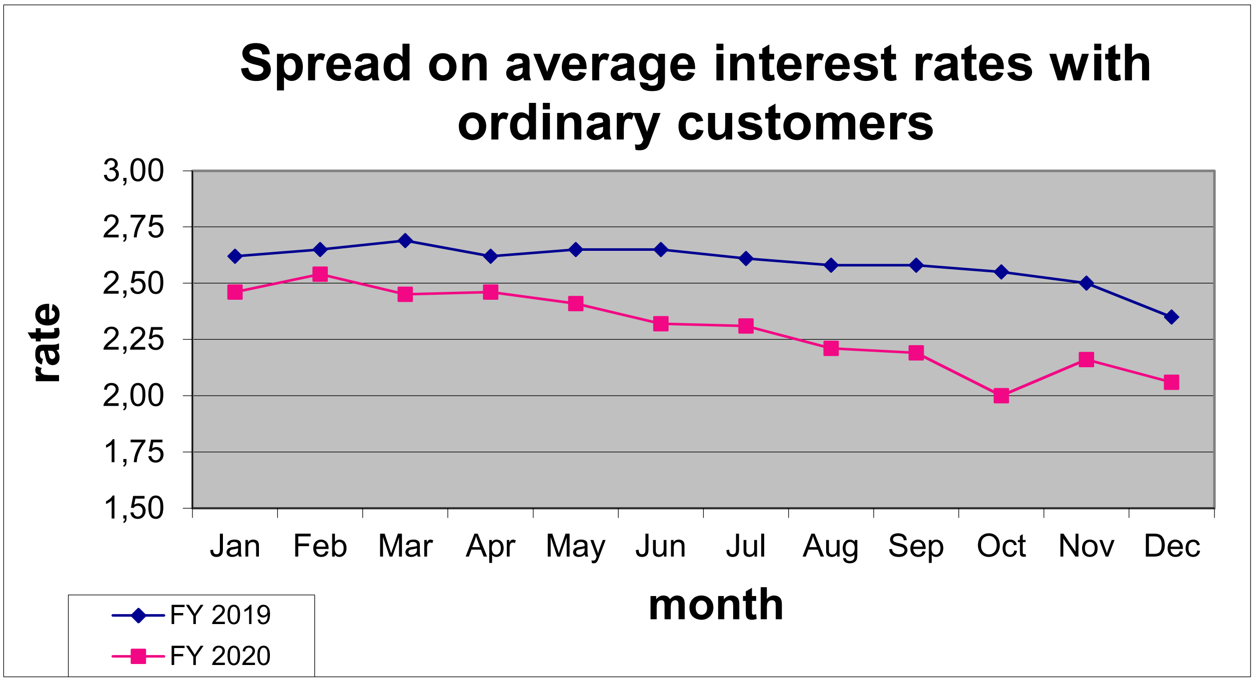

Table 12

Net operating income

Tax base	12/2020	12/2019	difference	
			amount	%
Net interest income	**31,161**	**30,344**	**817**	**2.69%**
Dividends	1,282	1,967	-685	-34.82%
Net fee and commission income	23,036	24,078	-1,042	-4.33%
Net trading income (expense)	16,830	19,325	-2,495	-12.91%
Net gains (losses) on financial assets and liabilities at fair value through profit or loss	-216	-279	63	22.58%
Other operating income	5,677	4,337	1,340	30.90%
Net operating income	**77,770**	**79,772**	**-2,002**	**-2.51%**

Table 13

Net operating income amounted to € 77,770 thousand, a slight decrease on the previous financial year (-2.5%).

Dividends collected during the year showed a decrease from € 1,967 thousand to € 1,282 thousand, due to the reduction in the M&G Fund investment in May.

Net fee and commission income totalled € 23,035 thousand, a decrease on the figure at 31 December 2019 by around 4.33%, influenced negatively by the restrictions linked to the spread of COVID-19 and the consequent decrease in customer business in the months of lockdown and restriction on economic activities. As part of this caption, fee and commission income from insurance policy placement activities decreased by around 10.9% on an annual basis, mainly as a result of the different mix of products placed. Fee and commission income related to managed funds showed a slight increase of 0.92%, while the management of current accounts generated lower fee and commission income by 2.37% mainly due to the interruption in economic activities linked to the lockdown period, offset by the increase in commission from other services for around 2.47%.
Fee and commission expense increased by around 2.8% compared to the previous year mainly due to the increase in collection and payment services provided by Bancomat S.p.A. and CBI S.p.A.

The net gain from HTS, HTCS and HTC financial assets (referring to the sum of profit or loss captions 80 and 100) totalled € 16,830 thousand against € 19,325 thousand in 2019. In detail, the net trading income from the HTS portfolio came to € 1,343 thousand, trading income from the HTCS portfolio securities totalled € 10,219 thousand, and gains on the sale of securities classified in the HTC portfolio came to around € 5,268 thousand.

"Other operating income" increased by € 1,340 thousand compared to the previous financial year, to € 5,667 thousand.

Operating profit

Tax base	12/2020	12/2019	difference	
			amount	%
Net operating income	**77,770**	**79,772**	**-2,002**	**-2.51%**
Personnel expense	-25,441	-26,588	1,147	4.31%
Administrative expenses	-18,945	-19,532	587	3.01%
Amortisation and depreciation	-2,652	-2,817	165	5.86%
Operating costs	**-47,038**	**-48,937**	**1,899**	**-3.88%**
Operating profit	**30,732**	**30,835**	**-103**	**-0.33%**

Table 14

Operating profit closed at € 30,732 thousand, with no significant changes compared to the previous financial year.

Personnel expense increased to € 25,441 thousand, down by 4.31% following the decrease of 11 employees compared to the previous year.

Administrative expenses decreased from € 19,532 thousand to € 18,945 thousand.

Pre-tax profit from continuing operations

Tax base	12/2020	12/2019	difference	
			amount	%
Operating profit	**30,732**	**30,835**	**-103**	**-0.33%**
Net accruals to (utilisations of) provisions for risks and charges	230	-793	1,023	129.00%
Net impairment losses on loans and receivables	-22,448	-20,397	-2,051	-10.06%
Pre-tax profit from continuing operations	**8,514**	**9,645**	**-1,131**	**-11.73%**

Table 15

The pre-tax profit from continuing operations amounted to € 8,514 thousand compared to € 9,645 thousand for the previous year.

The provisions for risks and charges showed a recovery in value for € 230 thousand which was 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 explanatory notes with the usual prudent approach and in line with the bank's internal policy, and led to impairment losses for € 22,448 thousand (recognisable as the sum of captions 130 and 140 in the profit or loss), higher by around € 2 million compared to the previous financial year.

Profit for the year:

Tax base	12/2020	12/2019	difference	
			amount	%
Pre-tax profit from continuing operations	**8,514**	**9,645**	**-1,131**	**-11.73%**
Income taxes	-3,882	-3,648	-234	-6.41%
Profit (loss) from discontinued operations	0	0	0	0.00%
Net gain	**4,632**	**5,997**	**-1,365**	**-22.76%**

Table 16

Estimated direct taxes for the year came to € 3,882 thousand compared to € 3,648 thousand for the previous financial year.
Accordingly, the profit for 2020 amounted to € 4,867 thousand.

Comprehensive income for 2020 is € 9,431 thousand compared to the result of € 6,591 thousand for 2019.
The actuarial gains of € 217 thousand recognised on post-employment benefits and the supplementary pension fund and the revaluation of the HTCS securities portfolio reserve for € 4,582 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 € 47,790 thousand. This includes € 13,939 thousand from operations, while financial assets and financial liabilities used and generated cash of € 351,157 thousand and € 385,008 thousand, respectively.
Investing activities used cash flows of € 945 thousand, mostly due to the purchase of property, equipment and investment property and intangible assets.
As a result, the net cash outflows for the year were € 46,846 thousand.

Indicators

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

Financial statements indicators	2020	2019
Capitalisation ratios:		
Equity / total assets	7.48%	8.58%
CET 1 ratio	19.53%	14.83%
Tier 1 ratio	19.53%	14.83%
Total capital ratio	19.53%	14.83%
Non-current assets/equity	13.29%	15.25%
Net NPE/equity	17.86%	21.74%
Net NPL/equity	43.11%	47.99%
Own funds/third-party funds	9.52%	9.87%
Risk ratios:		
Net NPE/total exposures	2.73%	3.28%
Gross NPE/gross exposures	7.38%	8.33%
Gross NPL/gross exposures	13.49%	13.95%
Coverage ratio for performing exposures	1.07%	0.83%
Allowance for impairment/total exposures	8.38%	8.01%
New NPE rate	0.95%	0.90%
Profitability ratios:		
Net interest income /total income	43.22%	40.23%
Gains from financial transactions / total income	25.12%	28.22%
Cost of credit	1.88%	1.79%
Gross operating profit / equity	18.93%	19.67%
ROE	2.83%	3.93%
ROA	0.21%	0.34%
Tax rate	45.60%	37.82%
Net other administrative expenses/total income	26.28%	25.89%
Personnel expense / total income	35.29%	35.25%
Administrative expenses/total income	61.57%	61.14%
Cost/income	57.05%	60.18%
Fair value losses/gains on securities	57.03%	60.73%
Administrative expenses/total assets	2.03%	2.59%
Productivity - Distribution efficiency:		
Loans and receivables with customers/employees	3,049	2,800
Due to customers/employees	4,892	4,275
Total income/average employees	202	203.876
Average employees/branches	6.26	6.379
Cost per employee	69.80	69.89
Loans and receivables with customers and due to customers/average employees	7,807	6,922
Total assets/employees	6,233	4,919
Loans and receivables with customers and due to customers/branches	48,898	44,159
Branch employees/employees	68.38%	69.89%

Table 17

The indicators for the bank's capitalisation continued to be very high and significantly higher than the previous financial year.

In the "equity/total assets" ratio, the equity excludes the profit for the year.

The CET1, TIER 1 and TCR increased significantly year-on-year, from 14.83% to 19.53%. 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 17.96% from 21.74% 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 Explanatory notes. The "cost of credit" of 1.88% was calculated as the ratio between the impairment losses of exposures and gross amounts due to customers.

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 1.07%.

"*Cost/income*", calculated as the ratio between operating costs and the total income, decreased to 57.05%. 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 57.03%. 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 Explanatory notes was used as the denominator of the indicator.

That being said, the ROE is 2.83%, compared to 3.93% in the previous financial year.

Objectives of the 2020 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 then updated in June 2020 to take into account the profound global and local changes brought on by the ongoing pandemic and consequent containment measures. Furthermore, as mentioned above, the supervisory authority requested that the effective sustainability of the business model be assessed through the preparation of a plan of measures to strengthen the business model, to be implemented as part of strategic guidelines and within the overall market context, which led to a review of the growth objectives for 2021 and 2022.

The qualitative objectives set by the business plan for 2020 were substantially achieved. Specifically:

- Increase in the distribution network efficiency by optimising hub branches from 8 to 4 and alternating the opening of pairs of branches.
- Development of the bank's property assets
- Development of human resources through managerial and specialised training

The quantitative objectives for 2020 compared with the actual figure are shown below:

- **Lending**, gross of impairment losses, amounted to € 1,168.1 million, lower by around 3% than the lending estimated for the end of 2020, amounting to € 1,204.6 million. In detail, performing exposures were estimated in the plan for € 1,050 thousand, whereas at 31 December 2020 they amounted to € 1,011 thousand (-3.7% compared to the objective).
- **Non-performing exposures**: gross of impairment losses, amounted to € 157.6 million and were higher by around € 3 million than the objectives of the business plan. Net non-performing exposures for € 70.5 million, were lower than the envisaged objective by around € 1.3 million.

- **Direct funding** was estimated to amount to € 1,434.2 million compared to the actual € 1,787.4 million (+24.6%).

- **Indirect funding**, inclusive of pension funds plus policies, was estimated to amount to € 1,172.1 million, against the actual figure of € 1,277.6 million (€ +105.5 million).

- **Profitability ratios:** profit for the year came to € 4,632 thousand, fully meeting the objective set by the plan for 2020:

1. **Net interest income** exceeded the objectives set in the business plan by 3.76%;
2. **Net fee and commission income**, totalling € 23 million, was slightly higher than the objective set out by the plan (+1.2%).
3. **Trading income** totalled € 16.6 million, exceeding the objective set by the business plan.
4. **Administrative expenses** closed the year at 1.62% lower than the objectives, while **personnel expense** was 4.1% lower than the business plan objective.
5. **Net impairment losses on loans and receivables** were significantly higher than those estimated in the plan.

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

Tax base	2020 budget	Actual 2020	Difference	%
Net interest income	30,032	31,161	1,129	3.76%
Net fee and commission income	22,761	23,036	275	1.21%
Dividends	1,295	1,282	- 13	-0.99%
Net trading income (expense)	1,423	16,614	15,191	1067.52%
Total income	**55,511**	**72,093**	**16,582**	**29.87%**
Net impairment losses (gains) on loans and receivables	- 6,227	- 22,448	- 16,221	260.50%
Personnel expense	- 26,517	- 25,441	1,076	-4.06%
Other administrative expenses	- 19,257	- 18,945	312	-1.62%
Amortisation - accruals	- 3,939	- 2,422	1,517	-38.52%
Other operating income, net	4,640	5,677	1,037	22.35%
Pre-tax profit from continuing operations	**4,211**	**8,515**	**4,304**	**102.20%**
Income taxes	- 1,992	- 3,883	- 1,891	94.92%
Profit for the year	**2,219**	**4,632**	**2,413**	**108.73%**
Equity	**155,253**	**168,172**	**12,919**	**8.32%**

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 and bank variable remuneration policies

On 16 December 2020, in line with the approach adopted by the ECB for significant banks in the Eurozone, in light of the current economic context and considering that the impact of the pandemic on the financial statements of intermediaries has not yet fully manifested, and thanks to the extensive measures of public support, the Bank of Italy announced that it was maintaining an extremely prudent approach in order to safeguard the capacity of banks to absorb losses and grant loans to support the economy. The Bank of Italy therefore recommended that less significant Italian banks, until 30 September 2021:

- refrain from granting or paying dividends and limit their amount to no more than 15% of the accumulated profit from 2019-20 or 20 bps of the CET1 coefficient (in any case, the better of the two);
- refrain from granting or paying interim dividends using 2021 profits;
- exercise extreme prudence when granting variable remuneration

Banks that intend to pay dividends are also asked to critically verify their financial solidity and related capacity for current and future self-financing in advance, taking account of the impact of the pandemic on the quality of the assets and on profit or loss, and to contact the supervisory authority to assess whether the envisaged level of distribution is considered prudent.

In line with the aforesaid recommendation, the board of directors of 9 February 2021 agreed on the hypothesis of a dividend payment worth 14.3% of the accumulated profit in the 2019-2020 two-year period. On this basis, the "Self-assessment of the strategic alignment of banks to post-COVID-19 scenarios and structural changes in the market" mentioned previously was carried out, which demonstrated the full sustainability of the business model. Subsequently, following informal contact with the supervisory body and approval of the aforesaid self-assessment, the board of directors of the bank, at the meeting on 2 March 2021, agreed to take an even more prudent approach, proposing a dividend calculated on the basis of 10% of the accumulated profit in the 2019-2020 two-year period, as described in section "12.4.2 Proposed allocation of the profit for the year" in these financial statements.

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.

Outlook

The spread of the COVID-19 pandemic and its implications for public health, economic activity and trade could indeed negatively and significantly impact the growth of the Italian and global economies. At this time, it is still not clear what the extent of the phenomenon might be, as it will depend on the evolution of the pandemic and how industry manages to recover following the lockdowns that characterised 2020. Said recovery will also depend on the effectiveness of the monetary, fiscal and social support measures put in place by the competent authorities (governments, ECB, European Union, and so on).

The outlook for growth in the global economic system depends closely on the evolution of the pandemic and the measures adopted to combat the increase in infection rates on the one hand, and to mitigate their impact on economic activities on the other. The Bank of Italy estimates that the product, which was still weak at the start of 2021, will grow significantly from spring, in line with the hypothesised improvement in the health situation. From the second half of 2021 and in the subsequent two-year period, an additional driving force should come from the support and recovery measures financed with the national budget and European funds. On average, following the 9.2% contraction in 2020, GDP should expand by 3.5% this year, 3.8% next year and 2.3% in 2023, returning to pre-pandemic levels in 2023.

In this context, the bank's mission to maintain its role of reference and vicinity to the system of small and medium enterprises and households in the local area is reconfirmed, positioning itself as an active player for recovery following the health emergency. The bank therefore intends to maintain its widespread presence in the various business sectors and in the different areas in order to create renewed momentum for economic growth by positioning itself as a strategic driver for recovery.

Major focus has been placed on the capital requirements that must be constantly maintained with enough margin for peace of mind by creating a safety net to stabilise possible fluctuations, which, in this unprecedented context of complete uncertainty, seem likely.

The bank reinforced its prudent valuation policy for non-performing exposures and credit monitoring activity in order to anticipate the critical situations that could occur at the end of the measures envisaged by the various government decrees in support of the economy, even leading to an improvement in the overall coverage rate from 53.3% to 55.25%. This trend will also be maintained in the future, using the outlook of the NPE plan as a point of reference.

The commercial strategy will be aimed at growth in lending, which will be significantly affected by the measures put in place by the government to promote the recovery of the Italian industry following the COVID-19 emergency, in addition to the development of business areas where our penetration indicators have room for improvement.

The portfolio diversification implemented mainly through management mandates that operate in instruments other than Italian government bonds is moving towards risk splitting in relation to the securities portfolio.

In terms of operating costs, in the last two-year period the bank implemented an efficiency improvement strategy which allowed for significant cuts in personnel costs (-9.4%) and other administrative expenses (-6.2%). The increase in operating efficiency with a focus on cost containment will continue to be a strategic element for the bank.

In addition to the improved efficiency of traditional activities, the bank is developing new projects in collaboration with the IT outsourcer for more digital services by opening online accounts for new customers and activating the "web collaboration" platform to optimise consulting on financial products.

Thanks to its ground roots and continuous focus on the demands of its local area, the bank intends to defend its market position and, where possible, increase it, thus helping to support its profitability ratios.

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.

We thank the general manager, 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 in an extraordinarily complex year.

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 Chair

Fermo, 30 March 2021

BALANCE SHEET: ASSETS

	Assets	12/2020	12/2019
10.	Cash and cash equivalents	109,665,817	62,820,183
20.	Financial assets at fair value through profit or loss	139,108,544	175,073,686
	a) financial assets held for trading;	*139,108,544*	*174,857,818*
	b) financial assets designated at fair value;	*-*	*-*
	c) other financial assets mandatorily measured at fair value	*-*	*215,868*
30.	Financial assets at fair value through other comprehensive income	499,684,320	203,674,025
40.	Financial assets at amortised cost	1,368,667,322	1,260,873,669
	a) loans and receivables with banks	*22,757,538*	*18,706,710*
	b) loans and receivables with customers	*1,345,909,784*	*1,242,166,959*
80.	Property, equipment and investment property	21,628,758	23,150,385
90.	Intangible assets	106,562	136,422
	including:	*-*	*-*
	- goodwill	*-*	*-*
100.	Tax assets	19,970,568	21,750,776
	a) current	*4,268,751*	*3,502,311*
	b) deferred	*15,701,817*	*18,248,465*
120	Other assets	28,901,728	33,282,764
	Total assets	**2,187,733,619**	**1,780,761,910**

BALANCE SHEET: LIABILITIES

	Liabilities and equity	12/2020	12/2019
10.	Financial liabilities at amortised cost	1,973,930,171	1,550,471,183
	a) due to banks	*186,544,863*	*2,758,596*
	b) due to customers	*1,716,958,450*	*1,477,908,638*
	c) securities issued	*70,426,858*	*69,803,949*
20.	Financial liabilities held for trading	161,893	151,171
60.	Tax liabilities	5,138,680	*4,183,175*
	a) current	*2,434,922*	*3,213,438*
	b) deferred	*2,703,758*	*969,737*
80.	Other liabilities	23,499,493	48,770,676
90.	Post-employment benefits	6,494,720	6,971,244
100.	*Provisions for risks and charges:*	*10,336,407*	*11,473,060*
	a) loan commitments and financial guarantees given	*113,431*	*542,186*
	b) pension and similar obligations	*7,371,653*	*8,278,051*
	c) other provisions	*2,851,323*	*2,652,823*
110.	Valuation reserves	15,816,835	11,017,974
140.	Reserves	73,822,272	67,825,540
150.	Share premium	34,660,068	34,660,068
160.	Share capital	39,241,087	39,241,087
180.	Profit for the year	4,631,993	5,996,732
	Total liabilities and equity	**2,187,733,619**	**1,780,761,910**

INCOME STATEMENT

	Tax base	12/2020	12/2019
10.	Interest and similar income	33,373,876	33,306,562
	including: interest calculated using the effective interest method	*23,600,835*	*21,924,797*
20.	Interest and similar expense	- 2,212,520	- 2,962,533
30.	**Net interest income**	**31,161,356**	**30,344,029**
40.	Fee and commission income	24,864,272	25,591,202
50.	Fee and commission expense	- 1,828,548	- 1,512,971
60.	**Net fee and commission income**	**23,035,724**	**24,078,231**
70.	Dividends and similar income	1,282,117	1,967,462
80.	Net trading income (expense)	1,342,890	5,393,737
100.	Net gain from sales or repurchases of:	15,486,768	13,929,713
	a) financial assets at amortised cost	*5,268,093*	*4,574,073*
	b) financial assets at fair value through other comprehensive	*10,218,675*	*9,355,640*
110.	Net loss on other financial assets and liabilities at fair value through profit or loss	- 215,868	- 279,017
	b) other financial assets mandatorily measured at fair value	*- 215,868*	*- 279,017*
120.	**Total income**	**72,092,987**	**75,434,155**
130.	Net impairment losses for credit risk associated with:	- 22,041,481	- 19,865,338
	a) financial assets at amortised cost	*- 21,913,796*	*-19,751,990*
	b) financial assets at fair value through other comprehensive income	*- 127,685*	*- 113,348*
140.	Modification gains/losses	- 406,809	- 531,253
150.	**Net financial income**	**49,644,697**	**55,037,564**
160.	Administrative expenses:	- 44,385,779	- 46,119,999
	a)personnel expense	*- 25,440,666*	*-26,588,008*
	b)other administrative expenses	*- 18,945,113*	*-19,531,991*
170.	Net accruals to provisions for risks and charges	230,254	- 793,381
	a) loan commitments and financial guarantees given	*428,754*	*- 389,981*
	b) other	*- 198,500*	*- 403,400*
180.	Depreciation and net impairment losses on property, equipment and investment property	- 2,599,528	- 2,736,366
190.	Amortisation and net impairment losses on intangible assets	- 52,284	- 80,392
200.	Other operating income, net	5,677,197	4,337,472
210.	**Operating costs**	**- 41,130,140**	**- 45,392,666**
250.	Net gains (losses) on sales of investments	337	- 198
260.	**Pre-tax profit from continuing operations**	**8,514,894**	**9,644,700**
270.	Income taxes	- 3,882,901	- 3,647,968
280.	**Post-tax profit from continuing operations**	**4,631,993**	**5,996,732**
290.	Post-tax profit (loss) from discontinued operations	-	-
300.	**Profit for the year**	**4,631,993**	**5,996,732**

STATEMENT OF COMPREHENSIVE INCOME

	Tax base	12/2020	12/2019
10.	**Profit for the year**	**4,631,993**	**5,996,732**
	Items, net of tax, that will not be reclassified to profit or loss:		
20.	Equity instruments at fair value through other comprehensive income	- 12,819	48,334
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, equipment and investment property	-	-
60.	Intangible assets	-	-
70.	Defined benefit plans	217,490	- 343,814
80.	Non-current assets held for sale and disposal groups	-	-
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	4,594,190	889,697
150.	Non-current assets held for sale and disposal groups	-	-
160.	Share of valuation reserves of equity-accounted investees	-	-
170.	**Other comprehensive expense, net of tax**	**4,798,861**	**594,217**
180.	**Comprehensive income (expense) (captions 10 + 170)**	**9,430,854**	**6,590,949**

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31/12/2020

	Balance at 31/12/2019	Change to opening balances	Balance at 01/01/2020	Allocation of prior year profit		Changes for the year									Equity at 31/12/2020
						Changes in reserves	Equity transactions						Comprehensive income for the year at 31/12/2020	
				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:	**67,825,540**	**-**	**67,825,540**	**5,996,732**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**73,822,272**
a) income-related	74,960,997	-	74,960,997	5,996,732	-	-	-	-	-	-	-	-	-	80,957,729
b) other	- 7,135,457	-	- 7,135,457	-	-	-	-	-	-	-	-	-	-	- 7,135,457
Valuation reserves:	**11,017,974**	**-**	**11,017,974**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,798,861**	**15,816,835**
Equity instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Treasury shares	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Profit for the year	**5,996,732**	**-**	**5,996,732**	**- 5,996,732**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,631,993**	**4,631,993**
Equity	**158,741,401**	**-**	**158,741,401**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**9,430,854**	**168,172,255**

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 December 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
							Equity transactions							
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Repurchase of own shares	Extraordinary dividend distribution	Change in equity instruments	Derivatives on treasury shares	*Stock options*	Comprehensive income for the year at 31/12/2019	
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 CASH FLOWS: indirect method

A. OPERATING ACTIVITIES	Amount	
	12/2020	**12/2019**
1. Operations	**13,939,479**	**14,526,788**
- profit for the year	4,631,993	5,996,732
- net gains/losses on financial assets held for trading and other financial assets/liabilities at fair value through other comprehensive income (-/+)	818,903	- 466,992
- gains/losses on hedging transactions (-/+)	-	-
- net impairment losses (gains) for credit risk (+/-)	20,764,841	18,833,322
- amortisation, depreciation and net impairment losses on property, equipment and investment property and intangible assets (+/-)	2,894,067	3,056,203
- net accruals to provisions for risks and charges and other costs/revenue (+/-)	4,050,185	- 961,417
- unpaid taxes and duties (+/-)	3,882,901	3,647,968
- net impairment losses/reversals of impairment losses on non-current assets held for sale and disposal groups, net of tax (+/-)	-	-
- other adjustments (+/-)	- 23,103,411	- 15,579,028
2. Cash flows generated by/used for financial assets	**- 351,157,440**	**- 46,342,348**
- financial assets held for trading	34,873,135	132,657,414
- financial assets designated at fair value	-	-
- other assets mandatorily measured at fair value	-	-
- financial assets at fair value through other comprehensive income	- 279,108,223	- 113,324,475
- financial assets at amortised cost	- 109,133,807	- 66,927,983
- other assets	2,211,455	1,252,696
3. Cash flows generated by financial liabilities	**385,008,458**	**62,382,395**
- financial liabilities at amortised cost	415,737,090	73,011,740
- financial liabilities held for trading	10,722	- 137,630
- financial liabilities designated at fair value	-	-
- other liabilities	- 30,739,354	- 10,491,715
Net cash flows generated by/used in operating activities	**47,790,497**	**30,566,835**
B. INVESTING ACTIVITIES		
1. Cash generated by	**548**	**1,502**
- sales of equity investments	-	-
- dividends from equity investments	-	-
- sales of property, equipment and investment property	548	1,502
- sales of intangible assets	-	-
- sales of business units	-	-
2. Cash flows used to acquire	**- 945,411**	**- 954,293**
- equity investments	-	-
- property, equipment and investment property	- 868,758	- 715,658
- intangible assets	- 76,653	- 238,635
- business units	-	-
Net cash flows used in investing activities	**- 944,863**	**- 952,791**
C. FINANCING ACTIVITIES		
- issue/repurchase of treasury shares	-	-
- issue/purchase of equity instruments	-	-
- dividend and other distributions	-	- 759,750
Net cash flows used in financing activities	**-**	**- 759,750**
NET CASH FLOWS FOR THE YEAR	**46,845,634**	**28,854,294**

Key: (+) generated; (-) used

Reconciliation:

FINANCIAL STATEMENT ITEMS	Amount	
	12/2020	12/2019
Opening cash and cash equivalents	62,820,183	33,965,889
Net cash flows for the year	46,845,634	28,854,294
Cash and cash equivalents: exchange gains (losses)	-	-
Closing cash and cash equivalents	109,665,817	62,820,183

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 2020 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 latest of which is the communication on 27 January 2021 with provisions regarding the impact of COVID-19 and economic support measures and IAS/IFRS amendments.

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

The bank maintained the drafting policies applied to classify, recognise, measure and derecognise financial assets and liabilities and to recognise revenue and costs compared to its 2019 financial statements.

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 2020 financial year.

IFRS STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLIED FROM 1 JANUARY 2020.

The following IFRS accounting standards, amendments and interpretations were applied by the bank for the first time as of 1 January 2020.

- 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 adoption of this amendment had no effect on the bank's financial statements.

- 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 adoption of this amendment had no effect on the bank's financial statements.

- On 26 September 2019, the IASB published the ***"Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform"***. It amends IFRS 9 - *Financial Instruments and IFRS 7 - Financial Instruments: Disclosures*. In particular, the amendment changes a number of the requirements for the application of hedge accounting, providing for temporary exemptions to them, in order to mitigate the impact deriving from the uncertainty of the IBOR reform (still ongoing) on the future cash flows in the period prior to its completion. The amendment also requires companies to provide further information in the financial statements regarding their hedging relations which are directly affected by the uncertainty generated by the reform and to which the aforesaid exemptions apply.
The adoption of this amendment had no effect on the bank's financial statements.

- 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 adoption of this amendment had no effect on the bank's financial statements.

On 28 May 2020, the IASB published the "COVID-19 Related Rent Concessions (Amendment to IFRS 16)". The document gives lessees the power to recognise the reductions in fees related to COVID-19 without having to assess, by analysing contracts, whether the IFRS 16 definition of lease modification has been respected. Therefore, lessees who apply this option will be able to recognise the effects of the reductions in lease fees to profit or loss directly at the effective date of the decrease. This change applies to financial statements beginning 1 June 2020 but [the company has availed itself of] the possibility to apply said change early at 1 January 2020.
The adoption of this amendment had no effect on the bank's 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 BANK AT 31 DECEMBER 2020

- On 28 May 2020 the IASB published an amendment ***entitled "Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)"***. The changes make it possible to extend the temporary exemption from applying IFRS 9 until 1 January 2023 for insurance. These changes will come into force on 1 January 2021. The directors do not expect a significant effect on the financial statements from adopting this amendment.
- On 27 August 2020, in light of the reform on interbank interest rates such as the IBOR, the IASB published the document ***"Interest Rate Benchmark Reform—Phase 2"*** which contains amendments to the following standards:
  - IFRS 9 Financial Instruments;
  - IAS 39 Financial Instruments: Recognition and Measurement;
  - IFRS 7 Financial Instruments: Disclosures;
  - IFRS 4 Insurance Contracts; and
  - IFRS 16 Leases.

All changes will come into force on 1 January 2021. The directors do not expect a significant effect 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 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 2023 but early application is permitted only for entities that apply IFRS 9 – Financial Instruments and IFRS 15 – *Revenue from Contracts with Customers*. The directors do not expect a significant effect on the bank's financial statements.

• On 23 January 2020 the IASB published an amendment entitled "***Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current***". The aim of the document is to explain how to classify debts and other short- or long-term liabilities. The changes come into force on 1 January 2022, but the IASB has issued an exposure draft in order to postpone its entry into force until 1 January 2023; however, early application is permitted. The directors do not expect a significant effect on the bank's financial statements.

• On 14 May 2020 the IASB published the following amendments:
  - o *Amendments to IFRS 3 Business Combinations*: the changes aim to update the reference present in IFRS 3 to the conceptual framework in the revised version, without making any changes to the provisions of IFRS 3.
  - o *Amendments to IAS 16 Property, Plant and Equipment*: the changes aim to prohibit deducting from the cost of property, equipment and investment property the amount received from the sale of goods produced in the test phase of that asset. The proceeds from these sales and the related costs will therefore be recognised in profit or loss.
  - o *Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets*: the amendment explains that in the estimate of any onerous nature of a contract, all costs

directly attributable to the contract should be considered. As a result, the assessment of any onerous nature of a contract not only includes the incremental costs (such as the cost of direct material used in processing), but also all the costs that the company cannot avoid since it stipulated the contract (such as the quota of the cost of personnel and depreciation of the machinery used to fulfil the contract).

- Annual Improvements 2018-2020: changes were made to IFRS 1 *First-time Adoption of International Financial Reporting Standards*, IFRS 9 *Financial Instruments*, IAS 41 *Agriculture* and the *Illustrative Examples of IFRS 16 Leases*.
- All changes will come into force on 1 January 2022. The directors do not expect a significant effect on the bank’s financial statements from adopting these amendments.

• On 30 January 2014, the IASB published ***IFRS14 – 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.

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 a Balance sheet, an income statement, a statement of comprehensive income, a statement of changes in equity, a 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 the further indications provided via specific communications and not yet transposed into the overall document[1] 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.

In particular, the measurement criteria are the same as those adopted for the preparation of the financial statements at 31 December 2019. However, in relation to the follow-on effects of the impact deriving from the COVID-19 health emergency, the indications provided by the authorities and the IASB, in addition to the application decisions made by the bank including in light of the provisions envisaged by Bank of Italy Circular no. 262/2005 "Banks' financial statements: layouts and preparation", regarding disclosure of the effects of COVID-19 and the support measures put in place to address the pandemic, are described in the directors' report and in these Explanatory notes. Therefore, documents used to interpret and support the application of the accounting standards in relation to the impact deriving from the ongoing COVID-19 pandemic, issued by the national and European regulatory and supervisory bodies are also taken into consideration, including:

- EBA communication of 25 March 2020 "Statement on the application of the prudential framework regarding Default, Forbearance and IFRS9 in light of COVID-19 measures", which, among other things, explained that the moratorium, whether by law or private, does not per se automatically determine either the classification to exposure subject to forbearance measures nor a significant increase in risk with consequent transition to Stage 2;
- ESMA communication of 25 March 2020 "Public Statement. Accounting implications of the COVID-19 outbreak on the calculation of expected credit losses in accordance with IFRS 9", which, among other things, explains that the payment suspension measures granted in response to the pandemic do not automatically imply a significant increase in credit risk, underlines the importance of including in the valuations of expected losses also the support measures issued by governments and provides indications for accounting for the contractual changes deriving from the support measures;
- IFRS Foundation document from 27 March 2020 "IFRS 9 and COVID-19 – Accounting for expected credit losses applying IFRS 9 Financial Instruments in the light of the current

[1] *In this sense, the indications contained in the communication on 15 December 2020 with provisions regarding the impact of COVID-19 and the economic support measures and IAS/IFRS amendments*

uncertainty resulting from the COVID-19 pandemic", which, among other things, suggests considering in the forecast conditions the effects of both the pandemic and the support measures, considering new information available without undue cost or effort;
- ECB letter from 1 April 2020, "IFRS 9 in the context of the coronavirus (COVID-19) pandemic", which, among other things, encouraged banks, when calculating the expected losses pursuant to IFRS 9, to update the macroeconomic forecasts to take into account the decline in the context, nevertheless recommending that the use of excessively procyclical assumptions be avoided;
- EBA guidelines from 2 April 2020 "Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis", which illustrated the characteristics of the aforesaid "general payment moratoria", which, as such, do not trigger forbearance classification, and encouraged banks to assess, for the entire duration of the moratorium, whether the borrowers subject to the moratorium are unlikely to pay; the subsequent Guidelines on 2 June and 2 December 2020 extended the date by which a moratorium falling under the definition of "general payment moratorium" could be applied, to 30 September 2020 and 31 March 2021 respectively;
- ESMA communication from 28 October 2020 "European common enforcement priorities for 2020 annual financial reports", which highlighted the areas of particular importance for the purposes of preparing financial statements; said communication was also mentioned in Consob warning notice no.1 of 16 February 2021. For details of the information described in this regard, please refer to Section 4 - Other aspects.

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.

After 31 December 2020, the reporting date, no events occurred that required an adjustment to the approved figures.

However, from November 2020, the bank was inspected by the Bank of Italy pursuant to art. 54 of Legislative Decree no. 385/93 which was completed on 15 February 2021. No inspection report had yet been received at the date of these financial statements.

Section 4 - Other aspects

Use of estimates and assumptions to prepare the accounts.

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, 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.

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.

Following the health emergency linked to the spread of COVID-19, the financial statement item most impacted in 2020 was the valuation of loans and receivables with customers and in particular the collective assessment of performing exposures, resulting from:

- the update to the macro-economic scenarios;

- the expected increase in defaults, which could occur following the maturity of the support measures currently in place.

RISKS, UNCERTAINTIES AND IMPACT OF THE COVID-19 EPIDEMIC

As previously explained, the estimates made for the purposes of preparing the financial statements were influenced by the relevant uncertainty around the negative effects deriving directly and indirectly from the ongoing health crisis (hereinafter also referred to as “COVID-19”).

The spread of the COVID-19 pandemic and its implications for public health, economic activity and trade could indeed negatively and significantly impact the growth of the Italian and global economies. At this time, it is still not clear what the extent of the phenomenon might be, as it will depend on the evolution of the pandemic and how industry manages to recover following the lockdowns that characterised 2020. Said recovery will also depend on the effectiveness of the monetary, fiscal and social support measures put in place by the competent authorities (governments, ECB, European Union, and so on).

Until the context of the crisis and the national and European measures are more clearly defined, the practice of incorporating into the financial statement estimates the effects of the COVID-19 crisis will be extremely difficult, since said effects will depend on a series of variables that are currently unpredictable or have a certain degree of uncertainty. The extraordinary nature of the ongoing crisis is attested to in the documents, guidelines and warning notices published, since last March, by the ECB, EBA, Bank of Italy, Basel Committee, ESMA (hereinafter referred to as the “authorities” for simplicity’s sake), as well as the IASB, intended to provide instructions and interpretations on how to apply the provisions of the accounting standards in the context of the current crisis, as well as with the aim of avoiding the development of pro-cyclical effects but at the same time ensuring correct and transparent reporting and risk measurement.

In the statements mentioned, attention is also drawn to the need to provide up-to-date information about the risks related to COVID-19 which might have an impact on the economic/capital and financial situation, on any actions undertaken or planned to mitigate said risks and an indication of the potential relevant impact for estimating future performance. Specifically, with reference to the accounting context, the measures of the authorities were focused, among other things, on the following issues: - classification of the loans affected by moratorium measures, on the basis of the indications provided by the International Accounting Standards Board (IASB), the European Central Bank (ECB), the European Banking Authority (EBA) and the European Securities and Market Authority (ESMA); - measurement of the expected credit losses that incorporates the forecasts of the future macroeconomic scenarios and the effects of government guarantees, on the basis of information represented by the IASB, the EBA, the ESMA and the ECB; impairment assessment and calculation for non-financial assets, the expectations for which are contained in the ESMA documents.

In relation to the issues dealt with by the various authorities and the IASB, the main indications provided and how the bank has taken account of them for the purposes of preparing the financial statements at 31 December 2020 are summarised below.

Moratorium measures: accounting classification and treatment. The bank granted various support measures to households and companies, both in virtue of the provisions of the government decrees (Decree Law no. 18/2020 issued on 17 March 2020 “Measures to reinforce the national health service and economic support for households, workers and companies connected to the COVID-19 epidemic”, known as “Cura Italia”), and on the basis of initiatives granted on a voluntary basis. These measures are intended to provide support to the counterparties affected by the suspension or limitation of economic activities resulting from the COVID-19 crisis, through the suspension of payments. In light of the indications of the various authorities (in particular EBA and EBC) and the IASB, the aforesaid moratorium measures: - did not as a rule lead to the classification of the exposure as “subject to forbearance measures”, since these are measures intended to mitigate systemic risks and not the specific requirements of an individual debtor, with the exception of limited cases in which the debtor’s difficulty had been effectively ascertained prior to the crisis; - did not lead to an automatic classification of the exposure to Stage 2 for the purposes of the IFRS 9 impairment, since said measures do not necessarily express a significant increase in credit risk, with the consequent need to measure the expected losses over a “lifetime” as well as over twelve months, as takes place as a rule for exposures affected by forbearance measures; - do not represent an automatic trigger for the classification as unlikely to pay; in particular, in the lockdown period, the counting of past due days was interrupted, leading to an extension of the period of ninety days, as an automatic trigger for the transition to non-performing exposures.

However, the EBA warns banks to monitor the credit quality of the exposures affected by moratoria, in order to classify the exposure correctly, placing particular attention on the customer, which, at the end of the moratorium, may have difficulties making payments or show other signs of impairment.

As described in more depth in part E of the Explanatory notes, during 2020 the bank implemented close monitoring of the performing exposures subject to moratoria in order to assess their correct classification in the financial statements.

CONTRACT MODIFICATIONS ARISING FROM COVID-19

1) Contract modifications and accounting derecognition (IFRS9)

For the related accounting treatment, reference should be made to the information established by IFRS 9 for the specific case of “renegotiation of financial assets”, which applies if the original contractual conditions have been modified by the parties. In this case, it must be checked whether the financial asset should continue to be recognised in the financial statements or, on the other hand, if the original financial asset should be derecognised and a new financial instrument recorded.

To this end, it must be assessed whether the modifications to the contractual terms of the renegotiation are substantial. Specifically: - in the case of substantial modifications, the entity must eliminate the modified financial instrument from the accounts and recognise a new financial asset on the basis of the new contractual provisions (known as derecognition accounting); - in the case of non-substantial renegotiations, the entity must recalculate the gross amount using the calculation of the actual amount of the financial flows resulting from the renegotiation, on the basis of the original rate of the existing exposure before the renegotiation.

The difference between the aforesaid gross amount and the gross carrying amount prior to the modification is recognised in profit or loss in caption 140 “Modification losses (gains)” (known as modification accounting).

The contract modifications in question, leading to a simple deferment in payments, should not be considered substantial and therefore should be accounted for on the basis of modification accounting.

In this respect, note that the moratoria granted by the bank require the application of interest, sums counted on the residual debt for the entire period of suspension of the payments. Interest is also paid at the maturity of the original instalment, in the case of suspension of the capital portion only, or starting from the end of the moratorium period, in the case of suspension of the entire instalment.

This application method implies that the actual amount of the exposure post-renegotiation is substantially in line with the actual amount of the exposure pre-renegotiation. These conclusions are also consistent with the expectations of the ESMA, which deems it unlikely that the modifications in question will be considered substantial and lead to derecognition, considering the temporal limitation of the support measures and the fact that the economic value of the loan will not be subject to significant change.

In addition, for legislative moratoria, the Cura Italia decree establishes that “the provisions require that there be no economic loss for the bank as a result of the moratorium. Therefore, the mechanism is neutral from an actuarial perspective; it is thus limited to redistributing payments without determining a loss for the bank or benefits for the company”. In 2020, the credit monitoring function launched specific activities to anticipate any critical situations associated with the maturity of the government measures envisaged by legislation related to the COVID-19 emergency. For a quantitative breakdown of the moratoria granted by the bank at 31 December 2020, please refer to the specific tables in part E to the Explanatory notes.

2) Amendment to IFRS16

With reference to operating lease contracts, the bank did not apply the practical expedient provided for by Regulation (EU) no. 1434/2020.

A2 – 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.

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 contains the non-derivative financial assets that passed the SPPI test. 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 and related derivatives are carried at cost.

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

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

Bank's HTC 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, 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, where applicable, 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 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 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, EQUIPMENT AND INVESTMENT PROPERTY

a) Recognition

Property, equipment and investment property 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, equipment and investment property 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, equipment and investment property". Fair value gains and losses on investment property are recognised under "Fair value gains (losses) on property, equipment and investment property"

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 CLASSIFIED AS HELD FOR SALE AND DISPOSAL GROUPS

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.

Current taxes are the net of current tax liabilities and current tax assets, being the advances and tax withholdings paid.

Deferred taxes are determined considering the temporary differences between the carrying amount of assets and liabilities and their tax bases.

The estimate of recoverability 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 above-mentioned 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 sheetwithout 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 IFRS9 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 and on demand 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 post-employment benefits are recognised under "Personnel expense".

14.2. Post-employment benefits

a) Recognition

b) Classification

c) Measurement

d) Derecognition

Post-employment benefits 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

The allocations to the TFR Fund are recognized in the income statement under the item "personnel expenses" while 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.

As required by the ESMA with public statement on 6 January 2021, information should also be provided about the recognition methods of the third series of targeted longer-term refinancing operations (TLTRO-III) launched by the European Central Bank each quarter, starting September 2019. The interest rate for each operation is fixed at a level equal to the average rate of the main refinancing operations of the Eurosystem (MRO), currently equal to 0%, with the exception of the period between 24 June 2020 and 23 June 2022 (the special interest rate period), when a rate below 50 basis points will be applied. Banks that grant net eligible loans higher than a reference value (benchmark net lending) can benefit from a reduced interest rate. Specifically, the more favourable rate applied will be equal to the average rate on deposits with the central bank (Deposit Facility), currently -0.5%, for the entire duration of the respective operation, with the exception of the special interest rate period, to which an additional reduction of 50 basis points will be added (and in any case no higher than -1%). Interest rates are regulated in arrears at the maturity of each TLTRO-III operation or at the time of early repayment.

The characteristics of the TLTRO-III operations do not allow for them to be immediately associated with specific cases covered by IAS/IFRS; it is possible to draw an analogy with “IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance” or “IFRS 9 – Financial Instruments”. The bank’s decision for the purposes of accounting for the operations in question was to refer to the indications of IFRS 9, considering that the funding conditions to which banks have access through the TLTROs promoted by the ECB are under market conditions. In fact, in our opinion, the ECB rates can be considered “market rates” since it is the ECB itself that establishes their level, balancing said level against the lending objectives to be achieved (monetary policy operations). Furthermore, it is within the power of the ECB to modify the TLTRO-III interest rate at any time. This power of modification held by the ECB is therefore associated with the indications of para. B5 4.5 of IFRS 9 (floating-rate financial liabilities), determining a modification to the Internal Rate of Return (IRR) of the financing in order to reflect variations in the benchmark rate.

At 31 December 2020, the relevant interest rates calculated pro-rata temporis were determined by applying the current rate envisaged by the legislation, without considering any benefit associated with achieving certain disbursement objectives for eligible loans.

A.3 – TRANSFERS BETWEEN FINANCIAL ASSET PORTFOLIOS

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

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.

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 31/12/2020
Alipicene S.r.l. - In Liquidation	- 4,000	2.5000%	- 100	- 90	- 110	2,582
Bancomat S.p.A.	4,474,211	0.1000%	4,474	4,027	4,922	21,945
CBI S.c.p.a.	1,006,195	0.3284%	3,305	2,974	3,635	3,022
CARICESE S.r.l.	15,445,859	0.5000%	77,229	69,506	84,952	20,000
ConfidiCoop Marche	29,524,632	1.5000%	442,869	398,583	487,156	100,000
CSE Consorzio Servizi Bancari S.r.l.	97,004,664	5.0000%	4,850,233	4,365,210	5,335,257	6,250,000
Fermano Leader s.c.a.r.l	47,009	1.5000%	705	635	776	3,000
S.W.I.F.T. - Brussels	442,950,000	0.0004%	1,627	1,465	1,790	2,529
SIA S.p.A. (former Società Servizi Bancari S.p.A.)	316,238,139	0.0340%	107,517	96,765	118,269	161,770
TOTAL	**906,686,709**		**5,487,859**	**4,939,075**	**6,036,647**	**6,564,848**

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 Explanatory notes.

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 13.51/93(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	12/2020			12/2019		
	L1	L2	L3	L1	L2	L3
1. Financial assets at fair value through profit or loss	120,668	18,441	-	151,156	23,702	216
a) financial assets held for trading	*120,668*	*18,441*	-	*151,156*	*23,702*	-
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	483,097	10,000	6,587	187,108	10,000	6,566
3. Hedging derivatives	-	-	-	-	-	-
4. Property, equipment and investment property	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	**603,765**	**28,441**	**6,587**	**338,264**	**33,702**	**6,782**
1. Financial liabilities held for trading	2	160	-	-	151	-
2. Financial liabilities designated at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
Total	**2**	**160**	**-**	**-**	**151**	**-**

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	216	-	-	216	6,567	-	-	-
2. Increases	-	-	-	-	20	-	-	-
2.1. Purchases	-	-	-	-	20	-	-	-
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	216	-	-	216	-	-	-	-
3.1. Sales	-	-	-	-	-	-	-	-
3.2. Repayments	-	-	-	-	-	-	-	-
3.3. Losses recognised in:	216	-	-	216	-	-	-	-
3.3.1. Profit or loss	*216*	-	-	***216***	-	-	-	-
- including: losses on sales	*216*	-	-	***216***	-	-	-	-
3.3.2. Equity					-	-	-	-
3.4. Transfers to other levels	-	-	-	-	-	-	-	-
3.5 Other decreases	-	-	-	-	-	-	-	-
4. Closing balance	-	-	-	-	6,587	-	-	-

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	12/2020				12/2019			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Financial assets at amortised cost	1,368,667	281,382	5,207	1,198,293	1,260,874	232,277	-	1,121,967
2. Investment property	559	-	-	559	272	-	-	272
3. Non-current assets held for sale and disposal groups	-	-	-	-	-	-	-	-
TOTAL	**1,369,226**	**281,382**	**5,207**	**1,198,852**	**1,261,146**	**232,277**	**-**	**1,122,239**
1. Financial liabilities at amortised cost	1,973,930	-	-	1,979,215	1,550,471	-	-	1,553,701
2. Liabilities associated with disposal groups	-	-	-	-	-	-	-	-
TOTAL	**1,973,930**	**-**	**-**	**1,979,215**	**1,550,471**	**-**	**-**	**1,553,701**

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	12/2020	12/2019
a) Cash	22,270	25,196
b) On-demand deposits with central banks	87,396	37,624
Total	**109,666**	**62,820**

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	12/2020			12/2019		
	L1	L2	L3	L1	L2	L3
A. Assets						
1. Debt instruments	115,926	18,281	-	122,168	23,648	-
1.1 Structured instruments	-	-	-	-	-	-
1.2 Other debt instruments	*115,926*	*18,281*	-	*122,168*	*23,648*	-
2. Equity instruments	-	-	-	-	-	-
3. OEIC units	4,734	-	-	28,988	-	-
4. Financing	-	-	-	-	-	-
4.1 Reverse repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total A	**120,660**	**18,281**	**-**	**151,156**	**23,648**	**-**
B. Derivatives						
1. Financial derivatives:	7	160	-	-	53	-
1.1 for trading	*7*	*160*	-	-	*53*	-
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	**7**	**160**	**-**	**-**	**53**	**-**
Total (A + B)	**120,667**	**18,441**	**-**	**151,156**	**23,701**	**-**

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 (€ 476 thousand);
- Philippines government bonds (€ 1,833 thousand);
- US government bonds (€ 2,170 thousand).
- French government bonds (€ 13,500 thousand)
- MEF bonds (€ 302 thousand).

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

Tax base / Amount	12/2020	12/2019
A. ASSETS		
1. Debt instruments	**134,207**	**145,816**
a) Central banks	-	-
b) Public administrations	69,302	79,071
c) Banks	20,293	26,732
d) Other financial companies	30,894	31,553
including: insurance companies	*1,142*	*1,155*
e) Non-financial companies	13,718	8,460
2. Equity instruments	**-**	**-**
a) Banks	-	-
b) Other financial companies	-	-
including: insurance companies	-	-
c) Non-financial companies	-	-
d) Other issuers	-	-
3. OEIC units	4,734	28,988
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	**138,941**	**174,804**
B. DERIVATIVES		
a) Central counterparties	7	-
b) Other	160	53
Total B	**167**	**53**
Total (A + B)	**139,108**	**174,857**

The derivatives set out in point B include:

- interest rate swaps;
- *Cap options*;
- *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	12/2020			12/2019		
	L1	L2	L3	L1	L2	L3
1. Debt instruments	**-**	**-**	**-**	**-**	**-**	**216**
1.1Structured instruments	-	-	-	-	-	-
1.2Other debt instruments	-	-	-	-	-	216
2. Equity instruments	**-**	**-**	**-**	**-**	**-**	**-**
3. OEIC units	**-**	**-**	**-**	**-**	**-**	**-**
4. Financing	**-**	**-**	**-**	**-**	**-**	**-**
4.1Reverse repurchase agreements	-	-	-	-	-	-
4.2Other	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**216**

The amount paid to the voluntary scheme following the action taken in favour of Carige S.p.A. was completely subject to impairment for the residual amount of € 216 thousand and recognised under caption 110 of the profit or loss.

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

Tax base / Amount	12/2020	12/2019
1. Equity instruments	**-**	**-**
including: banks	-	-
including: other financial companies	-	-
including non-financial companies	-	-
2. Debt instruments	**-**	**216**
a)Central banks	-	-
b)Public administrations	-	-
c)Banks	-	-
d)Other financial companies	-	216
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**

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	12/2020			12/2019		
	L1	L2	L3	L1	L2	L3
1. Debt instruments	483,020	-	-	187,013	-	-
1.1 Structured instruments	-	-	-	-	-	-
1.2 Other debt instruments	*483,020*	-	-	*187,013*	-	-
2. Equity instruments	77	10,000	6,587	95	10,000	6,566
3. Financing	-	-	-	-	-	-
Total	**483,097**	**10,000**	**6,587**	**187,108**	**10,000**	**6,566**

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	12/2020	12/2019
1. Debt instruments	**483,020**	**187,013**
a)Central banks	-	-
b)Public administrations	476,093	185,046
c)Banks	4,389	-
d)Other financial companies	2,538	-
including: insurance companies	-	-
e)Non-financial companies	-	1,967
2. Equity instruments	**16,664**	**16,661**
a) Banks	10,077	10,095
b) Other issuers:	6,587	6,566
- other financial companies	*144*	*123*
including: insurance companies	-	-
- non-financial companies	*6,443*	*6,440*
- 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	**499,684**	**203,674**

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	483,152	-	-	-	132	-	-	-
Financing	-	-	-	-	-	-	-	-
Total (31/12/2020)	**483,152**	**-**	**-**	**-**	**132**	**-**	**-**	**-**
Total (31/12/2019)	**187,148**	**-**	**-**	**-**	**135**	**-**	**-**	**-**
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	12/2020						12/2019					
	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	**16,417**	**-**	**-**	**-**	**-**	**16,417**	**14,186**	**-**	**-**	**-**	**-**	**14,186**
1. Term deposits	-	-	-				-	-	-			
2. Minimum reserve	16,417	-	-				14,186	-	-			
3. Reverse repurchase agreements	-	-	-				-	-	-			
4. Other	-	-	-				-	-	-			
B.Loans and receivables with banks	**6,340**	**-**	**-**	**-**	**-**	**6,340**	**4,520**	**-**	**-**	**-**	**-**	**4,520**
1. Financing	6,340	-	-				4,520	-	-			
1.1 Current accounts and on-demand deposits	6,245	-	-				4,419	-	-			
1.2. Term deposits	95	-	-				101	-	-			
1.3. Other financing	-	-	-				-	-	-			
- Reverse repurchase agreements	-	-	-				-	-	-			
- Financing for leases	-	-	-				-	-	-			
- Other	-	-	-				-	-	-			
2. Debt instruments	-	-	-	-	-	-	-	-	-	-	-	-
2.1 Structured instruments	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt instruments	-	-	-	-	-	-	-	-	-	-	-	-
Total	**22,757**	**-**	**-**	**-**	**-**	**22,757**	**18,706**	**-**	**-**	**-**	**-**	**18,706**

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

Transaction/Amount	12/2020						12/2019					
	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	**999,704**	**70,509**	**-**	**-**	**-**	**1,175,536**	**940,220**	**73,298**	**-**	**-**	**-**	**1,103,261**
1.1. Current accounts	92,537	23,468	-				149,501	23,179	-			
1.2. Reverse repurchase agreements	-	-	-				-	-	-			
1.3. Loans	812,777	40,507	-				652,474	42,865	-			
1.4. Credit cards, personal loans and salary-backed loans	30,297	712	-				31,859	907	-			
1.5. Financing for leases	-	-	-				-	-	-			
1.6. Factoring	-	-	-				-	-	-			
1.7. Other financing	64,093	5,822	-				106,386	6,347	-			
Debt instruments	**275,698**	**-**	**-**	**281,382**	**5,207**	**-**	**228,650**	**-**	**-**	**232,277**	**-**	**-**
1.1. Structured instruments	-	-	-	-	-	-	-	-	-	-	-	-
1.2. Other debt instruments	275,698	-	-	281,382	5,207	-	228,650	-	-	232,277	-	-
Total	**1,275,402**	**70,509**	**-**	**281,382**	**5,207**	**1,175,536**	**1,168,870**	**73,298**	**-**	**232,277**	**-**	**1,103,261**

Item "1.7. Other" of table 4.2 includes the following:

- import/export advances of € 7,194 thousand;
- advances on bills under reserve and invoices of € 47,740 thousand;
- portfolio risks of € 376 thousand;
- subsidies with or without repayment plans of € 9,271 thousand;
- loans and receivables with garnishee administration for salary-backed loans for € 61 thousand.

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

Transaction/Amount	12/2020			12/2019		
	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	**275,698**	**-**	**-**	**228,650**	**-**	**-**
a)Public administrations	270,671	-	-	228,650	-	-
b)Other financial companies	5,027	-	-	-	-	-
including: insurance companies	-	-	-	-	-	-
c)Non-financial companies	-	-	-	-	-	-
2. Financing with:	**999,704**	**70,508**	**-**	**940,220**	**73,297**	**-**
a)Public administrations	23,050	1	-	10,032	-	-
b)Other financial companies	30,172	78	-	23,757	66	-
including: insurance companies	-	-	-	-	-	-
c)Non-financial companies	578,802	49,562	-	547,749	51,736	-
d)Households	367,680	20,867	-	358,682	21,495	-
Total	**1,275,402**	**70,508**	**-**	**1,168,870**	**73,297**	**-**

Item 1 a) of the above table shows the government bonds classified in the HTC portfolio in line with the bank's business model, the market value of which is € 281,382 thousand.

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		Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
		including: instruments with a low credit risk						
Debt instruments	**275,768**	**-**	**-**	**-**	**71**	**-**	**-**	**-**
Financing	862,251	-	171,067	157,554	6,205	4,652	87,045	13,426
Total (31/12/2020)	**1,138,019**	**-**	**171,067**	**157,554**	**6,276**	**4,652**	**87,045**	**13,426**
Total (31/12/2019)	**998,894**	**-**	**196,753**	**153,684**	**3,715**	**4,356**	**80,385**	**7,916**
including: purchased or originated credit-impaired financial assets			-	-		-	-	-

The caption financing of the Stage 1 column includes loans and receivables with banks of € 22.7 million.

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

Stage	financing with customers	Impairment losses	% hedged
Stage 1	839,392	6,194	0.74%
Stage 2	171,062	4,652	2.72%
Total	**1,010,454**	**10,846**	**1.07%**

4.4a Financing at amortised cost subject to COVID-19 support measures: gross amount and total impairment losses

Tax base / Amount	Gross amount				Total impairment losses			Partial/total write-offs
	Stage 1		Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
		including: instruments with a low credit risk						
1. Financing subject to forbearance compliant with the GLs	154,397	-	53,794	11,934	1,636	1,972	3,668	-
2. Financing subject to other forbearance measures	230	-	2,226	1,222	71	20	192	-
3. New financing	127,927	-	17,922	353	1,181	392	83	-
Total (31/12/2020)	**282,554**	**-**	**73,942**	**13,509**	**2,888**	**2,384**	**3,943**	**-**
Total (31/12/2019)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Item 1 indicates the financing subject to moratoria pursuant to Decree Law no. 18/2020 “Cura Italia” following the COVID-19 epidemic.

Item 2 indicates the financing subject to moratoria granted on the initiative of the bank.

The amount indicated in item 3 refers to the financing disbursed under government guarantee according to the legislative provisions related to economic support for households and companies associated with the COVID-19 emergency.

Section 8 - Property, equipment and investment property - Caption 80

8.1 Property and equipment: breakdown of assets measured at cost

Asset / Amount	Total at 12/2020	Total at 12/2019
1 Owned	**13,247**	**14,038**
a) land	4,223	4,223
b) buildings	7,034	7,802
c) furniture	986	1,067
d) electronic systems	462	491
e) other	542	455
2 Rights of use acquired with leases	**7,823**	**8,841**
a) land	-	-
b) buildings	6,732	7,709
c) furniture	-	-
d) electronic systems	1,043	1,021
e) other	48	111
Total	**21,070**	**22,879**
including: obtained through enforcement of guarantees received	-	-

Item "2 Rights of use acquired with leases - b) buildings" in the above table indicates the rights of use on leased properties, calculated following application of IFRS 16 for € 6,732 thousand.

The amount under item "2 Rights of use acquired with leases - d) electronic systems" including the rights of use on leased electronic machinery amounts to € 1,043 thousand, while item "e) other" includes the rights of use for car hire for € 48 thousand.

8.2 Investment property: breakdown of assets measured at cost

Asset / Amount	Total at 12/2020				Total at 12/2019			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1 Owned	**559**	**-**	**-**	**559**	**272**	**-**	**-**	**272**
a) land	-	-	-	-	-	-	-	-
b) buildings	559	-	-	559	272	-	-	272
2 Rights of use acquired with leases	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-	-	-
Total	**559**	**-**	**-**	**559**	**272**	**-**	**-**	**272**
including: obtained through enforcement of guarantees received	559	-	-	559	272	-	-	272

8.6 Property and equipment: changes

Tax base / Amount	Land	Buildings	Furniture	Electronic systems	Other	Total
A. Gross opening balance	**4,223**	**33,401**	**6,678**	**6,846**	**6,989**	**58,137**
A.1 Accumulated depreciation and net impairment losses	-	25,599	5,611	6,356	6,534	44,100
A.2 Net opening balance	4,223	7,802	1,067	490	455	14,037
B.Increases:	**-**	**-**	**104**	**158**	**307**	**569**
B.1 Purchases	-	-	104	158	307	569
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	-	-	-	-	-	-
C.Decreases:	**-**	**768**	**185**	**186**	**220**	**1,359**
C.1 Sales	-	-	2	-	-	2
C.2 Amortisation and depreciation	-	768	183	184	176	1,311
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	-	-	-	2	44	46
D. Net closing balance	**4,223**	**7,034**	**986**	**462**	**542**	**13,247**
D.1 Accumulated depreciation and net impairment losses	-	26,367	5,794	6,540	6,710	45,411
D.2 Gross closing balance	**4,223**	**33,401**	**6,780**	**7,002**	**7,252**	**58,658**
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.

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

8.6-bis Including - Property, equipment and investment property used for operations - Rights of use acquired with leases: changes

Tax base / Amount	Land	Buildings	Furniture	Electronic systems	Other	Total
A. Gross opening balance	**-**	**8,906**	**-**	**1,295**	**175**	**10,376**
A.1 Accumulated depreciation and net impairment losses	-	1,197	-	274	64	1,535
A.2 Net opening balance	-	7,709	-	1,021	111	8,841
B.Increases:	**-**	**397**	**-**	**318**	**-**	**715**
B.1 Purchases	-	397	-	318	-	715
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	-	-	-	-	-	-
C.Decreases:	**-**	**1,374**	**-**	**296**	**63**	**1,733**
C.1 Sales	-	-	-	-	-	-
C.2 Amortisation and depreciation	-	916	-	296	63	1,275
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	-	458	-	-	-	458
D. Net closing balance	**-**	**6,732**	**-**	**1,043**	**48**	**7,823**
D.1 Accumulated depreciation and net impairment losses	-	2,113	-	570	127	2,810
D.2 Gross closing balance	**-**	**8,845**	**-**	**1,613**	**175**	**10,633**
E. Measurement at cost	**-**	**-**	**-**	**-**	**-**	**-**

The previous statement highlights the changes in rights of use in line with the provisions of IFRS16.

Item B.1 “Purchases” indicates the new property lease and tangible goods rental contracts signed in 2020.

Point C.7 “Other changes” contains the extinguishment of property lease contracts.

8.7 Investment property: changes

Tax base / Amount	Total at 12/2020	
	Land	Buildings
A. Opening balance	**-**	**272**
B.Increases	**-**	**301**
B.1 Purchases	-	301
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	**-**	**14**
C.1 Sales	-	-
C.2 Amortisation and depreciation	-	14
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	**-**	**559**
E. Fair value	-	-

Line B1 indicates the value of three properties assigned to the bank by the Court of Terni following the credit recovery enforcement procedure concluded in 2020.

Section 9 - Intangible assets - Caption 90

9.1 Intangible assets: breakdown by asset

Asset / Amount	Total at 12/2020		Total at 12/2019	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill		**-**		**-**
A.2 Other intangible assets	**107**	**-**	**136**	**-**
A.2.1 At cost:	107	-	136	-
a) Internally-generated	-	-	-	-
b) Other assets	*107*	-	*136*	-
A.2.2 At fair value:	-	-	-	-
a) Internally-generated	-	-	-	-
b) Other assets	-	-	-	-
Total	**107**	**-**	**136**	**-**

9.2 Intangible assets: changes

Tax base / Amount	Goodwill	Other intangible assets: internally-generated		Other intangible assets: other		Total
		with finite life	with indefinite	with finite life	with indefinite	
A. Opening balance	**-**	**-**	**-**	**785**	**-**	**785**
A.1 Accumulated depreciation and net impairment losses	-	-	-	649	-	649
A.2 Net opening balance	**-**	**-**	**-**	**136**	**-**	**136**
B. Increases	**-**	**-**	**-**	**23**	**-**	**23**
B.1 Purchases	-	-	-	23	-	23
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	**-**	**-**	**-**	**52**	**-**	**52**
C.1 Sales	-	-	-	-	-	-
C.2 Impairment losses	-	-	-	52	-	52
- Amortisation and depreciation		-	-	*52*	-	*52*
- 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	**-**	**-**	**-**	**107**	**-**	**107**
D.1 Accumulated amortisation and net impairment losses	-	-	-	701	-	701
E. Gross closing balance	**-**	**-**	**-**	**808**	**-**	**808**
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	12/2020
Personnel expense	851
Administrative expenses	-
Fair value losses on HTCS securities	31
Impairment losses on loans and receivables	13,782
Actuarial losses on agents' termination benefits/post-employment benefits	1,038
Total	**15,702**

"Impairment losses on loans and receivables" includes the deferred tax assets calculated during transition to IFRS9 on the impairment losses for € 4,126 thousand.

10.2 Deferred tax liabilities: breakdown

Components	12/2020
Fair value gains on bonds	-
Fair value gains on HTCS securities	1,797
Deferred gains	-
FTA depreciation of land	672
Post-employment benefits	-
Actuarial gains on post-employment benefits	235
Total	**2,704**

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 "derivazione rafforzata" (reinforced 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.

The probability test as envisaged by IAS 12 was carried out for the estimate of recoverability of other deferred tax assets. 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.

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

Tax base / Amount	Total at 12/2020	Total at 12/2019
1. Opening balance	**11,932**	**12,228**
2. Increases	**285**	**497**
2.1 Deferred tax assets recognised in the year	285	497
a) related to previous years	-	-
b) due to changes in accounting policies	-	-
c) reversals of impairment losses	-	-
d) other	*285*	*497*
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**2,225**	**793**
3.1 Deferred tax assets derecognised in the year	2,225	793
a) reversals	*2,225*	*793*
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	**9,992**	**11,932**

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

Tax base / Amount	Total at 12/2020	Total at 12/2019
1. Opening balance	**10,292**	**10,292**
2. Increases	**-**	**-**
3. Decreases	**1,420**	**-**
3.1 Reversals	*1,420*	-
3.2 Conversions into tax assets	-	-
a) arising on losses	-	-
b) arising on tax losses	-	-
3.3 Other decreases	-	-
4. Closing balance	**8,872**	**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.

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

Tax base / Amount	Total at 12/2020	Total at 12/2019
1. Opening balance	**892**	**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	**220**	**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	220	-
4. Closing balance	**672**	**892**

10.5 Changes in deferred tax assets (recognised in equity)

Tax base / Amount	Total at 12/2020	Total at 12/2019
1. Opening balance	**6,316**	**7,115**
2. Increases	**65**	**689**
2.1 Deferred tax assets recognised in the year	38	689
a) related to previous years	-	-
b) due to changes in accounting policies	-	-
c) other	*38*	*689*
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	27	-
3. Decreases	**671**	**1,488**
3.1 Deferred tax assets derecognised in the year	671	1,488
a) reversals	*671*	*1,488*
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	**5,710**	**6,316**

10.6 Changes in deferred tax liabilities (recognised in equity)

Tax base / Amount	Total at 12/2020	Total at 12/2019
1. Opening balance	**77**	**117**
2. Increases	**1,968**	**41**
2.1 Deferred tax liabilities recognised in the year	1,721	41
a) related to previous years	-	-
b) due to changes in accounting policies	-	-
c) other	*1,721*	*41*
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	247	-
3. Decreases	**13**	**81**
3.1 Deferred tax liabilities derecognised in the year	13	81
a) reversals	*13*	*81*
b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Decrease in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**2,032**	**77**

10.7 Other information

Caption “100a” of “Tax assets: a) current” of € 4,269 thousand comprises:

- IRAP payments on account of € 820 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;
- IRES payments on account of € 1,841 thousand;
- tax relief for earthquakes of € 455 thousand;
- tax assets of € 3 thousand for withholdings on public bodies;
- tax assets of € 171 thousand for withholdings on savings deposits, current accounts and certificates of deposit;
- substitute tax on account of € 895 thousand on the capital gain;
- sanitation tax relief of € 11 thousand.

Section 12 - Other assets - Caption 120

12.1 Other assets: breakdown

Components	Total at 12/2020	Total at 12/2019
a) other tax assets	3,947	3,921
b) cheques drawn on other banks	350	454
c) cheques to be received from clearing house and truncated in branch	11,639	-
d) suspense items	-	-
e) revenue stamps and other stamps	4	3
f) gold, silver and other precious metals	-	-
g) shortfalls, embezzlement, theft and other prior	-	-
h) items in transit	6,439	21,881
i) leasehold improvements	261	449
j) accrued income	436	87
k) prepayments	262	275
l) portfolio adjustment differences	-	-
m) other	5,564	6,213
Total	**28,902**	**33,283**

Specifically, in the above table:

- item h) includes transactions under settlement by Nexi S.p.A. and Bank of Italy (€ 5,271 thousand, in 2019 the amount totalled € 18,793 thousand), and items in transit to be debited to the end accounts (€ 1,168 thousand, in 2019 this amount came to € 2,004 thousand);
- item k) mostly consists of prepaid insurance premiums;
- item m) includes sundry amounts for € 514 thousand (in 2019 the sum totalled € 954 thousand) and accrued commissions of € 4,269 thousand (compared to 4,316 thousand in 2019).

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 12/2020				Total at 12/2019			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Due to central banks	**160,000**				**-**			
2. Due to banks	**26,545**				**2,759**			
2.1 Current accounts and on-demand deposits	26,466				2,677			
2.2 Term deposits	79				82			
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	**186,545**	**-**	**-**	**186,545**	**2,759**	**-**	**-**	**2,759**

Item 1 of the above table indicates the financing granted by the ECB as distinguished below.
-TLTRO III for € 90 million maturity 28 June 2023
-PELTRO for € 70 million maturity 30 September 2021.

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

Transaction/Amount	Total at 12/2020				Total at 12/2019			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and on-demand deposits	**1,678,126**				**1,449,764**			
2. Term deposits	**7,795**				**8,645**			
3. Financing	-				-			
3.1 Repurchase agreements	-				-			
3.2 Other	-				-			
4. Commitments to repurchase own equity instruments	-				-			
5. Lease liabilities	7,722				8,762			
6. Other liabilities	23,315				10,738			
Total	**1,716,958**	**-**	**-**	**1,721,152**	**1,477,909**	**-**	**-**	**1,480,083**

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

Security /Amount	Total at 12/2020				Total at 12/2019			
	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	70,427	-	-	71,518	69,804	-	-	70,859
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	*70,427*	-	-	*71,518*	*69,804*	-	-	*70,859*
Total	**70,427**	**-**	**-**	**71,518**	**69,804**	**-**	**-**	**70,859**

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 12/2020					Total at 12/2019				
	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		2	160	-			-	151	-	
1.1 For trading		2	*160*	-			-	*151*	-	
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		**2**	**160**	**-**			**-**	**151**	**-**	
Total (A+B)		**2**	**160**	**-**			**-**	**151**	**-**	

Section 6 - Tax liabilities - Caption 60

6.1 Current tax liabilities

Tax base / Amount	12/2020
Current tax liabilities	**2,435**
IRES	1,190
IRAP	753
Stamp duty	-
Substitute tax @ 12.00%	-
Prior year tax assets	492

Section 8 - Other liabilities - Caption 80

8.1 Other liabilities: breakdown

Components	12/2020	12/2019
a) Tax liabilities	1,238	4,322
b) Amounts due to social security institutions	1,540	15
c) Amounts available to customers	2,557	525
d) Third party guarantee deposits	129	89
e) Suspense items	-	-
f) Other amounts due to employees	2,829	3,015
g) Items in transit	12,401	9,455
h) Accrued expenses	5	6
i) Deferred income	243	245
j) Portfolio adjustment differences	1,141	29,013
k) Other items	1,416	2,086
Total	**23,499**	**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. In 2019, the amount was € 4,322 thousand.

Item “k) Other items” includes invoices due (€ 1,199 thousand, compared to 1,420 thousand in 2019) and sundry items (€ 217 thousand, compared to € 250 thousand in 2019).

Section 9 – Post-employment benefits – Caption 90

9.1 Post-employment benefits: changes

Tax base / Amount	Total at 12/2020	Total at 12/2019
A. Opening balance	**6,971**	**8,005**
B. Increases	**137**	**157**
B.1 Accruals	28	80
B.2 Other changes	109	77
C. Decreases	**613**	**1,191**
C.1 Payments	598	1,170
C.2 Other changes	15	21
D. Closing balance	**6,495**	**6,971**
Total	**6,495**	**6,971**

Th e actuarial losses of € 109 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		27
including: Revaluation	27	
Actuarial loss		109
Total		**136**

Breakdown of "C. Decreases"

Description	Amounts
Decrease due to post-employment benefits reform Legislative decree	-
Post-employment advances and payments	597
Substitute tax on revaluation	15
Total	**612**

Actuarial valuation of post-employment benefits provision

Description		Amounts
Present value of benefits at 31/12/2019		6,971
Interest cost		27
Substitute tax	-	15
Service cost		-
Payments	-	597
Total recursive		**6,386**
Present value of benefits at 31/12/2020		6,495
Accumulated actuarial loss	**-**	***109***

Since 1 January 2007, post-employment benefits 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 2020 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 0.5% for 2021, 0.9% for 2022 and 1.2% for 2023. As of 2024, 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 Corporate Euro securities with AA rating (source: Refinitiv) reported at 31/12/2020 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	-0.3872%	16	0.3624%
2	-0.2806%	17	0.4115%
3	-0.2234%	18	0.4605%
4	-0.1845%	19	0.5095%
5	-0.1329%	20	0.5585%
6	-0.0751%	21	0.5824%
7	-0.0228%	22	0.6063%
8	0.0218%	23	0.6301%
9	0.0605%	24	0.6540%
10	0.0947%	25	0.6779%
11	0.1384%	26	0.6779%
12	0.1822%	27	0.6779%
13	0.2259%	28	0.6779%
14	0.2697%	29	0.6779%
15	0.3134%	30	0.6779%

On the basis of the above assumptions, the bank recognised the actuarial loss of € 109 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 12/2020	Total at 12/2019
1. Provisions for credit risk associated with loan commitments and financial guarantees given	113	542
2. Provisions for other commitments and other guarantees given	-	-
3. Internal pension funds	7,372	8,278
4. Other providions	2,851	2,653
4.1 legal and tax disputes	-	-
4.2 personnel expense	-	-
4.3 other	*2,851*	*2,653*
Total	**10,336**	**11,473**

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	**542**	**8,278**	**2,653**	**11,473**
B. Increases	**-**	**69**	**404**	**473**
B.1 Accruals	-	69	404	473
B.2 Discounting	-	-	-	-
B.3 Changes due to variations in discount rate	-	-	-	-
B.4 Other changes	-	-	-	-
C. Decreases	**429**	**975**	**206**	**1,610**
C.1 Utilisations	429	565	206	1,200
C.2 Changes due to variations in discount rate	-	-	-	-
C.3 Other changes	-	410	-	410
D. Closing balance	**113**	**7,372**	**2,851**	**10,336**

Other provisions of € 2,851 thousand, shown in table 10.2, may be analysed as follows by type of litigation:

- Civil litigation	1,803,823
- Claw-back claims	428,000
- Other charges	20,000
- Labour disputes	600,000
Total	**2,851,323**

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 31/12/2020;
2) generally modest amounts involved;
3) rulings at all levels in the bank's favour.
The accrual for claw-back claims refers to 6 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. a. it is not certain whether an outflow of resources will be necessary;

b. 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 2020 financial statements, the situation is as follows:

Type of risk	Contingent liability		Bonds	
	Petitum	*Accrual*	*Petitum*	*Accrual*
Legal disputes	6,322,206	0	43,261,168	1,803,323
Claw-back claims	0	0	2,168,729	428,000
Labour disputes	0	0	627,000	600,000
Other charges	0	0	20,000	20,000
Total	**6,322,206**	**0**	**46,076,897**	**2,851,923**

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.

The amount of € 6,322 thousand refers to 9 (nine) claims for compensation for interest exceeding the legal rate and for purchase of Lehman Brothers stock for which various phases of assessment were carried out, all with a positive outcome for the bank.

As regards the petitum related to bonds for € 43,261 thousand, note that 2 claims refer to compound interest, for € 40,227 thousand, for which the accrued amount is € 470 thousand. For said claims, the first level judgements were in favour of the bank with a victory also for legal costs.

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	35	2	-	37
Financial guarantees given	30	23	23	76
Total	**65**	**25**	**23**	**113**

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 31/12/2020, the fund had 110 beneficiaries, including those with zero annuities as shown in the following table:

Gender	Direct	Indirect or reversible	Total
Women	7	50	**57**
Men	52	1	**53**
Total	**59**	**51**	**110**

The actuarial calculations were based on a projection of the individual beneficiaries' positions at 31 December 2020. 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 provision contained in law no.45 of 30/12/2018 were also estimated, though given the transitory nature of the measure, as of 2022 the revaluation will nevertheless be estimated in line with the general provision under article 34, paragraph 1 of Law no. 448 of 23 December 1998 which provides for the following recognition rates for annual price changes:

BRACKET	RATE
Up to 3 times the minimum treatment	100%
From 3 to 5 times the minimum treatment	90%
More than 5 times the minimum treatment	75%

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 2020.

The average present value appraised by the relevant expert of the cost of integrating and substituting the pension plan for the 110 beneficiaries is in line with the amount recognised in the financial statements.

Technical accounts at 31/12/2020	
Average present value - immediate	7,372
Average present value - total charges	7,372
Mathematical reserve at 31/12/2019	8,278
Equity at 31/12/2020	7,806
Mathematical provision	7,372
TECHNICAL SURPLUS	**434**
Calculation of actuarial gains/losses for IFRS purposes	
Mathematical provision at 31 December 2019	8,278
Interest cost	68
Service cost	0
Payments	-565
Accumulated net actuarial gain at 31/12/2020	**-409**

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 € 68 thousand and the actuarial gain to € 409 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	-	-
- 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	**19,003**	**55,957**	**- 7,135**
INCREASES	**600**	**5,397**	**-**
Allocation of profits	600	5,397	-
DECREASES	**-**	**-**	**-**
Other changes (FTA reserve)	-	-	-
CLOSING BALANCE	**19,603**	**61,354**	**- 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	19,602,808.72	B	11,754,591.22		
Statutory reserve	61,354,920.43	B	-		
Other reserves:					
FTA reserve (IAS/IFRS adoption)	- 13,265,284.23		-		
Fair value reserve (HTCS securities)	3,432,342.57		-		
Actuarial reserve	- 2,737,275.68		-		
Retained earnings	-		-		
Total	**163,540,262.26**		**67,666,254.17**	**-**	**-**
Undistributable portion (4)			367,949.12		
Remaining distributable portion			67,298,305.05		

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

Profit distribution plan			
PROFIT FOR THE YEAR			**4,631,993**
Reserves as per article 6 of Legislative decree no. 38/2005:			
fair value gains recognised in profit or loss (to be recognised in the relevant reserve)			-
other			-
Unavailable profits			-
DISTRIBUTABLE PROFIT FOR THE YEAR			**4,631,993.00**
10% to the legal reserve			**463,199.00**
15% to the statutory reserve			**694,799.00**
- **Shareholder remuneration:** dividend per share	**1.400**		
- Shares held by Banca Intesa S.p.A.	*253,250.00*	*354,550.00*	
- Shares: held by Fondazione Cassa di Risparmio di Fermo	*506,500.00*	*709,100.00*	
Dividends to be distributed			**1,063,650.00**
Remainder to the statutory reserve			**2,410,345.00**
Summary of allocation			
To the legal reserve		463,199.00	
To the statutory reserve		3,105,144.00	
Total increase in equity			**3,568,343.00**
Dividends			**1,063,650.00**
TOTAL DISTRIBUTABLE PROFIT			**4,631,993.00**

The profit for the year to be allocated amounts to € 4,631,993

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

- to the shareholders as a unit dividend of € 1.40, corresponding to 10% of the 2019/2020 accrued profit, as required by the supervisory body, taking into account the request of the ECB and the Bank of Italy to limit the distribution of dividends given the persistent uncertainty around the economic impact of the pandemic;
- 10% to the legal reserve, i.e., € 463,199;
- € 694,799 to the statutory reserve;
- the remaining € 2,410,345 also to the statutory reserve.

After the allocation set out above pursuant to article 25 of the by-laws, the legal reserve, which amounted to € 19,602,809 at 31/12/2020, will amount to € 20,066,008 exceeding one fifth of the share capital as per article 2430 of the Italian Civil Code by € 12,217,790.

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 12/2020	Amount at 12/2019
	(Stage 1)	(Stage 2)	(Stage 3)		
Loan commitments	**513,488**	**46,410**	**4,047**	**563,945**	**495,712**
a)Central banks	-	-	-	-	-
b)Public administrations	45,209	-	-	45,209	35,393
c)Banks	7,332	-	-	7,332	-
d)Other financial companies	6,514	83	-	6,597	6,718
e)Non-financial companies	399,375	33,326	3,824	436,525	395,964
f)Households	55,058	13,001	223	68,282	57,637
Financial guarantees given	**16,713**	**4,506**	**120**	**21,339**	**26,577**
a)Central banks	-	-	-	-	-
b)Public administrations	21	-	-	21	29
c)Banks	4,551	-	-	4,551	4,770
d)Other financial companies	2,972	130	-	3,102	2,152
e)Non-financial companies	7,753	3,774	120	11,647	17,314
f)Households	1,416	602	-	2,018	2,312

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 12/2020	Amount at 12/2019
1. Financial assets at fair value through profit or loss	570	905
2. Financial assets at fair value through other comprehensive income	-	-
3. Financial assets at amortised cost	228,240	53,498
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 ECB's monetary policies for € 228,240 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	**1,756,431**
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	552,138
1. securities issued by the reporting entity	*26,161*
2. other securities	*525,977*
c) party securities deposited with third parties	525,649
d) securities owned by the bank deposited with third parties	678,644
4. Other	**-**

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 12/2020	Total at 12/2019
1. Financial assets at fair value through profit or loss:	1,739	-	-	1,739	2,265
1.1 Financial assets held for trading	1,739	-	-	1,739	2,178
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value	-	-	-	-	87
2. Financial assets at fair value through other comprehensive income	1,641	-		1,641	1,327
3. Financial assets at amortised cost	2,103	27,890		29,993	29,715
3.1 Loans and receivables with banks	-	520		520	62
3.2 Loans and receivables with customers	2,103	27,370		29,473	29,653
4. Hedging derivatives			-	-	-
5. Other assets			-	-	-
6. Financial liabilities				-	-
Total	**5,483**	**27,890**	**-**	**33,373**	**33,307**
- including: interest income on credit-impaired exposures	-	3,373	-	3,373	2,733
- including: interest income on finance leases	-	-	-	-	-

a) 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 (€ 2,525 thousand);
2. Past due/overdrawn by more than 90 days (€ 14 thousand).

b) Interest income accrued on NPE due to the passage of time, included in item 3.2 of the above table, totals € 3,342,556.
c) Interest accrued on the PELTRO and TLTRO-III ECB financing totalled € 482.5 and is included in item 3.1. column 2 “financing” of the above table.

1.2 Interest and similar income: other information

1.2.1 Interest income on foreign currency financial assets

Tax base / Amount	Total at 12/2020	Total at 12/2019
1.3.1 Interest income on foreign currency financial assets	524	693

1.3 Interest and similar expense: breakdown

Tax base / Products	Financial liabilities	Securities	Other	Total at 12/2020	Total at 12/2019
1. Financial liabilities at amortised cost	- 1,614	- 584	-	- 2,198	- 2,749
1.1 Due to central banks	-		-	-	-
1.2 Due to banks	*- 38*		-	*- 38*	*- 23*
1.3 Due to customers	*- 1,576*		-	*- 1,576*	*- 2,216*
1.4 Securities issued		*- 584*	-	*- 584*	*- 510*
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities designated at fair value	-	-	-	-	-
4. Other liabilities and provisions			-	-	-
5. Hedging derivatives			-		-
6. Financial assets				- 14	- 214
Total	**- 1,614**	**- 584**	**-**	**- 2,212**	**- 2,963**
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 12/2020	Total at 12/2019
1.4.1 Interest expense on foreign currency liabilities	- 8	- 28

Section 2 – Fees and commissions - Captions 40 and 50

2.1 Fee and commission income: breakdown

Service / Amount	Total at 12/2020	Total at 12/2019
a) guarantees given	**242**	**270**
b) credit derivatives	**-**	**-**
c) management, brokerage and consultancy services:	**8,981**	**9,140**
1. trading in financial instruments	126	95
2. foreign currency transactions	66	96
3. individual asset management	-	-
4. securities custody and administration	77	79
5. depository services	-	-
6. securities placement	4,367	4,327
7. order collection and transmission	416	361
8. consultancy services	-	-
8.1 concerning investments	-	-
8.2 concerning financial structure	-	-
9. distribution of third party services	3,929	4,182
9.1. asset management	*249*	*249*
9.1.1. individual	*129*	*133*
9.1.2. collective	*120*	*116*
9.2. insurance products	*2,409*	*2,704*
9.3. other products	*1,271*	*1,229*
d) collection and payment services	**2,673**	**2,926**
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	**9,368**	**9,595**
j) other services	**3,600**	**3,660**
Total	**24,864**	**25,591**

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

Loan preliminary investigation fees	627
Financing fees	406
Bancomat (debit card) and home banking fees	829
Fees for other bank services	691
Bank transfer fees	1,047

[2] Amount (€’000)

2.2 Fee and commission income: product and service distribution channels

Channel / Amount	Total at 12/2020	Total at 12/2019
a) own branches:	**8,296**	**8,508**
1. asset management	-	-
2. securities placement	4,367	4,327
3. third party services and products	3,929	4,181
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 12/2020	Total at 12/2019
a) guarantees received	**- 5**	**- 12**
b) credit derivatives	**-**	**-**
c) management and brokerage services:	**- 455**	**- 406**
1. trading in financial instruments	- 211	- 152
2. foreign currency transactions	-	-
3. asset management:	- 192	- 209
3.1 own portfolio	*-*	*-*
3.2 third party portfolios	*- 192*	*- 209*
4. securities custody and administration	- 52	- 45
5. placement of financial instruments	-	-
6. off-premises distribution of securities, products and services	-	-
d) collection and payment services	**- 1,279**	**- 1,050**
e) other services	**- 90**	**- 45**
Total	**- 1,829**	**- 1,513**

Section 3 - Dividends and similar income - Item 70

3.1 Dividends and similar income: breakdown

Tax base / Income	Total at 12/2020		Total at 12/2019	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	-	329	-	970
B. Other financial assets mandatorily measured at fair value	-	-	-	-
C. Financial assets at fair value through other comprehensive income	953	-	997	-
D. Equity investments	-	-	-	-
Total	**953**	**329**	**997**	**970**

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	**572**	**2,151**	**595**	**2,283**	**- 155**
1.1 Debt instruments	565	709	444	806	24
1.2 Equity instruments	7	1,442	54	20	1,375
1.3 OEIC units	-	-	97	1,457	- 1,554
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					**- 816**
4. Derivatives	**8,081**	**-**	**5,965**	**-**	**2,116**
4.1 Financial derivatives:	8,081	-	5,965	-	2,116
- On debt securities and interest rates	8,081	-	5,965	-	2,116
- 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	**8,653**	**2,151**	**6,560**	**2,283**	**1,145**

EXPENSES AND LOSSES:			REVENUE AND PROFITS:		
Tax base	2020	2019	Tax base	2020	2019
A) Opening balance in foreign curren	1,287	903	E) Revenue from currency	127,154	122,367
B) Cost of purchasing currency	127,013	122,649	F) Closing balance	962	1,287
D) Total costs	**128,300**	**123,552**	**H) Total revenue**	**128,116**	**123,654**

SUMMARY:

	2020	2019
(+) Total revenue	***128,116***	***123,654***
(-) Total costs	***- 128,300***	***- 123,552***
(+) Currency fees	***50***	***52***
(-) Losses (+) gains on currencies	***97***	***- 152***
(-) Impairment losses (+) gains on	***- 581***	***50***
(-) Impairment losses (+) gains on	***-***	***13***
Profit from currency valuation	***- 618***	***65***

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

6.1 Gain (loss) from sales/repurchases: breakdown

Tax base / Income statement item	Total at 12/2020			Total at 12/2019		
	Gains	Losses	Net gain	Gains	Losses	Net gain
Financial assets						
1. Financial assets at amortised cost	5,268	-	5,268	4,858	- 284	4,574
1.1 Loans and receivables with banks	-	-	-	-	-	-
1.2 Loans and receivables with customers	*5,268*	-	*5,268*	*4,858*	*- 284*	*4,574*
2. Financial assets at fair value through other comprehensive income	11,860	- 1,641	10,219	12,075	- 2,719	9,356
2.1 Debt instruments	*11,860*	*- 1,641*	*10,219*	*12,075*	*- 2,719*	*9,356*
2.2 Financing	-	-	-	-	-	-
Total assets	**17,128**	**- 1,641**	**15,487**	**16,933**	**- 3,003**	**13,930**
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 profit made from the sale of securities included in the HTC portfolio, for € 5,268 thousand. As indicated in the directors’ report, investments made as part of the HTC portfolio mainly targeting the coupon flow were nearly entirely represented by Italian government bonds. The opportunities found on the markets as a result of Italy’s changing economic and political situation, as well as signs of an upturn in market rates in the final period of the year, led the bank to sell securities from the HTC portfolio for a total nominal amount of € 102 million, making total gains of € 5,268 thousand. The securities sold were replaced with Italian government bonds in line with the business model’s objective to support net interest income. The sales were carried out in full compliance with IFRS 9 and the bank’s policy for financial risk.

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	**-**	**-**	**216**	**-**	**- 216**
1.1 Debt instruments	-	-	216	-	- 216
1.2 Equity instruments	-	-	-	-	-
1.3 OEIC units	-	-	-	-	-
1.4 Financing	-	-	-	-	-
2. Foreign currency financial assets: Exchange gains (losses)					**-**
Total	**-**	**-**	**216**	**-**	**- 216**

The amount shown in the above table refers to the total impairment of the amount paid for the CARIGE securities held by the voluntary scheme of the Interbank Guarantee Deposit Fund.

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 12/2020	Total at 12/2019
	Stages 1 and 2	Stage 3		Stages 1 and 2	Stage 3		
		Write-offs	Other				
A. Loans and receivables with banks	**- 6**			**-**	**-**	**- 6**	**- 4**
- Financing	- 6	-	-	-	-	- 6	- 4
- Debt instruments	-	-	-	-	-	-	-
Including: purchased or originated credit-impaired	-	-	-	-	-	-	
B. Loans and receivables with customers	**- 3,054**	**- 624**	**- 23,947**	**88**	**5,629**	**- 21,908**	**- 19,748**
- Financing	- 2,998	- 624	- 23,947	-	5,629	- 21,940	- 19,871
- Debt instruments	- 56	-	-	88	-	32	123
Including: purchased or originated credit-impaired	-	-	-	-	-	-	-
C. Total	**- 3,060**	**- 624**	**- 23,947**	**88**	**5,629**	**- 21,914**	**- 19,752**

8.1a Net impairment losses for credit risk relating to financing at amortised cost subject to COVID-19 support measures: breakdown

Transaction / Income statement item	Net impairment losses			Total at 12/2020	Total at 12/2019
	Stages 1 and 2	Stage 3			
		Write-offs	Other		
1. Financing subject to forbearance compliant with the GLs	156	-	3,633	3,789	-
2. Financing subject to other forbearance measures	49	-	- 60	- 11	-
3. New financing	1,608	-	87	1,695	-
Total	**1,813**	**-**	**3,660**	**5,473**	**-**

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 12/2020	Total at 12/2019
	Stages 1 and 2	Stage 3		Stages 1 and 2	Stage 3		
		Write-offs	Other				
A. Debt instruments	**- 193**	**-**	**-**	**65**	**-**	**- 128**	**- 113**
B. Financing	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- With customers	-	-	-	-	-	-	-
- With banks	-	-	-	-	-	-	-
Including: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	-
D. Total	**- 193**	**-**	**-**	**65**	**-**	**- 128**	**- 113**

Section 9 – Modification gains/losses - Caption 140

9.1 Modification gains/losses: breakdown

Tax base / Amount	Total at 12/2020	Total at 12/2019
9.1 Modification gains/losses: breakdown	- 407	- 531

Section 10 - Administrative expenses – Caption 160

10.1 Personnel expense: breakdown

Expense / Amount	Total at 12/2020	Total at 12/2019
1) Employees	**- 24,918**	**- 25,777**
a) wages and salaries	- 17,583	- 18,083
b) social security contributions	- 4,673	- 4,877
c) post-employment benefits	- 1,011	-
d) pension costs	-	-
e) accrual for post-employment benefits	- 27	- 1,104
f) accrual for pension and similar provisions:	- 68	- 123
- defined contribution	-	-
- defined benefit plans	*- 68*	*- 123*
g) payments to external supplementary pension funds	- 597	- 608
- defined contribution	*- 597*	*- 608*
- defined benefit plans	-	-
h) costs of share-based payment plans	-	-
i) other employee benefits	- 959	- 982
2) Other personnel	**-**	**- 83**
3) Directors and statutory auditors	**- 523**	**- 728**
4) Retired personnel	**-**	**-**
5) Cost recoveries for personnel seconded to other companies	**-**	**-**
6) Cost reimbursements for personnel seconded to the bank	**-**	**-**
Total	**- 25,441**	**- 26,588**

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	6,441.29	law no. 92/2012 women unemployed over 24 months
2	INPS	75,447.09	law no. 205/2017 recruitment of young people
3	INPS	9,233.74	law no. 68/99 and 247/2007 disabled people
4	INPS	22,913.10	Decree law no. 151/2015 art. 10 disabled people
5	INPS	5,186.00	NASPI recipients law no. 92/2012 art. 2 subsection 15 decree law no. 76/2013
6	INPS	13,234.08	Southern Bonus
	Total economic benefits received	**132,455.30**	

10.1.1 Wages and salaries: bonuses

Expense / Amount	Total at 12/2020	Total at 12/2019
a) wages and salaries	- 17,583	- 18,083
- including: bonuses	*- 1,159*	*- 942*

10.2 Average number of employees per category

Breakdown	2020 peak value	2020 average	2019 peak value
• Employees	**351**	**344**	**362**
a) managers	2	2	2
b) junior managers	97	100	103
- including: 3rd and 4th level	*47*	*48*	*49*
c) other employees (including cleaning staff)	252	242	257
- including: 3rd professional group	*251*	*240*	*254*
- including: 2nd professional group	*1*	*2*	*2*
- including: cleaning staff	*-*	*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	12/2020	12/2019
Remuneration on supplementary pension fund - interest cost	- 68	123

10.4 Other employee benefits

Expense/Amount	12/2020	12/2019
Other employee benefits	- 959	- 982

This caption mainly comprises training costs of € 116 thousand, life, accident and health insurance policies of € 341 thousand, lunch vouchers of € 431 thousand and other employee benefit payments of € 71 thousand.

10.5 Other administrative expenses: breakdown

Components	12/2020	12/2019
1 - credit collection legal fees	- 1,056	- 1,868
2 - sundry and technical legal consultancy	- 833	- 1,035
3 - maintenance, repairs, conversions	- 1,449	- 1,111
4 - cleaning services	- 654	- 597
5 - rental of machinery and data transmission lines	- 1,126	- 1,113
6 - security and security transportation	- 522	- 572
7 - lighting and heating	- 453	- 531
8 - stationery and printed matter	- 143	- 202
9 - postal, telegraph, telex, telephone	- 293	- 358
10 - insurance	- 313	- 338
11 - advertising	- 290	- 373
12 - subscriptions and purchases of publications	- 95	- 94
13 - third party service costs	- 4,396	- 4,098
14 - transportation and relocation	- 204	- 256
15 - membership fees	- 223	- 293
16 - contribution to the National Resolution Fund and the Interbank Guarantee Deposit Fund	- 1,690	- 1,263
17 - car leases	- 31	- 35
18 - information and Chamber of Commerce business register file searches	- 511	- 615
19 - other	- 225	- 293
Subtotal of other administrative expenses	**- 14,507**	**- 15,045**
Indirect taxes and duties		
1 - stamp duty	- 3,450	- 3,500
2 - own municipal tax	- 371	- 354
3 - other	- 617	- 633
Total indirect taxes and duties	**- 4,438**	**- 4,487**
Total other administrative expenses	**- 18,945**	**- 19,532**

"Maintenance, repair and conversions" relate to work performed to make the buildings usable. Therefore, they have been expensed.

The contractual amounts paid in 2020 to the independent auditors, net of expenses and VAT and the contribution to the supervisory authority, are as follows:

Service	Service provider	Fees
Statutory audit	Deloitte & Touche S.p.A.	62,000
Attestation services	Deloitte & Touche S.p.A.	42,000
Other services	Deloitte & Touche S.p.A.	3,000
TOTAL		**107,000**

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	12/2020
Loan commitments:	**-**
- commitments for endorsement credits	-
- other commitments	-
Financial guarantees given:	**429**
- guarantees given	-
- other guarantees given	429
Total	**429**

11.3 Net accruals to other provisions: breakdown

Tax base / Amount	12/2020
1 - accrual for legal disputes	- 182
2 - accrual for claw-back claims	- 223
3 - other	-
Total accruals	**- 405**
4 - utilisation to settle claw-back claims	206
Total utilisations	**206**
Total net accruals at 31/12/2020	**- 199**

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

12.1 Depreciation and net impairment losses on property, equipment and investment property: 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	- 2,586	-	-	- 2,586
- owned	*- 1,311*	-	-	*- 1,311*
- rights of use acquired with leases	*- 1,275*	-	-	*- 1,275*
2. Investment	- 14	-	-	- 14
- owned	*- 14*	-	-	*- 14*
- rights of use acquired with leases	-	-	-	-
3. Inventories		-	-	-
Total	**- 2,600**	**-**	**-**	**- 2,600**

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	- 52	-	-	- 52
- Generated internally	-	-	-	-
- Other	*- 52*	-	-	*- 52*
A.2 Rights of use acquired with leases	-	-	-	-
Total	**- 52**	**-**	**-**	**- 52**

Section 14 - Other operating income, net - Caption 200

14.1 Other operating expense: breakdown

Tax base / Amount	12/2020	
1 - Charitable donations	-	5
2 - Contributions to bodies and municipalities receiving treasury services	-	2
3 - Amortisation of leasehold improvements	-	242
4 - Losses for robberies	-	17
5 - Other	-	145
Total other operating expense	**-**	**411**

Item "5 – Other" includes € 51 thousand related to payments to settle expenses and interest accrued in 2019, € 18 thousand for higher repayments on IT services, € 28 thousand for higher repayments on banking services and € 24 thousand for settlement agreements on civil litigation for interest exceeding the legal rate.

14.2 Other operating income: breakdown

Tax base / Amount	12/2020
1 - Recoveries of administrative expenses	4,732
2 - Security box fees	70
3 - Lease income	440
4 - Other income	846
Total other operating income	**6,088**
Total caption 200	**5,677**

Caption "1 - Recoveries of administrative expenses" includes:

- recoveries of indirect taxes (stamp duty, substitute tax on medium- and long-term financing, registration fees) for € 3,844 thousand;
- recoveries of legal fees for € 469 thousand;
- fast credit processing fees for € 171 thousand;
- recoveries of postal, insurance and telephone fees for € 213 thousand.

Item "4 - Other income" includes:

- recovery of fines and fees on current accounts and deposits of € 8 thousand;
- recoveries on financing for € 36 thousand;
- prior year income of € 743 thousand;
- Enbicredito employment fund contributions of € 67 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	31/12/2020	31/12/2019
A. Property	**-**	**-**
- Gains on sales	-	-
- Losses on sales	-	-
B. Other assets	**-**	**-**
- Gains on sales	1	2
- Losses on sales	- 1	- 2
Net gain	**-**	**-**

Section 19 - Income taxes - Caption 270

19.1 Income taxes: breakdown

Income statement item / Amount	31/12/2020	31/12/2019
1. Current taxes (-)	- 1,943	- 3,214
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 (+/-)	- 1,940	- 297
5. Change in deferred tax liabilities (+/-)	-	17
6. Utilisation of prior year tax provision (+)	-	-
7. Income taxes (-) (-1+/-2+3+/-4+/-5)	**- 3,883**	**- 3,648**

19.2 Reconciliation between the theoretical and effective tax expense

Income statement item / Tax base	Amounts	Balance
Pre-tax profit	8,515	
Effective IRES tax rate	27.50%	
Theoretical tax expense		2,342
Permanent and temporary differences for IRES purposes		*- 1,152*
a) dividends	- 475	
b) other	- 3,715	
IRES tax		**1,190**
Pre-tax profit	8,515	
Effective IRAP tax rate	5.50%	
Theoretical tax expense		468
Permanent differences for IRAP purposes	**-**	*285*
a) non-deductible personnel expense	2,141	
b) impairment losses/gains on loans and receivables	3,036	
c) other	-	
IRAP tax		**753**
Income tax expense		**1,943**
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”		492
Income tax benefit		**2,435**

Section 22 – Earnings per share

22.1 Average number of ordinary shares with dilutive effect

	31/12/2020	31/12/2019
Weighted average number of shares	759,750	759,750
Profit attributable to the share categories (Euro)	4,631,993	4,497,549
Basic EPS (Euro)	6.10	7.89
Diluted EPS (Euro)	6.10	7.89

Pursuant to IAS 33.10/33, the basic earnings per share (EPS) are € 4.57. 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	12/2020	12/2019
10.	**Profit for the year**	**4,632**	**5,997**
	Items that will not be reclassified to profit or loss		
20.	Equity instruments at fair value through other comprehensive income:	-18	66
	a) Fair value losses	*-18*	*66*
	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, equipment and investment property	-	-
60.	Intangible assets	-	-
70.	Defined benefit plans	300	-474
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	-78	112
	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:	6,112	1,184
	a) fair value gains (losses)	*4,739*	*-1,423*
	b) reclassification to profit or loss	*1,373*	*2,607*
	- impairment losses for credit risk	*-4*	*11*
	- gains/(losses) on sales	*1,377*	*2,596*
	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	-1,517	-294
190.	**Total other comprehensive expense**	**4,799**	**594**
200.	**Comprehensive income (expense) (captions 10 + 130)**	**9,431**	**6,591**

PART E
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 Compliance and Privacy 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 Explanatory notes 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. 285/2013, Part Three, Chapter 11 (Risk-weighted assets and conflicts of interest with related parties) every quarter;
- participating in the finance committee, which ensures the coordinated management of the portfolio managed and the issues pertaining to market, interest rate and liquidity risks; the committee is also attended by the general manager, the head of the administration, control and finance unit, the head of the finance unit and the head of the treasury and finance office.

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.

Impact arising from the COVID-19 pandemic

With communication on 30 June 2020, the Bank of Italy transposed the EBA guidelines on reporting and disclosure obligations on exposures subject to measures applied in response to the COVID-19 crisis (EBA/GL/2020/07). These guidelines require that intermediaries provide information about the financing subject to “moratoria” that fall within the scope of application of the EBA guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis (EBA/GL/2020/02); on the financing subject to forbearance measures applied following the COVID-19 crisis and on the new financing guaranteed by the government or another public body. The aforesaid information was applied from 30 June 2020 then every six months. The information envisaged by guideline EBA/GL/2020/07 of 31 December 2020 is contained in the Market Disclosures (“Pillar Three”), available on the pages dedicated to financial statements on the www.carifermo.it website.

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.
- Compliance and Privacy 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.

It is useful to remember that the ICAAP/ILAAP document for 2019 and sent in June 2020 was prepared in accordance with the Bank of Italy letter dated April 2020, addressing "ICAAP/ILAAP obligations and recovery plans". In order to take into consideration the changing national and regional economic scenario caused by the COVID-19 pandemic, as required by the Bank of Italy, the Risk Management Unit has prepared additional sensitivity analyses. In particular, for the purposes of quantifying the future credit risk related to 2021-2022, the annual deterioration rates observed in 2008-2009 and 2012-2013 were considered. At the request of the supervisory authority, the part related to measures to be implemented in case of the necessity to restore the indicators (financial, liquidity, credit quality and profitability, etc.) was also prepared, limited to the performance of the relevant indicators.

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

Changes due to COVID-19

As a result of the changing macroeconomic scenario characterised by the COVID-19 pandemic, as of 30 June 2020, for the purposes of determining the expected credit loss (ECL) of performing exposures, the quarterly update of the forward-looking scenario components provided by a leading consulting company was carried out, in order to monitor the impact of the pandemic on the economic system more promptly. The main macroeconomic variables used for the definition of the year-end scenario also outlined a recession for 2021, with significant follow-on effects on economic activities which will not make recovery to pre-crisis levels possible before 2023.

Assessment of the significant increase in credit risk (SICR)

In order to support and alleviate the negative consequences for companies, households and local entities associated with the COVID-19 emergency, the bank promptly launched all economic support measures adopted by the government and trade associations.

As regards moratoria, at 31 December 2020 less than 25% of term loans with customers were covered by COVID moratoria. An analysis of the business sectors affected shows that in absolute terms the sectors characterised by more significant amounts hedged by moratoria are "Manufacturing" (with € 49.8 million), "Property" (with € 40.6 million) and "Construction" (with € 32 million).

Considering the financing disbursed pursuant to Decree Law no. 18 of 17/3/2020 ("Cura Italia") and Decree Law no. 23 of 8/4/2020 (the "Liquidity Decree"), hereinafter referred to as "COVID financing", at the end of the 2020 this totalled around € 144 million. With reference to new financing and renegotiations (Cura Italia and Liquidity decree laws), companies in the "Manufacturing" sector hold the main portion of the COVID financing granted.

Given the extraordinary nature of the events, in order to monitor the trend of performing exposures and promptly assess the possible negative impacts, from April 2020, the Risk Management Function launched the monthly monitoring of performing exposures and related provisions. By preparing new reports, changes in customers' credit risk were monitored month by month and the positions that worsened in association with the COVID-19 pandemic were identified. Following this, they were recognised in Stage 2 or received higher PD values associated with a lower rating class.

Furthermore, the Credit Monitoring Function launched specific credit monitoring activities in 2020 intended to anticipate any critical situations associated with the end of the measures envisaged by the various government decrees in support of the economy. The analysis and assessment process was structured into two phases. In the first phase, the positions that were benefiting from the measures envisaged by the decree known as Cura Italia, art.56, paragraph 2, letter b) and c). were analysed. The positions were assessed analytically and at the end of this process, each counterparty was assigned an impairment risk level, while also identifying any measures to be implemented. Subsequently, in December 2020, the second phase was launched, which involved the expansion of the scope of positions analysed and envisaged the automatic assignment of risk scores based on certain indicators.

On these positions, and in particular on those on which targeted support measures were launched (moratoria, newly granted credit facilities, etc.), in line with the provisions of the EBA, IASB and ESMA measures in relation to the medium-term shock caused by the COVID-19 epidemic, suitable in-depth analyses were performed in collaboration with the Risk Management Unit, including in order to assess the transition of the bank's counterparty to Stage 2.

Measurement of expected 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).

As part of its policy for managing loans and receivables with customers, the bank adopted rules and processes for monitoring relations, which led, among other things, to a structured classification of them into standardised risk categories (stages), also taking, as previously mentioned, into adequate consideration the particular context of macroeconomic uncertainty deriving from the COVID-19 pandemic and the effects of the legislative and professional moratorium measures issued during the financial year, in addition to other support measures introduced by the government.

The bank 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 IT outsourcer.

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

In light of the pandemic, as described in the previous sections, in 2020 additional performing exposure monitoring activities were launched in order to assess any transition of additional counterparties to Stage 2.

As a result of the pandemic, the quarterly update of the forward-looking components of the variables used to define ECL (expected credit loss) was also carried out in 2020. In particular, the PD curves and danger rates were updated each quarter based on the scenario information made available by Prometeia every three months. In terms of the basic scenario used at year end, the outlook of the main macroeconomic variables is shown below:

Base scenario - Indicators	2021	2022	2023
GDP ITALY (% diff.)	6.2	2.8	1.8
GDP EMU (% diff.)	5.3	2.8	1.8
Unemployment rate (% level)	11.3	10.8	10.3
Propensity to consume (% level)	88.8	90.1	91.0
Consumer prices (% diff.)	0.7	1.1	1.5

As required by law, the expected credit losses were calculated on the basis of 3 possible scenarios adequately weighted to reflect an objective amount in relation to their different probabilities of occurrence. The impairment model actually considers a basic scenario with a 90% probability of occurrence, a “down” scenario and an “up” scenario with 5% probability of occurrence.

In terms of the possibility granted by the EBA/IASB communications issued in spring 2020 following the COVID emergency to mitigate the LGD of the relations assisted by government guarantee/counter-guarantee due to the presence of an eligible guarantor/counter-guarantor, such as the Italian government, the bank has decided not to avail itself of said specific treatment for the moment.

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. In November 2019 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 2021-2023 period. The strategy is based on the following key points: reduction in the default entry rate, by strengthening the performing exposure monitoring processes and improved selectiveness of the credit rating; reduction in NPE, including through transfers of non-performing exposures; maintenance at adequate recovery levels and maintenance of adequate coverage rates of NPE. The two main quantitative macro-objectives envisaged by the business plan are a ratio between gross NPL and gross lending of 10.7% in 2021, 9.8% in 2022 and 9.4% in 2023 and a coverage rate of non-performing exposures of 53.6% in 2021 and 55% in 2022-2023.

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 2020 amount to € 54,111 thousand in gross terms; these include exposures subject to forbearance measures with performing counterparties for € 15,821 thousand. The non-performing forborne exposures include bad exposures for € 13,136 thousand, unlikely to pay for € 25,152 thousand and non-performing past due for € 2 thousand.

Participation in the economic support measures implemented by the government and trade associations, as general payment moratoria, did not automatically lead to the reclassification of the exposures as forborne according to the provisions of guideline EBA/GL/2020/02 ("Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis").

Nevertheless, in cases that presented a state of prior financial difficulty, the disbursement was considered a forbearance measure.

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	29,202	41,104	202	29,266	1,268,893	**1,368,667**
2. Financial assets at fair value through other comprehensive income	-	-	-	-	483,020	**483,020**
3. Financial assets designated at fair value	-	-	-	-	-	**-**
4. Other financial assets mandatorily measured at fair value	-	-	-	-	-	**-**
5. Financial assets held for sale	-	-	-	-	-	**-**
31/12/2020	**29,202**	**41,104**	**202**	**29,266**	**1,751,913**	**1,851,687**
31/12/2019	**33,209**	**36,977**	**3,112**	**73,824**	**1,300,981**	**1,448,103**

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	157,553	87,045	70,508	13,426	1,309,087	10,928	1,298,159	1,368,667
2.Financial assets at fair value through other comprehensive income	-	-	-	-	483,152	132	483,020	483,020
3. Financial assets designated at fair value	-	-	-	-			-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-			-	-
5. Financial assets held for sale	-	-	-	-	-	-	-	-
31/12/2020	**157,553**	**87,045**	**70,508**	**13,426**	**1,792,239**	**11,060**	**1,781,179**	**1,851,687**
31/12/2019	**153,684**	**80,386**	**73,298**	**7,916**	**1,382,795**	**8,206**	**1,374,805**	**1,448,103**

Partial write-offs of non-performing exposures totalled € 13,426 thousand.

It had 20 bad exposures under deed of arrangement at 31 December 2020 (€ 2,762 thousand gross).

Nine positions, for a gross amount of € 2,172 thousand, classified as bad exposures in 2019, were wound up in 2020.

Furthermore, during the current financial year, one position under deed of arrangement for € 55 thousand was classified as a bad exposure, previously classified as unlikely to pay.

The unlikely to pay exposures at 31 December 2020 include:

- five positions under deed of arrangement (€ 1,912 thousand);
- one position under deed of arrangement, currently in the cure period (€ 1,456 thousand);

Portfolio/quality	Assets with poor credit quality		Other assets
	Accumulated losses	Carrying amount	Carrying amount
1. Financial assets held for trading	-	-	134,374
2. Hedging derivatives	-	-	-
31/12/2020	**-**	**-**	**134,374**
31/12/2019	**-**	**-**	**145,870**

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	18,129	2	-	8,444	1,970	720	1,352	679	54,131
2. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-	-	-	-
31/12/2020	**18,129**	**2**	**-**	**8,444**	**1,970**	**720**	**1,352**	**679**	**54,131**
31/12/2019	**33,048**	**-**	**-**	**31,333**	**7,276**	**2,167**	**3,429**	**920**	**64,833**

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	**3,715**	**135**	**-**	**-**	**3,850**	**4,356**	**-**	**-**	**-**	**4,356**	**80,385**	**-**	**-**	**80,385**	**-**	**-**	**54**	**31**	**457**	**89,133**
Increase in purchased or originated credit-impaired financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cancellations other than write-offs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net impairment losses (gains) for credit risk (+/-)	2,560	- 3	-	81	2,557	296	-	-	-	296	15,661	-	-	15,661	-	-	11	- 6	- 434	18,085
Modification losses (gains)	407	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	407
Changes in estimation methodology	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs not directly recognised in profit or loss	-	-	-	-	-	-	-	-	-	-	- 9,002	-	-	-	-	-	-	-	-	- 9,002
Other changes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Closing balance	**6,682**	**132**	**-**	**81**	**6,407**	**4,652**	**-**	**-**	**-**	**4,652**	**87,044**	**-**	**-**	**96,046**	**-**	**-**	**65**	**25**	**23**	**98,623**
Collections of written-off financial assets	-	-	-	-	-	-	-	-	-	-	193	-	-	-	-	-	-	-	-	193
Write-offs recognised directly in profit or loss	- 53	-	-	-	-	-	-	-	-	-	- 624	-	-	-	-	-	-	-	-	- 677

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.

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	74,055	47,777	19,336	1,620	6,951	232
2. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-
4. Loan commitments and financial guarantees given	18,228	28,571	541	29	345	64
31/12/2020	**92,283**	**76,348**	**19,877**	**1,649**	**7,296**	**296**
31/12/2019	**96,147**	**57,803**	**7,254**	**1,031**	**5,541**	**2,019**

A.1.5a Financing subject to COVID-19 support measures: transfers among the various credit risk stages (gross 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
A. Financing at amortised cost	**36,520**	**15,264**	**11,449**	**419**	**393**	**41**
A.1 subject to forbearance compliant with the GLs	25,449	12,368	11,439	74	390	16
A.2 subject to other forbearance measures	813	-	10	345	-	-
A.3 new financing	10,258	2,896	-	-	3	25
B. Financing at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**
B.1 subject to forbearance compliant with the GLs	-	-	-	-	-	-
B.2 subject to other forbearance measures	-	-	-	-	-	-
B.3 new financing	-	-	-	-	-	-
31/12/2020	**36,520**	**15,264**	**11,449**	**419**	**393**	**41**
31/12/2019	**-**	**-**	**-**	**-**	**-**	**-**

A.1.6. On- and off-Balance sheet exposures with banks: gross and carrying amounts

Exposure / Amount	Gross amount		Total impairment losses and accruals	Carrying amount	Partial/total write-offs
	Non-performing exposures	Performing exposures			
A. ON-BALANCE SHEET					
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		47,454	15	47,439	-
- including: forborne exposures		-	-	-	-
TOTAL A	**-**	**47,454**	**15**	**47,439**	**-**
B. OFF-BALANCE SHEET					
a) Non-performing exposures	-		-	-	-
b) Performing exposures		11,954	8	11,946	-
TOTAL B	**-**	**11,954**	**8**	**11,946**	**-**
TOTAL A + B	**-**	**59,408**	**23**	**59,385**	**-**

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.1.6.1 Breakdown of off-statement of exposures with banks

Exposure / Amount	Gross amount		Total impairment losses and accruals	Carrying amount	Partial/total write-offs
	Non-performing exposures	Performing exposures			
B. OFF-BALANCE SHEET					
a) Non-performing exposures	-		-	-	-
a.1) Non-performing exposures	-		-	-	-
b) Performing exposures		*11,954*	*8*	*11,946*	-
b.1) Deposits for repos		-	-	-	-
b.2) Interbank Deposit Protection Fund (FITD)		4,552	8	4,544	-
b.3) Commitment with CC.OO to purchase securities		7,332	-	7,332	-
b.4) Interest rate derivatives		7	-	7	-
b.5) Currency forwards		63	-	63	-
TOTAL B	**-**	**11,954**	**8**	**11,946**	**-**

A.1.7 On- and off- Balance sheet exposures with customers: gross and carrying amounts

Exposure / Amount	Gross amount		Total impairment losses and accruals	Carrying amount	Partial/total write-offs
	Non-performing exposures	Performing exposures			
A. ON-BALANCE SHEET					
a) Bad exposures	86,166		56,964	29,202	13,426
- including: forborne exposures	*13,137*		*7,633*	*5,504*	*4,127*
b) Unlikely to pay exposures	71,146		30,042	41,104	-
- including: forborne exposures	*25,152*		*11,411*	*13,741*	-
c) Non-performing past due exposures	241		39	202	-
- including: forborne exposures	*2*		-	*2*	-
d) Performing past due exposures		30,314	573	29,741	-
- including: forborne exposures		*2,022*	*70*	*1,952*	-
e) Other performing exposures		1,848,677	10,472	1,838,205	-
- including: forborne exposures		*13,800*	*478*	*13,322*	-
TOTAL A	**157,553**	**1,878,991**	**98,090**	**1,938,454**	**13,426**
B. OFF-BALANCE SHEET					
a) Non-performing exposures	4,167		*23*	*4,144*	-
b) Performing exposures		576,662	82	576,580	-
TOTAL B	**4,167**	**576,662**	**105**	**580,724**	**-**
TOTAL A + B	**161,720**	**2,455,653**	**98,195**	**2,519,178**	**13,426**

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	Carrying amount	Partial/total write-offs
	Non-performing exposures	Performing exposures			
B. OFF-BALANCE SHEET					
a) Non-performing exposures	***4,167***		***23***	***4,144***	**-**
a.1) Financial endorsement credits	-		-	-	-
a.2) Commercial endorsement credits	120		23	97	-
a.3) Commitments of uncertain use	4,047		-	4,047	-
b) Performing exposures		***576,662***	***82***	***576,580***	**-**
b.1) Financial endorsement credits		48	-	48	-
b.2) Commercial endorsement credits		16,621	45	16,576	-
b.3) Commitments of uncertain use		551,933	36	551,897	-
b.4) Financing for repos		-	-	-	-
b.5) Commitment with II.CC to purchase securities issued by CC.OO.		7,332	-	7,332	-
b.6) Interest rate derivatives and forwards		7	-	7	-
b.7) Currency forwards		89	-	89	-
b.8) Risks associated with SFTs (repos)		-	-	-	-
b.9) Interbank Deposit Protection Fund - voluntary scheme		632	1	631	-
TOTAL B	**4,167**	**576,662**	**105**	**580,724**	**-**

A.1.7a Financing subject COVID-19 support measures: gross and carrying amounts

Exposure / Amount	Gross amount	Total impairment losses and accruals	Carrying amount	Partial/total write-offs
A. NON-PERFORMING FINANCING	**-**	**-**	**-**	**13,426**
a) Subject to forbearance compliant with the GLs	-	-	-	-
b) Subject to other forbearance measures	-	-	-	13,426
c) New financing	-	-	-	-
B. UNLIKELY TO PAY FINANCING	**13,673**	**3,938**	**9,735**	**-**
a) Subject to forbearance compliant with the GLs	11,906	3,663	8,243	-
b) Subject to other forbearance measures	1,414	192	1,222	-
c) New financing	353	83	270	-
C) NON-PERFORMING PAST DUE FINANCING	**28**	**5**	**23**	**-**
a) Subject to forbearance compliant with the GLs	28	5	23	-
b) Subject to other forbearance measures	-	-	-	-
c) New financing	-	-	-	-
D) PERFORMING PAST DUE FINANCING	**1,280**	**43**	**1,237**	**-**
a) Subject to forbearance compliant with the GLs	412	15	397	-
b) Subject to other forbearance measures	86	2	84	-
c) New financing	782	26	756	-
E) OTHER PERFORMING FINANCING	**355,309**	**5,229**	**350,080**	**-**
a) Subject to forbearance compliant with the GLs	207,780	3,594	204,186	-
b) Subject to other forbearance measures	2,461	89	2,372	-
c) New financing	145,068	1,546	143,522	-
TOTAL A + B + C + D + E	**370,290**	**9,215**	**361,075**	**13,426**

A.1.8 On- Balance sheet exposures with banks: gross non-performing positions

The table is not shown in these financial statements since there are no credit-impaired exposures with banks.

A.1.8-bis On- Balance sheet exposures with banks: gross forborne exposures broken down by credit quality

As a result of the information described in the previous section, this table is not shown either.

A.1.9 On-Balance sheet exposures with customers: gross non-performing positions

Reason/Category	Bad exposures	Unlikely to pay exposures	Non-performing past due exposures
A. Gross opening balance	**91,790**	**57,842**	**4,052**
- including: exposures transferred but not derecognised	-	-	-
B. Increases	**10,489**	**33,871**	**427**
B.1 from performing exposures	689	26,012	260
B.2 from purchased or originated credit-impaired exposures	-	-	-
B.3 transfers from other non-performing categories	7,765	3,280	-
B.4 modification gains	-	-	-
B.5 other increases	2,035	4,579	167
C. Decreases	**16,113**	**20,567**	**4,238**
C.1 transfers to performing exposures	-	1,383	353
C.2 write-offs	9,285	-	-
C.3 collections	6,684	10,521	339
C.4 sales	130	-	-
C.5 losses on sales	14	-	-
C.6 transfers to other non-performing categories	-	7,635	3,410
C.7 modification gains	-	-	-
C.8 Other decreases	-	1,028	136
D. Gross closing balance	**86,166**	**71,146**	**241**
- including: exposures transferred but not derecognised	-	-	-

A.1.9-bis On- Balance sheet exposures with customers: gross forborne exposures broken down by credit quality

Reason/Quality	Performing forborne exposures	Other forborne exposures
A. Gross opening balance	**33,961**	**20,527**
- including: exposures transferred but not derecognised	-	-
B. Increases	**17,167**	**7,575**
B.1 transfers from performing exposures not subject to forbearance	1,114	5,154
B.2 transfers from performing forborne exposures	8,634	
B.3 transfers from performing forborne exposures		966
B.4 transfers from non-performing exposures not subject to forbearance measures	-	-
B.5 other increases	7,419	1,455
C. Decreases	**12,837**	**12,280**
C.1 transfers to performing exposures not subject to forbearance		513
C.2 transfers to performing forborne exposures	966	
C.3 transfers to non-performing forborne exposures		8,634
C.4 cancellations	1,965	-
C.5 collections	2,745	3,102
C.6 sales	-	-
C.7 losses on sales	-	-
C.8 other decreases	7,161	31
D. Gross closing balance	**38,291**	**15,822**
- including: exposures transferred but not derecognised	-	-

A.1.10 On- Balance sheet non-performing exposures with banks: changes in total impairment

As a result of the information described in section A.1.8, the table is not shown because there are no valuations.

A.1.11 On- Balance sheet non-performing exposures with customers: changes in total impairment

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	**58,580**	**8,250**	**20,865**	**7,219**	**940**	**53**
- including: exposures transferred but not derecognised	-	-	-	-	-	-
B. Increases	**12,685**	**2,874**	**16,088**	**6,047**	**38**	**-**
B.1 impairment losses from purchased or originated credit-impaired financial assets	-		-		-	
B.2 other impairment losses	8,589	2,324	15,321	5,643	38	-
B.3 losses on sales	-	-	-	-	-	-
B.4 transfers from other non-performing categories	3,903	550	767	4	-	-
B.5 modification gains	-	-	-	-	-	-
B.6 other increases	193	-	-	400	-	-
C. Decreases	**14,301**	**3,491**	**6,911**	**1,855**	**939**	**53**
C.1 impairment gains from valuation	3,142	807	2,473	1,181	147	49
C.2 impairment gains from collection	2,157	515	535	95	25	-
C.3 gains on sales	-	-	-	-	-	-
C.4 write-offs	9,002	1,968	-	-	-	-
C.5 transfers to other non-performing categories	-	-	3,903	550	767	4
C.6 modification gains	-	-	-	-	-	-
C.7 other decreases	-	201	-	29	-	-
D. Closing balance	**56,964**	**7,633**	**30,042**	**11,411**	**39**	**-**
- 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	**-**	**1,749**	**116,549**	**-**	**-**	**-**	**1,348,343**	**1,466,641**
- Stage 1	-	1,749	115,560	-	-	-	1,020,711	1,138,020
- Stage 2	-	-	989	-	-	-	170,078	171,067
- Stage 3	-	-	-	-	-	-	157,554	157,554
B. Financial assets at fair value through other comprehensive income	**-**	**-**	**50,521**	**-**	**-**	**-**	**432,631**	**483,152**
- Stage 1	-	-	50,521	-	-	-	432,631	483,152
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
C. Financial assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Stage 1	-	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
Total (A + B + C)	**-**	**1,749**	**167,070**	**-**	**-**	**-**	**1,780,974**	**1,949,793**
including: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	-	-
D. Loan commitments and financial guarantees given	**-**	**7,332**	**-**	**-**	**-**	**-**	**577,952**	**585,284**
- Stage 1	-	7,332	-	-	-	-	522,869	530,201
- Stage 2	-	-	-	-	-	-	50,916	50,916
- Stage 3	-	-	-	-	-	-	4,167	4,167
Total D	**-**	**7,332**	**-**	**-**	**-**	**-**	**577,952**	**585,284**
Total (A + B + C + D)	**-**	**9,081**	**167,070**	**-**	**-**	**-**	**2,358,926**	**2,535,077**

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 On- and off- Balance sheet guaranteed credit exposures with customers

Tax base / Amount	Gross amount	Carrying amount	Collateral (1)				Personal guarantees (2)									Total (1)+(2)
							Credit derivatives					Endorsement credits				
			Mortgaged property	Financing for leased property	Securities	Other collateral	CLN	Other derivatives				Public administrations	Banks	Other financial companies	Other	
								Central counterparties	Banks	Other financial companies	Other					
1. Guaranteed exposures:	**942,716**	**858,128**	**446,354**	**-**	**16,945**	**8,801**	**-**	**-**	**-**	**-**	**-**	**150,431**	**12,620**	**38,525**	**169,078**	**842,754**
1.1. fully guaranteed	828,195	749,876	443,395	-	15,849	7,912	-	-	-	-	-	76,425	11,213	31,553	163,369	749,716
- including: non-performing	*135,283*	*64,973*	*58,669*	-	*4*	*56*	-	-	-	-	-	*61*	*247*	*511*	*5,423*	*64,971*
1.2. Partly guaranteed	114,521	108,252	2,959	-	1,096	889	-	-	-	-	-	74,006	1,407	6,972	5,709	93,038
- including: non-performing	*8,091*	*2,877*	*1,922*	-	*1*	-	-	-	-	-	-	*214*	*229*	*20*	*207*	*2,593*
2. Off-statement of financial position guaranteed exposures:	**222,300**	**222,244**	**8,680**	**-**	**3,231**	**2,637**	**-**	**-**	**-**	**-**	**-**	**11,961**	**1,444**	**5,574**	**177,804**	**211,331**
2.1. fully guaranteed	200,169	200,116	8,150	-	2,972	2,141	-	-	-	-	-	6,410	1,224	5,371	170,529	196,797
- including: non-performing	*876*	*876*	*349*	-	-	*1*	-	-	-	-	-	-	-	-	*526*	*876*
2.2. Partly guaranteed	22,131	22,128	530	-	259	496	-	-	-	-	-	5,551	220	203	7,275	14,534
- including: non-performing	*236*	*236*	*235*	-	-	-	-	-	-	-	-	-	-	-	-	*235*

A.4 Financial and non-financial assets obtained through enforcement of guarantees received

Tax base / Amount	Derecognised exposure	Gross amount	Total impairment	Carrying amount	
					including: obtained during the year
A. Property, equipment and investment property	**2,013**	**571**	**12**	**559**	**-**
A.1. Used for operations	-	-	-	-	-
A.2. Investment	2,013	571	12	559	-
A.3. Inventories	-	-	-	-	-
B. Equity instruments and debt instruments	**-**	**-**	**-**	**-**	**-**
C. Other assets	**-**	**-**	**-**	**-**	**-**
D. Non-current assets held for sale and disposal groups	**-**	**-**	**-**	**-**	**-**
D.1. Property, equipment and investment property	-	-	-	-	-
D.2. Other assets	-	-	-	-	-
Total at 12/2020	**2,013**	**571**	**12**	**559**	**-**
Total at 12/2019	**1,530**	**272**	**-**	**272**	**272**

Item “A.2 Investment” in the above table indicates the value of a property allocated to the bank by the Court of Fermo, following the enforcement procedure concluded in 2019 and of another three properties allocated by the Court of Terni following another enforcement procedure.

B. BREAKDOWN AND CONCENTRATION OF CREDIT EXPOSURES

B.1 Breakdown of on- and off- Balance sheet exposures with 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-statement of financial position						
A.1 Bad exposures	-	-	53	417	-	-
- including: forborne exposures	-	-	-	-	-	-
A.2 Unlikely to pay exposures	-	-	26	11	-	-
- including: forborne exposures	-	-	-	-	-	-
A.3 Non-performing past due exposures	1	-	-	-	-	-
- including: forborne exposures	-	-	-	-	-	-
A.4 Performing exposures	839,116	393	68,630	181	1,142	-
- including: forborne exposures	-	-	*11*	*1*	-	-
Total A	**839,117**	**393**	**68,709**	**609**	**1,142**	**-**
B. Off-statement of financial position						
B.1 Non-performing exposures	-	-	-	-	-	-
B.2 Performing exposures	52,545	16	9,746	4	90	-
Total B	**52,545**	**16**	**9,746**	**4**	**90**	**-**
Total (A + B) at 31/12/2020	**891,662**	**409**	**78,455**	**613**	**1,232**	**-**
Total (A + B) at 31/12/2019	**538,212**	**335**	**64,478**	**607**	**1,244**	**1**

Exposure/Counterparty	Non-financial companies		Households	
	Carrying amount	Total impairment	Carrying amount	Total impairment
A. On-statement of financial position				
A.1 Bad exposures	18,787	39,653	10,362	16,894
- including: forborne exposures	*3,801*	*5,453*	*1,703*	*2,180*
A.2 Unlikely to pay exposures	30,746	25,059	10,332	4,972
- including: forborne exposures	*10,221*	*9,726*	*3,520*	*1,685*
A.3 Non-performing past due exposures	29	5	172	34
- including: forborne exposures	-	-	*2*	-
A.4 Performing exposures	592,521	8,202	367,679	2,269
- including: forborne exposures	*6,658*	*325*	*8,605*	*222*
Total A	**642,083**	**72,919**	**388,545**	**24,169**
B. Off-statement of financial position				
B.1 Non-performing exposures	3,920	23	223	-
B.2 Performing exposures	444,218	55	70,070	7
Total B	**448,138**	**78**	**70,293**	**7**
Total (A + B) at 31/12/2020	**1,090,221**	**72,997**	**458,838**	**24,176**
Total (A + B) at 31/12/2019	**1,022,687**	**66,456**	**440,122**	**21,732**

Item “A.1 Bad exposures - including: forborne exposures” includes 148 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 144 positions subject to forbearance measures.

Item “A.3 Non-performing past due exposures - including: forborne exposures” includes only one position subject to forbearance measures.

Item “A.4 Performing exposures - including: forborne exposures” comprises 192 positions subject to forbearance measures.

The credit concentration risk is analysed in the directors’ report.

B2 Breakdown of on- and off- Balance sheet exposures with customers by geographical segment

Exposure/Geographic area	ITALY		OTHER EUROPEAN COUNTRIES		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-statement of financial position										
A.1 Bad exposures	29,202	56,964	-	-	-	-	-	-	-	-
A.2 Unlikely to pay exposures	41,104	30,042	-	-	-	-	-	-	-	-
A.3 Non-performing past due exposures	202	39	-	-	-	-	-	-	-	-
A.4 Performing exposures	1,768,303	11,044	71,086	1	14,846	-	12,822	-	889	-
Total A	**1,838,811**	**98,089**	**71,086**	**1**	**14,846**	**-**	**12,822**	**-**	**889**	**-**
B. Off-statement of financial position										
B.1 Non-performing exposures	4,144	23	-	-	-	-	-	-	-	-
B.2 Performing exposures	576,578	82	2	-	-	-	-	-	-	-
Total B	**580,722**	**105**	**2**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A + B) at 31/12/2020	**2,419,533**	**98,194**	**71,088**	**1**	**14,846**	**-**	**12,822**	**-**	**889**	**-**
Total (A + B) at 31/12/2019	**1,972,732**	**89,126**	**65,245**	**3**	**13,778**	**-**	**11,963**	**-**	**1,778**	**-**

B.2.1 Breakdown of on- and off- Balance sheet exposures with customers by geographical segment

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-statement of financial position								
A.1 Bad exposures	2,987	3,936	81	206	24,243	49,173	1,890	3,649
A.2 Unlikely to pay exposures	211	92	-	-	40,076	29,533	817	417
A.3 Non-performing past due exposures	1	-	7	1	174	34	20	4
A.4 Performing exposures	34,809	188	9,927	228	1,632,842	9,765	90,725	863
Total A	**38,008**	**4,216**	**10,015**	**435**	**1,697,335**	**88,505**	**93,452**	**4,933**
B. Off-statement of financial position								
B.1 Non-performing exposures	744	23	-	-	3,109	-	290	-
B.2 Performing exposures	7,951	1	9,311	2	505,921	72	53,395	6
Total B	**8,695**	**24**	**9,311**	**2**	**509,030**	**72**	**53,685**	**6**
Total (A + B) at 31/12/2020	**46,703**	**4,240**	**19,326**	**437**	**2,206,365**	**88,577**	**147,137**	**4,939**
Total (A + B) at 31/12/2019	**61,658**	**4,498**	**14,338**	**360**	**1,775,882**	**79,092**	**120,852**	**5,177**

B.3 Breakdown of on- and off- Balance sheet exposures with banks by geographical segment

Exposure/Geographic area	ITALY		OTHER EUROPEAN COUNTRIES		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-statement of financial position										
A.1 Bad exposures	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay exposures	-	-	-	-	-	-	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	23,563	5	16,066	3	4,437	8	-	-	3,373	-
Total A	**23,563**	**5**	**16,066**	**3**	**4,437**	**8**	**-**	**-**	**3,373**	**-**
B. Off-statement of financial position										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	4,614	8	-	-	-	-	-	-	-	-
Total B	**4,614**	**8**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A + B) at 31/12/2020	**28,177**	**13**	**16,066**	**3**	**4,437**	**8**	**-**	**-**	**3,373**	**-**
Total (A + B) at 31/12/2019	**24,982**	**1**	**18,400**	**-**	**2,853**	**3**	**307**	**-**	**3,679**	**-**

B.3.1 Breakdown of on- and off- Balance sheet exposures with banks by geographical segment

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-statement of financial position								
A.1 Bad exposures	-	-	-	-	-	-	-	-
A.2 Unlikely to pay exposures	-	-	-	-	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-	-	-	-	-
A.4 Performing exposures	2,154	3	1,306	1	20,103	1	-	-
Total A	**2,154**	**3**	**1,306**	**1**	**20,103**	**1**	**-**	**-**
B. Off-statement of financial position								
B.1 Non-performing exposures	-	-	-	-	-	-	-	-
B.2 Performing exposures	71	-	-	-	4,543	8	-	-
Total B	**71**	**-**	**-**	**-**	**4,543**	**8**	**-**	**-**
Total (A + B) at 31/12/2020	**2,225**	**3**	**1,306**	**1**	**24,646**	**9**	**-**	**-**
Total (A + B) at 31/12/2019	**2,900**	**1**	**-**	**-**	**22,083**	**-**	**-**	**-**

B.4 Large exposures

Tax base / Amount	31/12/2020	31/12/2019
a) Carrying amount	1,140,301	622,785
b) Weighted amount	35,846	45,164
c) Number	5	6

The above table shows both the weighted and carrying amount of the large exposures. The number of positions decreased to five compared to 31 December 2020, mostly relating to institutional counterparties and in one case to ordinary customers.
Their weighted amount decreased from € 45,164 thousand at 31 December 2019 to € 35,846 thousand at the reporting date.

SECTION 2 - MARKET RISK

2.1 Interest rate and price risks - supervisory trading book

Qualitative disclosure

A. General aspects

The securities portfolio was almost entirely comprised of securities issued by governments or banks in the first quarter of 2020, 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.

Impact arising from the COVID-19 pandemic

The dramatic spread of the COVID-19 pandemic in Italy and the rest of the world caused serious tensions on the financial markets with consequent repercussions on the VaR and the economic and financial results of the securities portfolio in March and April 2020. Around mid-March, the indicator given by the ratio between the VaR of the FVOCI (financial assets at fair value through other comprehensive income) and FVTPL (financial assets at fair value through profit or loss) portfolios and own funds exceeded the warning threshold of 5.5% and, on some days in March 2020, the VaR of said sectors reached and/or exceeded the risk level of 7.5% of own funds. The warning threshold on the VaR indicator continued to be exceeded in April and May, albeit to a lesser extent than the figure recorded in March, and the risk limit was never reached or exceeded.

That being said, the Risk Management Unit launched a strengthened monitoring process of the VaR, promptly informing the general manager, the finance committee and the board of directors of the exceeded warning threshold and risk limit on the VaR indicator.

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. In January 2020, € 18 million in assets from this mandate was disposed of.

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 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	**-**	**49,181**	**7,431**	**7,687**	**52,098**	**6,762**	**-**	**-**
1.1 Debt instruments	-	49,181	7,431	7,687	52,098	6,762	-	-
- with early repayment option	-	*4,409*	*1,519*	*1,735*	*8,918*	-	-	-
- other	-	*44,772*	*5,912*	*5,952*	*43,180*	*6,762*	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**66,213**	**20,176**	**713**	**6,309**	**22,379**	**5,975**	**-**
3.1 With underlying security	-	25,427	18,075	-	-	7,328	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	*25,427*	*18,075*	-	-	*7,328*	-	-
+ long positions	-	*18,095*	-	-	-	*7,328*	-	-
+ short positions	-	*7,332*	*18,075*	-	-	-	-	-
3.2 Without underlying security	-	40,786	2,101	713	6,309	15,051	5,975	-
- Options	-	-	-	*17*	*6,309*	*15,051*	*5,975*	-
+ long positions	-	-	-	*8*	*3,152*	*7,531*	*2,985*	-
+ short positions	-	-	-	*9*	*3,157*	*7,520*	*2,990*	-
- Other derivatives	-	*40,786*	*2,101*	*696*	-	-	-	-
+ long positions	-	*19,849*	*1,050*	*348*	-	-	-	-
+ short positions	-	*20,937*	*1,051*	*348*	-	-	-	-

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	**-**	**1,792**	**-**	**-**	**8,640**	**-**	**-**	**-**
1.1 Debt instruments	-	1,792	-	-	8,640	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	*1,792*	-	-	*8,640*	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**33,930**	**2,101**	**696**	**-**	**-**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	33,930	2,101	696	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	*33,930*	*2,101*	*696*	-	-	-	-
+ long positions	-	*17,509*	*1,051*	*348*	-	-	-	-
+ short positions	-	*16,421*	*1,050*	*348*	-	-	-	-

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

Operation type/Stock exchange	Listed						Unlisted
	ITALY	USA	UK	Switzerland	Germany	Other	
A. Equity instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Long positions	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-
B. Unsettled trading on equity instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Long positions	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-
C. Other derivatives on equity instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Long positions	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-
D. Derivatives on share indexes	**-**	**-**	**-**	**-**	**-**	**2**	**-**
- Long positions	-	-	-	-	-	*2*	-
- Short positions	-	-	-	-	-	-	-

In the trading book, the bank has one future on the stock indexes with underlying value traded on the US market.

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 2020, the VaR of the trading portfolio (part managed internally) reached a maximum value in March of around € 6.2 million as a result of the dramatic spread of the COVID-19 pandemic in Italy and the rest of the world, which caused serious tensions on the financial markets, while the average value was around € 606 thousand. At 31 December 2020, the VaR amounted to € 51 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 methodology used to quantify the exposure to interest rate risk involves the distribution of the assets and liabilities by maturity or interest review date and, to determine the internal capital, simulates the provisions of the legislation, applying the shocks envisaged by the regulations to quantify the internal capital.

In addition to the application of the parallel shock +/- 200 bps, the bank assesses the impact on the interest rate risk deriving 1) from the annual changes in interest rates recorded in a 6-year observation period, considering alternatively the 1st percentile (down) or the 99th (up); 2) from the additional scenarios envisaged by the EBA guidelines (steepener, flattener, short rates shock up and short rates shock down).

For management and monitoring purposes only, the bank's interest rate risk is subjected to additional quarterly 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.

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	**182,950**	**710,412**	**382,777**	**129,948**	**163,652**	**170,053**	**105,097**	**-**
1.1 Debt instruments	-	151,855	369,172	84,524	2,829	98,934	51,403	-
- with early repayment option	-	-	-	*2,088*	*1,523*	*1,014*	-	-
- other	-	*151,855*	*369,172*	*82,436*	*1,306*	*97,920*	*51,403*	-
1.2 Financing to banks	518	16,417	-	-	-	-	-	-
1.3 Financing to customers	**182,432**	**542,140**	**13,605**	**45,424**	**160,823**	**71,119**	**53,694**	**-**
- current accounts	*91,633*	*509*	*1,388*	*4,356*	*11,813*	*5,200*	*194*	-
- other financing	*90,799*	*541,631*	*12,217*	*41,068*	*149,010*	*65,919*	*53,500*	-
- with early repayment option	*36,860*	*533,872*	*11,680*	*37,808*	*137,484*	*59,763*	*53,274*	-
- other	*53,939*	*7,759*	*537*	*3,260*	*11,526*	*6,156*	*226*	-
2. Liabilities	**1,701,424**	**13,721**	**9,586**	**83,699**	**139,538**	**6,452**	**13,462**	**-**
2.1 Due to customers	1,673,876	4,270	4,415	1,103	7,412	6,452	13,462	-
- current accounts	*1,572,210*	-	-	-	-	-	-	-
- other liabilities	*101,666*	*4,270*	*4,415*	*1,103*	*7,412*	*6,452*	*13,462*	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	*101,666*	*4,270*	*4,415*	*1,103*	*7,412*	*6,452*	*13,462*	-
2.2 Due to banks	26,466	-	-	70,000	90,000	-	-	-
- current accounts	*26,466*	-	-	-	-	-	-	-
- other liabilities	-	-	-	*70,000*	*90,000*	-	-	-
2.3 Debt instruments	1,082	9,451	5,171	12,596	42,126	-	-	-
- with early repayment option	-	*4,999*	*2,966*	*7,542*	*42,111*	-	-	-
- other	*1,082*	*4,452*	*2,205*	*5,054*	*15*	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**136,593**	**23,645**	**12,706**	**88,590**	**31,716**	**11,839**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	136,593	23,645	12,706	88,590	31,716	11,839	-
- Options	**-**	***136,593***	***23,645***	***12,706***	***88,590***	***31,716***	***11,839***	**-**
+ long positions	-	*3,165*	*4,918*	*12,560*	*88,514*	*31,604*	*11,784*	-
+ short positions	-	*133,428*	*18,727*	*146*	*76*	*112*	*55*	-
- Other derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4. Other off-statement of financial position transactions	***8,184***	***5,886***	**-**	**-**	***49***	***50***	***2,198***	**-**
+ long positions	-	*5,886*	-	-	*49*	*50*	*2,198*	-
+ short positions	*8,184*	-	-	-	-	-	-	-

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	**6,639**	**158**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt instruments	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Financing to banks	5,728	95	-	-	-	-	-	-
1.3 Financing to customers	**911**	**63**	**-**	**-**	**-**	**-**	**-**	**-**
- current accounts	*911*	-	-	-	-	-	-	-
- other financing	-	*63*	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	*63*	-	-	-	-	-	-
2. Liabilities	**5,968**	**79**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Due to customers	5,968	-	-	-	-	-	-	-
- current accounts	*5,963*	-	-	-	-	-	-	-
- other liabilities	*5*	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	*5*	-	-	-	-	-	-	-
2.2 Due to banks	-	79	-	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other liabilities	-	*79*	-	-	-	-	-	-
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 2020, the difference in net interest income (on operating data and with modelling of on-demand items) amounts to approximately 4.7 million in the event of a parallel shift of +100 bps and -3.1 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	**7,382**	**418**	**33**	**274**	**232**	**8,956**
A.1 Debt instruments	2,170	-	-	-	-	8,329
A.2 Equity instruments	-	-	-	-	-	-
A.3 Financing to banks	4,533	285	33	274	232	465
A.4 Financing to customers	679	133	-	-	-	162
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**108**	**31**	**11**	**4**	**16**	**35**
C. Financial liabilities	**4,681**	**310**	**79**	**276**	**249**	**453**
C.1 Due to banks	-	-	79	-	-	-
C.2 Due to customers	4,681	310	-	276	249	453
C.3 Debt instruments	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**-**	**-**	**-**	**-**	**-**	**-**
E. Financial derivatives	**7,261**	**91**	**3,569**	**-**	**-**	**2,662**
- Options	-	-	-	-	-	-
+ *long positions*	-	-	-	-	-	-
+ *short positions*	-	-	-	-	-	-
- Other derivatives	7,261	91	3,569	-	-	2,662
+ *long positions*	*3,766*	-	*3,569*	-	-	-
+ *short positions*	*3,495*	*91*	-	-	-	*2,662*
Total assets	**11,256**	**449**	**3,613**	**278**	**248**	**8,991**
Total liabilities	**8,176**	**401**	**79**	**276**	**249**	**3,115**
Difference (+/-)	**3,080**	**48**	**3,534**	**2**	**- 1**	**5,876**

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	31/12/2020				31/12/2019			
	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 rate	**-**	**-**	**14,878**	**26,572**	**-**	**-**	**19,905**	**28,961**
a) Options	-	-	14,878	-	-	-	19,807	-
b) Swaps	-	-	-	-	-	-	98	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	26,572	-	-	-	28,961
e) Other	-	-	-	-	-	-	-	-
2. Equity instruments and share inde	**-**	**-**	**-**	**4,920**	**-**	**-**	**-**	**-**
a) Options	-	-	-	4,918	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	2	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold	**-**	**-**	**12,527**	**-**	**-**	**-**	**17,202**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	12,527	-	-	-	17,202	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
5. Other underlying assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**-**	**-**	**27,405**	**31,492**	**-**	**-**	**37,107**	**28,961**

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

Type of derivative	31/12/2020				31/12/2019			
	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	-	-	7	7	-	-	6	-
b) Interest rate swaps	-	-	-	-	-	-	1	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	-	152	-	-	-	46	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	**-**	**-**	**159**	**7**	**-**	**-**	**53**	**-**
1. Negative fair value								
a) Options	-	-	7	2	-	-	6	-
b) Interest rate swaps	-	-	-	-	-	-	1	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	-	153	-	-	-	144	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	**-**	**-**	**160**	**2**	**-**	**-**	**151**	**-**

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		**7,699**	**-**	**7,194**
- notional amount		7,692	-	7,187
- positive fair value		7	-	-
- negative fair value		-	-	7
2. Equity instruments and share indexes		**-**	**-**	**-**
- notional amount		-	-	-
- positive fair value		-	-	-
- negative fair value		-	-	-
3. Currencies and gold		**3,255**	**6,321**	**3,254**
- notional amount		3,148	6,231	3,147
- positive fair value		63	44	45
- negative fair value		44	46	62
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	2,434	8,016	4,428	14,878
A.2 Financial derivatives on equity instruments and equity indexes	-	-	-	-
A.3 Financial derivatives on currencies and gold	12,527	-	-	12,527
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
31/12/2020	**14,961**	**8,016**	**4,428**	**27,405**
31/12/2019	**21,717**	**9,452**	**5,939**	**37,108**

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	**-**	**7,699**	**-**	**7,194**
- notional amount	-	7,692	-	7,187
- positive fair value	-	7	-	-
- negative fair value	-	-	-	7
2) Equity instruments and share	**-**	**-**	**-**	**-**
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Currencies and gold	**-**	**3,255**	**6,321**	**3,254**
- notional amount	-	3,148	6,231	3,147
- positive fair value	-	63	44	45
- negative fair value	-	44	46	62
4) Commodities	**-**	**-**	**-**	**-**
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other	**-**	**-**	**-**	**-**
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
B. 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 2020. 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.

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 liquidity 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 2020, the data of the internal structural liquidity model showed the bank's good liquidity position, confirmed by the regulatory ratios.

At 31 December 2020, the top 15 customers (excluding banks) accounted for roughly 14.8% of the direct funding (calculated using carrying amounts).

Impact arising from the COVID-19 pandemic

In order to maintain an adequate liquidity reserve required to address the extraordinary measures implemented by the government and by the bank to overcome the coronavirus emergency and promote the recovery of the Italian industry, the bank has launched the following measures in support of the company's liquidity:

- Participation in the ECB refinancing operation named LTRO (tender of 17 March 2020 with spot settlement 18 March 2020 and term settlement 24 June 2020) for an amount of € 100 million;
- Participation in the ECB refinancing operation named PELTRO (pandemic emergency LTRO, tender of 20 May 2020 with spot settlement 31 May 2020 and term settlement 30 September 2021) for an amount of € 70 million;
- Repayment of 5/6 of the portions of the M&G European Loan Fund, also in order to reduce capital requirements for market risk;
- Participation in the ECB longer-term refinancing operation named TLTRO-III (tender of 18 June 2020 with spot settlement 24 June 2020 and term settlement 28 June 2023) for an amount of € 90 million.

Furthermore, in order to monitor the company's liquidity and the impact arising from the COVID-19 pandemic, the provisional outgoing flows concerning COVID-19 financing taken from weekly management reports prepared by the commercial department were inserted in the weekly maturity ladder sent to Bank of Italy.

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	**134,007**	**14,430**	**30,441**	**18,091**	**40,873**	**53,722**	**199,075**	**833,320**	**647,918**	**16,417**
A.1 Government bonds	-	13,508	27,742	-	824	4,307	85,814	304,536	359,831	-
A.2 Other debt instruments	-	-	-	41	2,487	1,170	6,470	60,822	8,338	-
A.3 OEIC units	4,734	-	-	-	-	-	-	-	-	-
A.4 Financing	129,273	922	2,699	18,050	37,562	48,245	106,791	467,962	279,749	16,417
- Banks	*519*	-	-	-	-	-	-	-	-	*16,417*
- Customers	*128,754*	*922*	*2,699*	*18,050*	*37,562*	*48,245*	*106,791*	*467,962*	*279,749*	-
Liabilities	**1,701,424**	**685**	**480**	**3,763**	**8,881**	**9,906**	**84,119**	**139,286**	**19,910**	**-**
B.1 Deposits and current accounts	1,698,629	148	122	604	3,146	3,775	-	-	-	-
- Banks	*26,466*	-	-	-	-	-	-	-	-	-
- Customers	*1,672,163*	*148*	*122*	*604*	*3,146*	*3,775*	-	-	-	-
B.2 Debt instruments	1,082	537	355	3,159	5,488	5,337	12,867	41,874	-	-
B3 Other liabilities	1,713	-	3	-	247	794	71,252	97,412	19,910	-
Off-statement of financial position	**12,802**	**26,484**	**1,928**	**570**	**7,231**	**2,101**	**721**	**400**	**32,617**	**-**
C.1 Financial derivatives with exchange of	-	26,484	1,928	570	7,231	2,101	696	-	24,813	-
- Long positions	-	*18,534*	*1,879*	*285*	*2,247*	*1,050*	*348*	-	*7,194*	-
- Short positions	-	*7,950*	*49*	*285*	*4,984*	*1,051*	*348*	-	*17,619*	-
C.2 Financial derivatives without exchange of	**23**	-	-	-	-	-	-	-	-	-
- Long positions	*14*	-	-	-	-	-	-	-	-	-
- Short positions	*9*	-	-	-	-	-	-	-	-	-
C.3 Deposits and financing to be received	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse	**8,204**	**-**	**-**	**-**	**-**	**-**	**-**	**400**	**7,804**	**-**
- Long positions	-	-	-	-	-	-	-	*400*	*7,804*	-
- Short positions	*8,204*	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	4,575	-	-	-	-	-	25	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- 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:
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;
2020: five positions for a total of € 56 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	**6,650**	**-**	**1,845**	**105**	**54**	**127**	**242**	**8,357**	**-**	**-**
A.1 Government bonds	-	-	-	-	-	-	-	-	-	-
A.2 Other debt instruments	-	-	1,845	-	-	127	242	8,357	-	-
A.3 OEIC units	-	-	-	-	-	-	-	-	-	-
A.4 Financing	6,650	-	-	105	54	-	-	-	-	-
- Banks	*5,738*	-	-	*96*	-	-	-	-	-	-
- Customers	*912*	-	-	*9*	*54*	-	-	-	-	-
Liabilities	**5,968**	**-**	**79**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Deposits and current accounts	5,963	-	79	-	-	-	-	-	-	-
- Banks	-	-	*79*	-	-	-	-	-	-	-
- Customers	*5,963*	-	-	-	-	-	-	-	-	-
B.2 Debt instruments	-	-	-	-	-	-	-	-	-	-
B3 Other liabilities	5	-	-	-	-	-	-	-	-	-
Off-statement of financial position	**-**	**1,057**	**1,928**	**570**	**7,231**	**2,101**	**696**	**-**	**-**	**-**
C.1 Financial derivatives with exchange of	-	1,057	1,928	570	7,231	2,101	696	-	-	-
- Long positions	-	*618*	*49*	*285*	*4,984*	*1,051*	*348*	-	-	-
- Short positions	-	*439*	*1,879*	*285*	*2,247*	*1,050*	*348*	-	-	-
C.2 Financial derivatives without exchange of	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and financing to be received	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse	-	-	-	-	-	-	-	-	-	-
- 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	-	-	-	-	-	-	-	-	-	-
- 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". 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 and the guidelines of the executive committee; 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.

Impact arising from the COVID-19 pandemic

The COVID-19 pandemic can be considered a systemic event, with possible impact on all risk classes envisaged by the operational risk management framework. For example, this includes the losses deriving from internal fraud, external fraud, human error, interruptions to business, unavailability of systems, breaches of contract and natural disasters. The main forms of risk that could emerge (some already have) within the pandemic context are:

• external offences: losses linked to IT fraud that causes damage to customers with an element connected to the emergency in the fraudulent scheme (e.g. misdirected solidarity payments) and/or other cybercrime caused by the increased vulnerability of IT systems due to the new operating context (e.g. connections via external networks, activation of new emergency IT services, incorrect use of sharing technologies);

• personnel: sanctions and/or disputes with employees who might be infected and/or with family members due to failure to comply with the legislative provisions imposed by the presidential decree and/or other legislation of reference;

• customers, products and operating practices: sanctions and/or disputes with customers linked to issues associated with non-compliance with legislative provisions (e.g. moratoria and/or other provisions envisaged by the "Cura Italia" decree);

• systems: claims for damage compensation due to interruption/malfunction of the services offered to customers and other counterparties caused by the unavailability of IT systems, internal personnel and/or third parties (e.g. suppliers and/or outsourcers) caused by the inadequacy of business continuity plans and/or contingency measures;

• internal offences: losses linked to internal fraud made possible by the decline in efficacy of the system of controls due to the launch of innovative remote working methods and/or the closure of branches (e.g. access to guarantee funds, succession practices).

With the aim of minimising the probability of occurrence of said risks and/or mitigating the possible impacts arising from them, a specific crisis committee was promptly launched (with daily meetings at the start of the crisis) to manage and coordinate the implementation of necessary mitigation measures (e.g. adoption of codes of conduct defined in compliance with the provisions of the Italian Ministry of Health and the World Health Organization, adoption of specific hygiene measures, increasing communication with employees/customers, launch of innovative operating models for the management of remote working, increasing technological infrastructure in support of remote activities, cyber security controls, awareness systems related to IT security, definition of specific internal rules to regulate new activities and related additional controls, introduction of additional electronic controls and measures within IT procedures, etc.). The evolution over time of certain risks, the efficacy of the existing controls and the additional measures that may become necessary, will be continuously monitored to intercept any changes in the risk profile.

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 periodically 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.

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 payout 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 2020 are listed below:

- Common Equity Tier 1 Ratio (CET1R) 8.500%
- TIER1R 10.350%
- Total capital ratio (TCR) 12.850%

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 31/12/2020	Balance at 31/12/2019
1. Share capital	**39,241**	**39,241**
2. Share premium	**34,660**	**34,660**
3. Reserves	**73,822**	**67,826**
- income-related	67,692	61,696
a) legal reserve	*19,602*	*19,003*
b) statutory reserve	*61,355*	*55,958*
c) treasury shares	-	-
d) other	- *13,265*	- *13,265*
- other	6,130	6,130
4. Equity instruments	**-**	**-**
5. (Treasury shares)	**-**	**-**
6. Valuation reserves	**15,817**	**11,018**
- Equity instruments at fair value through other comprehensive income	- 223	- 211
- Hedges of equity instruments at fair value through other comprehensive income	-	-
- Financial assets (other than equity instruments) at fair value through other comprehensive income	3,655	- 938
- 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	- 2,737	- 2,955
- Portion of valuation reserves of equity-accounted investees	-	-
- Special revaluation laws	15,122	15,122
7. Profit for the year	**4,632**	**5,997**
Total	**168,172**	**158,742**

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	31/12/2020		31/12/2019	
	Fair value gains	Fair value losses	Fair value gains	Fair value losses
1. Debt instruments	3,656	-	135	1,074
2. Equity instruments	91	315	-	211
3. OEIC units	-	-	-	-
4. Financing	-	-	-	-
Total	**3,747**	**315**	**135**	**1,285**

B.3 Fair value reserve: changes

Tax base / Amount	Debt instruments	Equity instruments	OEIC units	Financing
1. Opening balance	**- 939**	**- 211**	**-**	**-**
2. Increases	**4,598**	**-**	**-**	**-**
2.1 Fair value gains	3,563	-	-	-
2.2 Impairment losses for credit risk	-	-	-	-
2.3 Reclassification of fair value losses to profit or loss on sale	1,034	-	-	-
2.4 Transfers to other equity reserves (equity instruments)	-	-	-	-
2.5Other increases	1	-	-	-
3. Decreases	**3**	**13**	**-**	**-**
3.1 Fair value losses	-	13	-	-
3.2 Impairment gains for credit risk	3	-	-	-
3.3 Reclassification of fair value gains to profit or loss	-	-	-	-
3.4 Transfers to other equity reserves (equity instruments)	-	-	-	-
3.5Other increases	-	-	-	-
4. Closing balance	**3,656**	**- 224**	**-**	**-**

B.4 Actuarial reserves: changes

	Fip (pension fund)	Post-employment benefits
1. Opening balance	**- 1,954**	**- 1,001**
2. Increases	**409**	**30**
2.1 Actuarial gains	409	-
2.2 Change in deferred tax assets	-	30
3. Decreases	**113**	**109**
3.1 Actuarial losses	-	109
3.2 Change in deferred tax liabilities	113	-
4. Total	**- 1,658**	**- 1,080**

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 2020 impairment losses on loans and receivables by 70%;
- 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.

Tax base / Amount	IFRS9 31/12/2020	
	fully loaded	phased in
A.CET1 before application of prudential filters (excluding IFRS 9 impact)	177,514,598	177,514,598
A1. IFRS 9 impact	- 10,405,217	- 10,405,217
B.CET1 prudential filters (+/-)	- 638,955	- 638,955
C.CET1 including the elements to be deducted and the effects of the transitional regime (A +/- B)	166,470,426	166,470,426
D.Elements to be deducted from CET1	106,562	106,562
E.Transitional regime - Impact on CET1 (+/-)	-	7,329,335
F.Total CET1 (C– D +/-E)	166,363,864	173,693,199
G.AT1 including the elements to be deducted and the effects of the transitional regime	-	-
H.Elements to be deducted from AT1	-	-
I.Transitional regime – Impact on AT1 (+/-)	-	-
L.Total AT1 (G - H +/-I)	-	-
M.T2 including the elements to be deducted and the effects of the transitional regime	-	-
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)	166,363,864	173,693,199
C.1 Risk-weighted assets	880,234,440	889,336,375
C.2 CET1/Risk-weighted assets (CET1 ratio)	18.90%	19.53%

The above table shows CET1 at 31 December 2020 in accordance with the transitory phasing-in rules provided for by article 473-bis of the CRR.

Accordingly, the IFRS 9 FTA impact on the CET1 ratio at 31 December 2020 is:

-63 bps (fully loaded approach)

B. Quantitative disclosure

Tax base / Amount	Total at 12/2020	Total at 12/2019
A. Common Equity Tier1 (CET1) before application of prudential filters	167,109	158,741
including CET1 instruments covered by the transitional measures	-	-
B. CET1 prudential filters (+/-)	- 639	- 379
C. CET1 including the elements to be deducted and the effects of the transitional regime (A +/- B)	166,470	158,362
D. Elements to be deducted from CET1	- 107	- 136
E. Transitional regime - Impact on CET1 (+/-)	7,330	-
E.2 Phased-in effect of IFRS 9 (article 473-bis of CRR)	-	8,900
F. Total CET1 (C– D +/-E+/-E.2)	173,693	167,126
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)	173,693	167,126

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 70% thereof (€ 7,330 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 19.53%, a Tier1 ratio of 19.53% and a Total capital ratio of 19.53% at 31/12/2020, 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 € 71.1 million refer to credit, operational and market risks. The lending business requires the largest portion of capital, with credit risk requirements of € 54.3 million.

Credit risk-weighted assets amount to € 679 million. There has been a decrease in such assets for market risks and credit risks.

B. Quantitative disclosure

Category/Amount	Unweighted amounts		Weighted amounts/requirements	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019
A. EXPOSURES				
A.1 Credit and counterparty risk	**2,083,588**	**1,645,144**	**678,995**	**807,645**
1. Standard method	2,083,588	1,645,144	678,995	807,645
2. IRB approach	-	-	-	-
2.1 Basic	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	-	-	-	-
B. CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			**54,320**	**64,612**
B.2 Risk of adjustments to credit rating			**4**	**5**
B.3 Regulation risk			**-**	**-**
B.4 Market risk			**7,750**	**16,610**
1. Standard method			7,750	16,610
2. Internal models			-	-
3. Concentration risk			-	-
B.5 Operational risk			**9,073**	**8,904**
1. Basic method			9,073	8,904
2. Standard method			-	-
3. Advanced method			-	-
B.6 Other calculation elements			**-**	**-**
B.7 Total prudential requirements			**71,147**	**90,131**
C. EXPOSURES AND CAPITAL RATIOS				
C.1 Risk-weighted assets			**889,338**	**1,126,638**
C.2 CET1/risk-weighted assets (CET1 ratio)			**19.53%**	**14.83%**
C.3 Tier1/risk-weighted assets (Tier1 ratio)			**19.53%**	**14.83%**
C.4 Total own funds/risk-weighted assets (Total capital ratio)			**19.53%**	**14.83%**

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 31/12/2020
C. Managers	**567,207**
Short-term benefits	541,423
Current termination benefits	25,784
Total termination benefits	*191,105*
A. Directors	**243,689**
Remuneration	243,689
B. Statutory auditors	**168,096**
Remuneration	168,096

(values expressed in Euros)

The short-term benefits of € 541,423 include salaries and indirect costs relating to two managers.

"Total termination benefits" for € 191,105 includes the costs post-employment benefits accrued in favour of the two managers mentioned above.

"Fees" relating to directors (€ 244 thousand) and statutory auditors (€ 168 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	3	754	5	11	423
B. Statutory auditors	-	693	-	2	20
C. Managers	-	132	-	3	50
D. Family members	176	503	4	22	297
E. Other related parties	6,295	20,216	147	177	11,116
Total	**6,474**	**22,298**	**156**	**215**	**11,906**

Item "E. Other related parties" includes the relations held with the bank's investors and companies associated with the directors.

The bank holds voting rights greater than 10% on shares of companies acquired as collateral, as greater guarantee of credit, for which, in fact, it does not exercise the voting right at the shareholders' meeting.

The shares acquired as collateral are regularly indicated in the disclosure base as: "P – ownership structures of credit and financial institutions".

The above table does not indicate the exposures with those companies since by not exercising the voting right, there is no resulting influence.

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. No short-term or low-value contracts were signed in 2020.

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 -0.50%;

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 Explanatory notes, specifically:

- in Section 8 of Assets - Property, equipment and investment property;
- 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, equipment and investment property - 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 3 – FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME – CAPTION 30

3.3a Financing at fair value through other comprehensive income subject to COVID-19 support measures: gross amount and total impairment losses

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, EQUIPMENT AND INVESTMENT PROPERTY

8.3 Property and equipment: breakdown of revalued assets

8.4 Investment property: breakdown of assets measured at fair value

8.5 Inventories of property, equipment and investment property covered by IAS 2: breakdown

8.8 Inventories of property, equipment and investment property covered by IAS 2: changes

8.9 Commitments to purchase property, equipment and investment property

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

Quantitative disclosure

C.1 Exposures of the main “own” securitisations broken down by securitised asset and type of exposure

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

PART L – SEGMENT REPORTING

PART M – LEASE REPORTING

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	283,032.86
Fermo Campoleggio Corso Marconi, 19	103,291.38	274,755.07	42,865.92	432,750.15	43,275.02	389,475.13	37,161.60
Fermo Campoleggio - extension Corso Marconi, 19	-	-	1,549.37	19,039.38	1,903.94	17,135.44	181.32
Carassai Piazza Leopardi 8/9	25,822.84	24,273.47	11,362.05	66,563.76	8,653.29	57,910.47	4,030.37
Cupramarittima Via E. Ruzzi, 9	-	211,230.87	47,514.03	436,910.79	-	436,910.79	33,636.79
Grottazzolina Via Verdi, 5	51,645.69	32,020.33	25,306.39	124,894.81	-	124,894.81	7,452.50
Montegranaro Piazza Mazzini	175,595.35	47,867.29	41,501.96	200,509.38	-	200,509.38	11,617.95
Monterubbiano Piazza Calzecchi Onesti, 9	46,481.12	63,007.74	18,592.45	131,741.32	13,174.13	118,567.19	9,547.17
Monte San Pietrangeli Via S. Antonio, 6	-	64,040.66	4,131.66	140,636.48	-	140,636.48	18,282.82
Montottone Piazza Leopardi, 8	37,184.90	29,954.50	14,977.25	85,204.37	10,224.52	74,979.85	5,140.14
Monturano Via Gramsci, 32/A	232,405.60	583,079.84	129,114.22	1,058,503.84	158,775.58	899,728.26	78,697.38
Petritoli Via Mannocchi Tornabuoni, 25	28,405.13	88,314.13	12,911.42	135,285.44	13,528.54	121,756.90	11,843.42
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	22,609.26
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	29,165.31
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	50,217.97
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	452,320.90
S. Elpidio a Mare Via Roma, 31	129,114.22	523,170.84	65,590.03	764,747.17	-	764,747.17	76,538.83
S. Elpidio a Mare extension 1981 Via Roma, 31	-	-	34,602.61	127,207.59	-	127,207.59	4,498.31
S. Elpidio a Mare extension 1983 Via Roma, 31	-	-	33,569.70	139,393.78	-	139,393.78	4,364.08
Fermo Piazza Mascagni, 4	154,937.07	211,747.33	66,106.48	455,484.95	-	455,484.95	36,121.08
Fermo - Piazza Mascagni extension 1984	-	-	5,164.57	25,169.18	-	25,169.18	671.34
Fermo Via Ognissanti	-	11,878.51	4,648.11	29,035.21	3,484.22	25,550.99	1,890.68
Fermo Corso Cavour, 104	-	1,066,999.95	217,428.35	2,647,791.16	264,779.13	2,383,012.03	150,278.02
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	35,399.33
Fermo Viale Trento, 182	-	3,083,247.69	601,672.29	7,454,739.36	1,490,947.88	5,963,791.48	383,231.81
S. Benedetto del Tronto Via Liberazione, 190	-	820,650.01	211,230.87	2,356,260.19	164,938.21	2,191,321.98	124,754.34

Civitanova Marche Via Cairoli, 22	-	388,375.59	30,987.41	804,859.80	-	804,859.80	58,372.24
Porto S. Elpidio - Faleriense Piazza Giovanni XXIII, 14	232,405.60	108,455.95	-	419,019.11	-	419,019.11	251,575.53
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	305,356.41
Montegranaro Via Gramsci	-	-	-	465,720.02	-	465,720.02	165,330.62
Recanati Santacroce 34/E	-	-	-	301,285.46	60,257.09	241,028.37	85,565.11
Rome Via Puglie 15/21	-	-	-	2,932,724.03	-	2,932,724.03	1,481,025.65
Colli del Tronto Via Matteotti, 2	-	-	-	342,295.20	-	342,295.20	174,646.77
Porto S. Elpidio - Renovation Via S. Giovanni Bosco, 10	-	-	-	497,084.46	99,416.89	397,667.57	200,822.08
Fermo Loc. Molini Girola	-	-	-	30,250.00	6,050.00	24,200.00	14,336.08
Falerone fraz. Piane - Renovation Viale della Resistenza, 95	-	-	-	111,836.61	-	111,836.61	71,564.23
Montegiorgio - Loc. Piane Via A. Einstein, 8	-	-	-	869,227.16	116,000.00	753,227.16	571,624.13
Fermo Via G. da Palestrina 13/19	-	-	-	418,945.49	-	418,945.49	317,016.09
Fermo Piazza del Popolo, 38	-	-	-	16,400.00	-	16,400.00	12,726.40
San Benedetto del Tronto Via Fiscaletti, 16	-	-	-	918,260.22	-	918,260.22	725,241.90
Recanati Via Villa Musone, no street number	-	-	-	306,356.00	-	306,356.00	249,588.23
Magliano di Tenna Via Monti Sibillini, 9	-	-	-	272,000.00	-	272,000.00	263,840.00
Montecchio (TR) Via San Rocco, no street number	-	-	-	272,109.38	-	272,109.38	294,740.72
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**	**7,592,989.89**

List of HTCS equity investments

OTHER FUNCTIONAL INVESTMENTS	Carrying amount 2019	Changes in 2020			31/12/2020	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	10,000,000.00	0.00	0.00	0.00	10,000,000.00	0.00	0.00
Intesa Sanpaolo S.p.A.	94,986.11	0.00	0.00	-17,680.93	77,305.18	0.00	-18,820.40
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	20,800.00	0.00	1.00	21,945.00	0.00	1.00
CBI S.c.p.a.	3,022.00	0.00	0.00	0.00	3,022.00	0.00	0.00
Alipicene S.r.l. - In Liquidation	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
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	22,340.34	0.00	0.00	0.00	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	**16,661,373.53**	**20,800.00**	**0.00**	**-17,679.93**	**16,664,493.60**	**0.00**	**-303,594.71**

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 Porto Sant'Elpidio	Porto Sant'Elpidio (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
Chamber of Commerce, Industry, Agriculture and Artisanship - AZ. FERM(	FERMO
Cons.Intercom.Servizio Smaltimento Rifiuti Solidi Urbani T.S. Patrizio	Torre San Patrizio (FM)
Conservatorio Musicale "G.B. Pergolesi"	FERMO
ISC Fracassetti - Capodarco di Fermo	FERMO
Istituto Tecnico Industriale Statale "G. Montani"	FERMO
Liceo Artistico "U. Preziotti - O. Licini"	FERMO
Liceo Ginnasio "Annibal Caro"	FERMO
Liceo Scientifico "Calzecchi Onesti"	FERMO
Fondazione Ric. Montegranaro	Montegranaro (FM)
Ospizio Marino	FERMO
Pia Casa "F. Falconi"	Sant'Elpidio a Mare (FM)
Ordine Dottori Commercialisti ed Esperti Contabili	FERMO

Deloitte & Touche S.p.A.
Piazza Malpighi, 4/2
40123 Bologna
Italia

Tel: +39 051 65811
Fax: +39 051 230874
www.deloitte.it

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, 2020, 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, 2020, 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.

Deloitte.

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, 2020, performing loans to customers measured at amortized cost of Cassa di Risparmio di Fermo S.p.A. show a gross amount of Euro 1010.5 million, reduced by portfolio adjustments of Euro 10.8 million, to come to a net amount of Euro 999.7 million, resulting in a coverage ratio of 1.07%. As reported in Part B – Notes to the Balance Sheet as at December 31, 2020, a gross amount of Euro 171.1 million is classified in Stage 2 with a coverage ratio of 2.72%. The context was also characterized by new initiatives and concessions introduced by governments and monetary and tax authorities, whose impact on the Bank's economic and financial situation are described in the explanatory notes in the following sections: • Part B – Notes to the balance sheet – Section 4 – Financial assets measured at amortised cost, table 4.4a Loans measured at amortised cost subject to measures applied in response to the COVID-19: gross values and total impairment losses; • Part C – Notes to the income statement – Section 8 – Net impairment losses for credit risk, table 8.1a Net impairment losses for credit risk related to loans at amortized cost subject to measures applied in response to the COVID-19: breakdown; • Part E –Risks and related hedging policies – Section A – Credit quality, table A.1.5a Loans subject to measures applied in response to the COVID-19: transfers between different stages of credit risk (gross values) and table A.1.7a Loans subject to measures applied in response to the COVID-19: gross and net values; as required by the supplement dated 15 December 2020 of the "Circular n. 262 – Banks' financial statements: schemes and compilation rules" issued by Bank of Italy, which introduced a specific disclosure concerning the effects of the COVID-19 pandemic and of the measures to support the economy on risk management strategies, objectives and policies, as well as on the economic and financial situation of banks. As reported in the explanatory notes - Part E – 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), also taking into account the particular context of macroeconomic uncertainty deriving from the COVID-19 pandemic and the effects of the legislative moratorium measures issued during the year, as well as other support measures introduced by the Government.

Given the complexity of the process of classifying loans to customers into homogeneous risk categories followed by the Bank (stage), also taking into account the context of macroeconomic uncertainty arising from the COVID-19 pandemic, which has made the identification of exposures that have significantly increased credit risk particularly critical and exposed it to additional elements of subjectivity, 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, 2020.

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, as amended to take into account also of the impacts of the COVID-19 pandemic, 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, taking into account also the impacts on them of the COVID-19 pandemic;

- drawing qualitative and trend analysis of 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 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, as well as the contents of the interpretative and supporting documents for the application of the accounting standards in relation to the impacts of COVID-19 pandemic, issued by regulatory and supervisory bodies.

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, 2020, non-performing loans to customers measured at amortized cost of Cassa di Risparmio di Fermo S.p.A. show a gross amount of Euro 157.5 million, reduced by specific adjustments of Euro 87 million, resulting in a net amount of Euro 70.5 million. The Directors' report also shows that the coverage ratio of non-performing loans to customers measured at amortized cost as at December 31, 2020 is equal to 55.3%. Regarding the process of classifying loans to customers into 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, 2020.

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; • analysis and understanding of the valuation model adopted for the determination of impairment losses of non performing loans included in the Bank's strategy which envisages the recovery of those loans through disposals and checking the reasonableness of the recoverable amount, estimated also by taking into account the estimate of their disposal value, duly weighting the probability of the “workout” and “disposal” scenarios; • checking the completeness and the compliance of the disclosures provided in the financial statements in accordance with the regulatory framework and applicable accounting standards, as well as the contents of the interpretative and supporting documents for the application of the accounting standards in relation to the impacts of the COVID-19 pandemic, issued by regulatory and supervisory bodies.

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.

Deloitte.

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.

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.

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, 2020, 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, 2020 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, 2020 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 13, 2021

This report has been translated into the English language solely for the convenience of international readers.