Cassa Centrale Group

Annual financial report 2019 Financial Year

GRUPPO CASSA CENTRALE
CREDITO COOPERATIVO ITALIANO

gruppocassacentrale.it

Cassa Centrale Banca Credito Cooperativo Italiano
Cooperative Banking Group

Annual financial report 2019 Financial Year

Contents

01 Composition of the corporate bodies and officers 4

- List of shareholders 6
- Corporate officers and Independent Auditors 10

02 Report and consolidated financial statements of the Cassa Centrale Group 12

- Letter to the Shareholders 14

Directors' Report on consolidated operations 16

- Composition of the Cassa Centrale Banca Credito Cooperativo Italiano Cooperative Banking Group 17
- Economic background 26
- Significant events during the year 29
- Operating performance of the Cassa Centrale Group 36
- Main strategic business areas of the Cassa Centrale Group 51
- Risk management and internal control system 66
- Human resources 81
- Other information on operations 85
- Significant events occurred after the end of the financial year 90
- Business outlook 93

Independent Auditors' Report on the Financial Statements of the Cassa Centrale Group 95

Consolidated financial statements of the Cassa Centrale Group 105

Consolidated financial statements 105

- Consolidated statement of financial position 106
- Consolidated income statement 108
- Statement of consolidated comprehensive income 110
- Statement of changes in consolidated equity 111
- Consolidated cash flow statement 112

Consolidated Explanatory Notes 114

- Part A - Accounting policies 115
- Part B - Information on the consolidated statement of financial position 179
- Part C - Information on the consolidated income statement 256
- Part D - Consolidated Comprehensive Income 280
- Part E - Information on risks and related hedging policies 282
- Part F - Consolidated information on equity 367
- Part G - Business combinations regarding companies or branches 373
- Part H - Transactions with related parties 377
- Part I - Payment agreements based on own equity instruments 380
- Part L - Segment reporting 380
- Part M - Information on leasing 381

Annexes to the financial statements of the Cassa Centrale Group 384

Annex A) Audit and non-audit fees 385

03 Cassa Centrale Banca report and financial statements 386

Cassa Centrale Banca report on operations 388

- Operating performance of Cassa Centrale Banca 389
- Other information 407
- Proposed appropriation of the result for the year 408

Board of Statutory Auditors' Report 409

Indipendent Auditors' Report on the Financial Statements of Cassa Centrale Banca 428

Separate financial statements of Cassa Centrale Banca 437

Financial statements 437

- Statement of financial position 438
- Income statement 440
- Statement of Comprehensive Income 442
- Statement of changes in equity 444
- Cash Flow Statement 446

Explanatory Notes 449

- Part A - Accounting policies 450
- Part B - Information on the statement of financial position 496
- Part C - Information on the income statement 552
- Part D - Comprehensive income 574
- Part E - Information on risks and related hedging policies 576
- Part F - Information on equity 652
- Part G - Business combinations regarding companies or branches 657
- Part H - Transactions with related parties 658
- Part I - Payment agreements based on own equity instruments 661
- Part L - Segment reporting 661
- Part M - Information on leasing 662

Annexes to the financial statements of Cassa Centrale Banca 663

Annex A) Report on the guarantee scheme 664

Annex B) Audit and non-audit fees 667

01

Composition of the corporate bodies and officers

Cassa Centrale Banca list of shareholders

Ordinary shareholders

- **ASSICURA S.r.l.**
- **BANCA ADRIA COLLI EUGANEI CREDITO COOPERATIVO** - Cooperative Company
- **BANCA ALTO VICENTINO - CREDITO COOPERATIVO DI SCHIO E PEDEMONTE** - Cooperative Company
- **BANCA CENTRO EMILIA - CREDITO COOPERATIVO** - Cooperative Company
- **BANCA CENTRO LAZIO CREDITO COOPERATIVO** - Cooperative Company
- **BANCA DEL GRAN SASSO D'ITALIA, BANCA DI CREDITO COOPERATIVO** - Cooperative Company
- **BANCA DEL TERRITORIO LOMBARDO CREDITO COOPERATIVO** - Cooperative Company
- **BANCA DELL'ALTA MURGIA CREDITO COOPERATIVO** - Cooperative Company
- **BANCA DI BOLOGNA CREDITO COOPERATIVO** - Cooperative Company
- **BANCA DI CARAGLIO, DEL CUNEESE E DELLA RIVIERA DEI FIORI - CREDITO COOPERATIVO** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO DEI CASTELLI E DEGLI IBLEI** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO DEI CASTELLI ROMANI E DEL TUSCOLO** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO DEL CIRCEO E PRIVERNATE** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO DEL VELINO - COMUNE DI POSTA PROVINCIA DI RIETI** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO DELLA ROMAGNA OCCIDENTALE** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO DELL'ALTO TIRRENO DELLA CALABRIA VERBICARO (PROVINCE OF COSENZA)** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO DI ALBEROBELLO E SAMMICHELE DI BARI** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO DI ANAGNI** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO DI AQUARA** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO DI BARLASSINA (MILAN)** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO DI BRESCIA** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO DI CASALGRASSO E SANT'ALBANO STURA** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO DI CASSANO DELLE MURGE E TOLVE** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO DI CASTAGNETO CARDUCCI** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO DI CHERASCO** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO DI CONVERSANO** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO DI FLUMERI** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO DI LOCOROTONDO CASSA RURALE E ARTIGIANA** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO DI MONOPOLI** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO DI PIANFEI E ROCCA DE' BALDI** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO DI SAN GIOVANNI ROTONDO** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO DI SAN MARZANO DI SAN GIUSEPPE - TARANTO** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO DI SARSINA** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO DI SPELLO E BETTONA** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO DI TURRIACO** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO LA RISCOSSA DI REGALBUTO** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO LAUDENSE - LODI** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO SANGRO TEATINA DI ATESSA** - Cooperative Company
- **BANCA DI CREDITO COOPERATIVO VALDOSTANA - COOPERATIVE DE CREDIT VALDOTAINE** - Cooperative Company
- **BANCA LAZIO NORD CREDITO COOPERATIVO** - Cooperative Company
- **BANCA MALATESTIANA - CREDITO COOPERATIVO** - Cooperative Company
- **BANCA MONTE PRUNO - CREDITO COOPERATIVO DI FISCIANO, ROSCIGNO E LAURINO** - Cooperative Company
- **BANCA PREALPI SAN BIAGIO CREDITO COOPERATIVO** - Cooperative Company
- **BANCA SICANA CREDITO COOPERATIVO DI SOMMATINO, SERRADIFALCO E SAMBUCA DI SICILIA** - Cooperative Company
- **BANCATER CREDITO COOPERATIVO FVG** - Cooperative Company
- **BANCO MARCHIGIANO Credito Cooperativo** - Cooperative Company
- **BCC FELSINEA - BANCA DI CREDITO COOPERATIVO DAL 1902** - Cooperative Company
- **BENE BANCA CREDITO COOPERATIVO DI BENE VAGIENNA (CUNEO)** - Cooperative Company
- **CASSA PADANA BANCA DI CREDITO COOPERATIVO** - Cooperative Company
- **CASSA RAIFFEISEN DI SAN MARTINO IN PASSIRIA -RAIFFEISENKASSEN ST. MARTIN IN PASSEIER** - Cooperative Company
- **CASSA RURALE ADAMELLO - BANCA DI CREDITO COOPERATIVO** - Cooperative Company
- **CASSA RURALE ALTA VALLAGARINA- LIZZANA BANCA DI CREDITO COOPERATIVO** - Cooperative Company

CASSA RURALE ALTA VALSUGANA - BANCA DI CREDITO COOPERATIVO - Cooperative Company

CASSA RURALE ALTO GARDA - BANCA DI CREDITO COOPERATIVO - Cooperative Company

CASSA RURALE DI LEDRO - BANCA DI CREDITO COOPERATIVO - Cooperative Company

CASSA RURALE DI ROVERETO - BANCA DI CREDITO COOPERATIVO - Cooperative Company

CASSA RURALE DI TRENTO - BANCA DI CREDITO COOPERATIVO - Cooperative Company

CASSA RURALE DOLOMITI DI FASSA PRIMIERO E BELLUNO - BANCA DI CREDITO COOPERATIVO - Cooperative Company

CASSA RURALE ED ARTIGIANA DI BORGO SAN GIACOMO (BRESCIA) - CREDITO COOPERATIVO - Cooperative Company

CASSA RURALE ED ARTIGIANA DI BOVES - BANCA DI CREDITO COOPERATIVO (BOVES-CUNEO) - Cooperative Company

CASSA RURALE ED ARTIGIANA DI CORTINA D'AMPEZZO E DELLE DOLOMITI - CREDITO COOPERATIVO - Cooperative Company

CASSA RURALE ED ARTIGIANA DI VESTENANOVA - CREDITO COOPERATIVO - Cooperative Company

CASSA RURALE GIUDICARIE VALSABBIA PAGANELLA - BANCA DI CREDITO COOPERATIVO - Cooperative Company

CASSA RURALE LAVIS - MEZZOCORONA - VALLE DI CEMBRA - BANCA DI CREDITO COOPERATIVO - Cooperative Company

CASSA RURALE NOVELLA E ALTA ANAUNIA - BANCA DI CREDITO COOPERATIVO - Cooperative Company

CASSA RURALE RENON - RAIFFEISENKASSE RITTEN - Cooperative Company

CASSA RURALE ROTALIANA E GIOVO - BANCA DI CREDITO COOPERATIVO - Cooperative Company

CASSA RURALE VAL DI FIEMME - BANCA DI CREDITO COOPERATIVO - Cooperative Company

CASSA RURALE VAL DI NON - BANCA DI CREDITO COOPERATIVO - Cooperative Company

CASSA RURALE VAL DI SOLE - BANCA DI CREDITO COOPERATIVO - Cooperative Company

CASSA RURALE VALLAGARINA - BANCA DI CREDITO COOPERATIVO - Cooperative Company

CASSA RURALE VALSUGANA E TESINO - BANCA DI CREDITO COOPERATIVO - Cooperative Company

CAVIT - Cantina Viticoltori Consorzio Cantine Sociali del Trentino - Cooperative Company

CENTROVENETO BASSANO BANCA - CREDITO COOPERATIVO - Cooperative Company

CON.SOLIDA - Social Cooperative Company

CONSORZIO LAVORO AMBIENTE - Cooperative Company

CONSORZIO MELINDA - Agricultural Cooperative Company

CREDITO COOPERATIVO - CASSA RURALE ED ARTIGIANA DEL FRIULI VENEZIA GIULIA - Cooperative Company

CREDITO COOPERATIVO CENTRO CALABRIA - Cooperative Company

CREDITO ETNEO - BANCA DI CREDITO COOPERATIVO - Cooperative Company

DZ BANK AG DEUTSCHE ZENTRALGENOSSENSCHAFTSBANK FRANKFURT AM MAIN

FEDERAZIONE DELLE BCC DEL FRIULI VENEZIA GIULIA - Cooperative Company

FEDERAZIONE TRENTINA DELLA COOPERAZIONE - Cooperative Company

FEDERAZIONE VENETA DELLE BANCHE DI CREDITO COOPERATIVO - Cooperative Company

FONDO COMUNE DELLE CASSE RURALI TRENTINE - Cooperative Company

FRIULOVEST BANCA - CREDITO COOPERATIVO - Cooperative Company

PRIMACASSA - CREDITO COOPERATIVO FVG Cooperative Company

PROMOCOOP TRENTINA S.p.A.

ROMAGNABANCA CREDITO COOPERATIVO ROMAGNA EST E SALA DI CESENATICO - Cooperative Company

ROVIGOBANCA CREDITO COOPERATIVO - Cooperative Company

SAIT CONSORZIO DELLE COOPERATIVE DI CONSUMO TRENTINE - Cooperative Company

TRENTINGRANA CONSORZIO DEI CASEIFICI SOCIALI E DEI PRODUTTORI LATTE TRENTINI - Agricultural Cooperative Company

ZKB ZADRUŽNA KRAŠKA BANKA TRST GORICA Zadruga - ZKB CREDITO COOPERATIVO DI TRIESTE E GORIZIA - Cooperative Company

Preference shareholders

BANCA IFIS S.p.A.

BANCA POPOLARE ETICA - Cooperative Company

CHAMBER OF COMMERCE INDUSTRY AGRICULTURE AND CRAFTS - TRENTO

CASSA RAIFFEISEN BASSA VENOSTA - Cooperative Company

CASSA RAIFFEISEN DELLA VAL PASSIRIA - Cooperative Company

CASSA RAIFFEISEN DI SAN MARTINO IN PASSIRIA - Cooperative Company

COOPERATIVA PROVINCIALE GARANZIA FIDI - Cooperative Company

DZ BANK AG DEUTSCHE ZENTRALGENOSSENSCHAFTSBANK FRANKFURT AM MAIN

MEDIOCREDITO TRENTINO-ALTO ADIGE S.p.A.

PROMOCOOP TRENTINA S.p.A.

AUTONOMOUS PROVINCE OF TRENTO

Corporate officers and Independent Auditors

Board of Directors

Giorgio Fracalossi	CHAIRPERSON OF THE BOARD OF DIRECTORS
Mario Sartori	CHIEF EXECUTIVE OFFICER
Carlo Antiga	ACTING DEPUTY CHAIRPERSON
Giuseppe Spagnuolo	DEPUTY CHAIRPERSON
Paola Brighi	DIRECTOR
Enrica Cavalli	DIRECTOR
Maria Luisa Di Battista	DIRECTOR
Giuseppe D'Orazio	DIRECTOR
Giuseppe Graffi Brunoro	DIRECTOR
Amelio Lulli	DIRECTOR
Enrico Macrì	DIRECTOR
Giorgio Pasolini	DIRECTOR
Claudio Ramsperger	DIRECTOR
Livio Tomatis	DIRECTOR
Paola Vezzani	DIRECTOR

Board of Statutory Auditors

Elisabetta Caldirola	CHAIRPERSON OF THE BOARD OF STATUTORY AUDITORS
Mariella Rutigliano	STANDING AUDITOR
Claudio Stefenelli	STANDING AUDITOR
Clara Carbone	STANDING AUDITOR
Maurizio Giuseppe Grosso	ALTERNATE AUDITOR

Management

Mario Sartori	CHIEF EXECUTIVE OFFICER
Enrico Salvetta	ACTING DEPUTY GENERAL MANAGER
Sandro Bolognesi	DEPUTY GENERAL MANAGER

Independent Auditors

KPMG S.p.A.

Risks Committee

Maria Luisa Di Battista	CHAIRPERSON
Paola Brighi	
Giuseppe Graffi Brunoro	
Giorgio Pasolini	
Paola Vezzani	

Nomination Committee

Enrico Macrì	CHAIRPERSON
Maria Luisa Di Battista	
Giuseppe Graffi Brunoro	

Remuneration Committee

Paola Vezzani	CHAIRPERSON
Enrico Macrì	
Livio Tomatis	

Independent Directors Committee

Paola Brighi	CHAIRPERSON
Maria Luisa Di Battista	
Enrico Macrì	

Report and Consolidated Financial Statements of the Cassa Centrale Group

Letter to the Shareholders

Dear Shareholders and esteemed guests,

Welcome to this meeting, which represents another important milestone for us all: the approval of the first consolidated financial statements of the Cassa Centrale Group as at 31 December 2019, as well as the separate financial statements of Cassa Centrale Banca.

During this year, the work and dedication of everyone, the men and women of the Group, the affiliated Banks, the instrumental companies and the Parent Company, were mainly focused on the objective of initiating and consolidating the Cooperative Banking Group. Number one priority has been given to the enhancement of the BCC-CR-RAIKAs, which are the real driving force behind the Group's development, cooperative values and the improvement of the organisational structure to achieve an efficient and quality internal model.

The Group closed its first year of operations with a net profit attributable to the Parent Company of EUR 221 million and total assets of almost EUR 73 billion. The capital solidity ratios are all particularly positive, with a CET1 at consolidated level of 19.72%, demonstrating that the quality of our Banks, our investments and our clients is a strength that has been further reinforced with the launch of the Group.

In fact, the credit quality ratios show an NPLs Ratio of 9.3%, and coverage levels for impaired loans of 55% [1]. These figures confirm the adequacy of the strategies implemented by the Group to manage assets and impaired exposures through securitisation transactions and important partnerships with leading market players. These results allow us to plan and to tackle complex challenges at the same time, such as the Comprehensive Assessment by the European Central Bank, which was initially scheduled to start in the second quarter of 2020 and has now been postponed due to the current health emergency.

During the year, all migrations of banks to the Group's information systems were completed and in the summer a process of industrial reorganisation - the "MOG Project" - was launched, i.e. the integration of the 7 instrumental companies operating in the IT and services chain into a new identity - Allitude Spa. The result has been a more simplified governance structure and the potential to develop industrial synergies and efficient specialist centres for the production of ICT and back office services.

The key word was "simplify". With this objective, both on an organisational and participatory level, we have achieved significant goals. After lengthy negotiations we have satisfactorily concluded an agreement with Iccrea for the definition of reciprocal ownership structures.

Investments, including in the area of control functions, were considerable, demonstrating that the Group intends to pursue growth objectives with particular attention to human resources, risk management and regulations.

Thanks to the efforts made in recent years by all the affiliated Banks, in one year the Parent Company has been able to implement and formalise the internal procedures and information flows required by regulations and aimed at coordinating and directing our banks in their activities. In this year we have pursued our commitment to improve the range of products available to our customers.

2019 brought strong uncertainty in the markets due to geopolitical factors and trade tensions, as well as the war on tariffs, and a weakness in business investment. This led to a contraction in loans to businesses, offset by an increase in funding and in loans to households, and in terms of credit quality, the entire banking sector saw a sharp reduction in non-performing loans, in line with policies to improve the quality of credit portfolios, through increases in write-downs and securitisation and sale of NPLs.

[1] Cfr. Operating performance of the Cassa Centrale Group, Coverage NPL

In these early months of 2020, the spread of Covid-19 has led to further market instability that could lead to a contraction of GDP in our country, with the trade, service, transport and tourism sectors most affected. In the face of this emergency, the support of the BCC-CR-RAIKAs to the regions most affected was timely, with targeted support actions such as moratoria and extensions, in line with the mutualistic spirit and proximity to the territory that have always distinguished us.

Our guidelines will always be consistent with the founding principles of credit cooperation and as the Parent Company, Cassa Centrale will always try to balance the vocation of proximity to the territory with the ambition to extend its horizons towards wider boundaries.

We believe it is important to have a market culture that goes hand in hand with the recognition of service to affiliated Banks, with the responsibility of advancing the cooperative system without distorting it. It is precisely within this context that the equity investment in Carige fits. In this regard, we will have time to evaluate in depth whether to complete the transaction with the possible "call" exercise.

The challenges faced and those to be faced do not frighten us, because with the strength originating from the collaboration and team spirit that guide us, we can continue to work for planned and sustainable growth. This will only be possible through an attentive look to the future, always keeping in mind that difference is a value to cultivate and local identity a principle to defend and support. Together.

In conclusion, we would like to thank all the representatives of the BCC-CR-RAIKAs, all the structures of Cassa Centrale, the affiliated Banks and the other companies that have worked, and will continue to work, in a constructive and collaborative spirit to ensure that the Group can continue to play a leading role in the economic outlook of our country.

Directors' Report on consolidated operations

Composition of the Cassa Centrale Banca Credito Cooperativo Italiano Cooperative Banking Group

Reform of Cooperative Credit

On 2 August 2018, the Bank of Italy, having ascertained that all the requirements set out in Articles 37-bis and 37-ter of the *Testo Unico Bancario* (Consolidated Banking Act - hereinafter also referred to as "TUB") were met, accepted the application of Cassa Centrale Banca - Credito Cooperativo Italiano S.p.A. (hereinafter also "Cassa Centrale Banca", "CCB", the "Parent Company" or the "Bank") to set up the Cassa Centrale Banca Credito Cooperativo Italiano Cooperative Banking Group (hereinafter also "Cassa Centrale Group", the "Group", "Cooperative Banking Group" or "CBG"). Having completed all the formalities required by the regulations on the part of the Parent Company and the banks that joined the Group (hereinafter also referred to as "affiliated Banks", "BCC" or "BCC-CR-RAIKA"), the Supervisory Authority, by resolution of the Executive Board of 18 December 2018, has ordered the Cooperative Banking Group to be entered in the Register of Banking Groups, with effect from 1 January 2019.

Therefore, the year ended 31 December 2019 represents the first year of operations of the new Cassa Centrale Group, 95.18% of whose capital is held - directly and indirectly - by the BCC-CR-RAIKAs.

The reform of cooperative credit was born from the Italian legislator's desire to strengthen the cooperative credit sector without distorting the local role and mutualistic purpose of the individual BCC-CR-RAIKAs, safeguarding the paradigm that distinguishes them.

The complex legislative process was initiated with Legislative Decree no. 18 of 14 February 2016, subsequently converted with amendments into Law no. 49 of 8 April 2016.

The regulation amended the TUB, regulating, in Articles 37-bis and 37-ter, the Cooperative Banking Group, to which the individual BCC-CR-RAIKAs are required to adhere as an essential condition for the exercise of banking activity in the form of cooperative credit banks, pursuant to Art. 33 of the TUB.

In accordance with the new regulatory framework of reference, the Cooperative Banking Group is composed of:

- the Parent Company, i.e. a joint-stock company authorised to carry out banking activities, which is responsible for the strategic and operational management of the Group and for interacting with the Supervisory Authorities;
- the affiliated Banks, i.e. those BCC-CR-RAIKAs that adhere to the CBG through their adherence to the Cohesion Contract;
- other banks, financial and instrumental companies controlled directly and/or indirectly by the Parent Company.

With respect to that initially defined with the reform, the legislator intervened at a later date with a further Law Decree (Law Decree no. 91 of 25 July 2018, converted into Law no. 108 of 21 September 2018) with which it aimed to further enhance the territorial and mutualistic outlook of the BCC-

CR-RAIKAs. Pursuant to the above law, Art. 37-bis of the TUB has been amended to require the Parent Company to ensure the active participation of the affiliated Banks in the management of the Cooperative Banking Group through local shareholders' meetings of the banks themselves, as well as the potential establishment of special committees, with an advisory and proposing role, in particular in the following areas:

- preparation of guidelines on the main areas of business activity;
- analysis of commercial performance trends and formulation of proposals for improvement actions to be taken;
- identification of budget objectives;
- evaluation of the effectiveness of the catalogue of products and services offered by the Parent Company;
- identification of strategic initiatives at Group level;
- pursuit of mutualistic aims.

Local Shareholders' Meetings have the objective of allowing for maximum participation, collaboration and shared responsibility on the part of all the affiliated Banks, through constant dialogue with the Parent Company, leveraging the common purpose, the responsibility and effective and widespread communication, as well as the integrated development of the Group's culture and strategies. The relationship based on ongoing dialogue and the active involvement of its stakeholders is an expression of the responsibility that the Cooperative Banking Group feels towards the territory in which it operates.

Other major changes made by the Decree to Article 37-bis of the TUB include the following:

- the provision that at least 60% of the share capital of the Parent Company of the Cooperative Banking Group is held by the cooperative credit banks belonging to the same Cooperative Banking Group;
- the definition of the number of members of the Board of Directors of the Parent Company (i.e. the number of members of the Board of Directors representing the affiliated Banks are equal to half plus two of the total number of Directors);
- the recognition of areas of autonomy in strategic planning and commercial policies for banks in the best risk classes.

The regulatory framework relating to cooperative credit saw its completion towards the end of last year with the extension of the rules of the so-called "VAT Group" also to Cooperative Banking Groups as from 1 July 2019 (Law Decree no. 119 of 23 October 2018, converted with amendments by Law no. 136 of 17 December 2018) and, as part of the preparation of the consolidated financial statements, with the recognition of the single consolidating entity with reference to the Parent Company and the Banks belonging to the Cooperative Banking Group.

The Cohesion Contract

The basis for the establishment of the Cassa Centrale Group is a contractual relationship between the Parent Company and the individual affiliated Banks, namely the Cohesion Contract.

By means of the Cohesion Contract (Art. 37-bis of the TUB), the affiliated Banks and the Parent Company regulate their mutual duties, responsibilities, rights and joint and several guarantees deriving from membership and affiliation with the Cooperative Banking Group, in compliance with the mutualistic aims that characterise cooperative credit banks and in application of the principle of proportionality exercised according to the health status of the banks themselves (risk-based approach).

The Parent Company ensures compliance with the mutualistic aims and guides the Group towards business models consistent with cooperative principles. The affiliated Banks, for their part, ensure the operational control of their territory by exploiting the knowledge of the economic and social dynamics of their shareholders/customers in line with the Group's strategic guidelines. The Parent Company's duty is to safeguard the stability of the Group and of each of its individual members, in compliance with the principles of sound and prudent management, by supporting the affiliated Banks in pursuing the objectives set out in their Articles of Association, as well as by promoting the cooperative spirit and the mutualistic function of the same and of the Group.

The spirit of cooperation, in fact, is the foundation of the Cohesion Contract which finds its maximum expression through the drive for social, moral and economic development of local communities, the progress of cooperation and education in savings, pension planning and risk insurance, as well as social cohesion and the responsible and sustainable growth of the territories in which the affiliated Banks operate.

As a result of the signing of the Cohesion Contract, the affiliated Banks are subject to management and coordination by the Parent Company, while the Parent Company assumes the duties and responsibilities associated with its role as strategic and operational management of the Group.

The Cohesion Contract deploys the respective and reciprocal rights and duties of the members of the Group and also acknowledges all the management and coordination powers attributed to the Parent Company. These powers are exercised, in particular, in matters and areas such as corporate governance, strategic planning, risk management, internal control systems, information systems and joint and several guarantees.

The Guarantee Agreement

The Cohesion Contract provides, as a necessary and further fundamental and constitutive element of the Group, for the joint and several guarantee of the obligations assumed by the Parent Company and the affiliated Banks, in compliance with the prudential rules applicable to banking groups and individual member banks; this guarantee forms an integral part of the Cohesion Contract. Participation in the agreement is, in fact, an essential condition for adherence to the Cohesion Contract and therefore to the Cooperative Banking Group.

The guarantee between the Parent Company and the affiliated Banks is reciprocal (cross-guarantee) and contractually regulated so as to have the effect of qualifying the liabilities of the Parent Company and the affiliated Banks as joint and several obligations of all the parties to the agreement; in other words, all the affiliated Banks and the Parent Company are obligated - both internally and externally - for all the obligations contracted by the Parent Company or any Affiliated Bank.

The Guarantee Agreement also provides for intra-group financial support mechanisms by which the members of the scheme provide each other with financial support to ensure solvency and liquidity; in particular, to comply with the prudential requirements and the requests of the Supervisory Authority, as well as to avoid, where necessary, being subject to the resolution procedures set out in Legislative Decree no. 180/2015 or the compulsory administrative liquidation procedure referred to in Articles 80 *et seq.* of the TUB.

In particular, each party to the Guarantee Agreement, in order to guarantee the prompt availability of the funds and financial means necessary to carry out the guarantee measures, sets up within the Parent Company the so-called "readily available financial means", represented by a pre-established quota (the ex ante quota) and a quota that can be called up by the Parent Company if needed (the ex post quota), through the execution of contributions with the technical forms provided for in the Guarantee Agreement. The Parent Company periodically checks the ex ante and ex post quotas and the related capacity through stress tests.

If there is a need for intra-group financial support, the Parent Company may decide to activate the guarantee. The support initiatives for the affiliated Banks, both capital and liquidity, necessary to ensure the solvency and liquidity of the individual members of the scheme, are carried out only by the Parent Company, using the financial resources made available by the members in execution of the Guarantee Agreement.

Support initiatives may consist of:

- capital initiatives, such as the subscription of financing shares eligible as CET1 or additional equity instruments eligible as AT1 and Tier2 of the Affiliated Bank;
- liquidity initiatives, such as the subscription of ordinary bond loans issued by the affiliated Banks and/or through the subscription of term deposits;
- initiatives in any other technical form deemed appropriate by the Parent Company.

For further details on the guarantee scheme, please refer to the "Report on the guarantee scheme" attached to the separate financial statements of Cassa Centrale Banca in this financial report.

The organisational structure of the Group

The reform of cooperative credit has reinforced the importance of effective organisational structures and corporate governance for the pursuit of corporate objectives.

The corporate governance system of the Parent Company Cassa Centrale Banca is based on the central role of the Board of Directors, the transparency of management decisions, the effectiveness of the internal control system and the strict governance of potential conflicts of interest.

To this end, in October 2018 the new Articles of Association were approved, which incorporate the legal provisions related to the establishment of the Cooperative Banking Group.

The main innovations concerned the insertion of specific articles relating to the peculiarities of the Cooperative Banking Group, the roles and responsibilities of the Parent Company as well as the methods of admission, withdrawal and exclusion from the Group.

Further updates concern the provisions relating to the share capital of the Parent Company and the structure of the Body responsible for strategic supervision, providing, in accordance with the reform law and its subsequent amendments and additions, that the Board of Directors is composed of 15 directors, 10 of whom represent cooperative credit banks.

Likewise, the affiliated Banks have updated their Articles of Association according to a scheme established in advance and authorised by the Supervisory Authority, in order to implement the regulatory provisions introduced by the reform of cooperative credit.

The Group structure

As at 31 December 2019, the Cassa Centrale Group consisted of:

- the Parent Company, Cassa Centrale Banca;
- the affiliated Banks that have adhered to the Cohesion Contract and the companies controlled by them, directly or indirectly;
- other banks, financial and instrumental companies directly and/or indirectly controlled by the Parent Company.

A list of the companies included in the scope of consolidation of the Cassa Centrale Group is provided in the Explanatory Notes (Part A - Accounting policies, Section 3, paragraph 1).

Corporate governance

The Cassa Centrale Group, in line with legal and supervisory regulations and in order to ensure an appropriate balance of powers and a precise distinction between the functions of strategic supervision, management and control, has adopted a "traditional" system of governance, based on the distinction between the Board of Directors, which has a guidance and strategic supervision function, and the Board of Statutory Auditors, which has a control function.

Below is an overview of the main corporate bodies with guidance and governance functions. Details of the powers reserved for the control bodies are provided in the chapter dealing with "Risk management and internal control system" in this Report.

Shareholders' Meeting

The Shareholders' Meeting is a deliberative and collective body designed to express the Bank's wishes and to resolve, in line with the dictates of Art. 2364 of the Italian Civil Code and Art. 13 of the Articles of Association, on the following matters:

- appointment of the members of the Board of Directors, the Board of Statutory Auditors and determination of their compensation and responsibilities;
- approval of the financial statements and resolution on the allocation and distribution of profits;
- upon a reasoned but non-binding proposal by the Board of Statutory Auditors, the appointment of the company responsible for externally auditing the accounts;
- resolving on the approval of remuneration and incentive policies for the Bank's Directors, Board of Statutory Auditors and staff, approving any plans based on financial instruments and the criteria for determining the compensation of any Directors and relevant staff in the event of early termination of employment or office;
- approval and amendment of any meeting regulations and resolving on other matters assigned to its competence by the regulations in force at the time or by the Articles of Association.

The Board of Directors

The Board of Directors (hereinafter also referred to as the "BoD") is the body responsible for the strategic supervision and management of the company. The BoD of Cassa Centrale Banca consists of 15 members, 4 of whom meet the independence requirements: the Chairperson, one or two Deputy Chairpersons and the Acting Deputy Chairperson. The directors are chosen, in a number not exceeding 10, from among persons who are members of the affiliated Banks, i.e. who hold, or who have held in the 2 years prior to taking office, positions in the administrative and control bodies or top management of the affiliated Banks, or of companies and entities in which they have a stake, operating in the cooperative credit sector. The Articles of Association, in addition to assigning the strategic supervision function, delegate the management function to the Board of Directors, the Executive Committee and the Chief Executive Officer.

Chairperson of the Board of Directors

In accordance with the provisions of Bank of Italy Circular no. 285/2013 and subsequent updates, the Chairperson of the Board of Directors (hereinafter also the "Chairperson"), who may not have an executive role or perform management functions, is assigned a coordination and guarantee role for the regular functioning of the Board of Directors and the Shareholders' Meeting. This promotes internal dialectics and ensures the balance of powers, in line with the tasks relating to the organisation of the work of the Board of Directors and the circulation of information assigned to it by the Italian Civil Code. The Chairperson is also assigned by the Articles of Association to represent the Company before third parties and in court, as well as to sign on behalf of the Company. They shall promote the effective functioning of the corporate governance system, guaranteeing the balance of powers between the Bank's decision-making bodies and act as an interlocutor with the controlling body and the internal committees.

Executive Committee

The Executive Committee consists of the Chief Executive Officer and 4 Directors appointed by the Board of Directors. Within the scope of the powers that the law and the Articles of Association do not reserve for the collective competence of the Board of Directors, the following matters are delegated to the Executive Committee, on which it resolves, as a rule, through proposals made by the Chief Executive Officer:

- loans;
- real estate investments;
- write-offs.

Chief Executive Officer

The Board of Directors appoints a Chief Executive Officer from among its members, to whom it entrusts the day-to-day management of the Parent Company in compliance with the general planning and strategic guidelines established by the Board of Directors.

Board committees

The Board of Directors shall establish from among its members a Risks Committee, an Nomination Committee, a Remuneration Committee and an Independent Directors Committee, to which the following tasks are assigned:

- the Risks Committee performs support functions for the Parent Company's Corporate Bodies with regard to risks and the internal control system, paying particular attention to all activities that are instrumental and necessary for the Parent Company's Board of Directors to arrive at a correct and effective determination of the Risk Appetite Framework (RAF) and risk management policies;
- the Nomination Committee performs investigative and advisory functions in support of the Board of Directors with regard to the appointment of members and the composition of the Board of Directors of the Parent Company and, where applicable, of the affiliated Banks when such appointment is the responsibility of the Board itself;
- the Remuneration Committee has propositional and advisory functions with regard to the remuneration and incentive systems to be adopted by the Parent Company and, where applicable, by the affiliated Banks;
- the Independent Directors Committee, consisting of three independent directors chosen from among the members of the Board of Directors, intervenes in the negotiation and preliminary phases of transactions with associated parties, formulating reasoned and binding opinions.

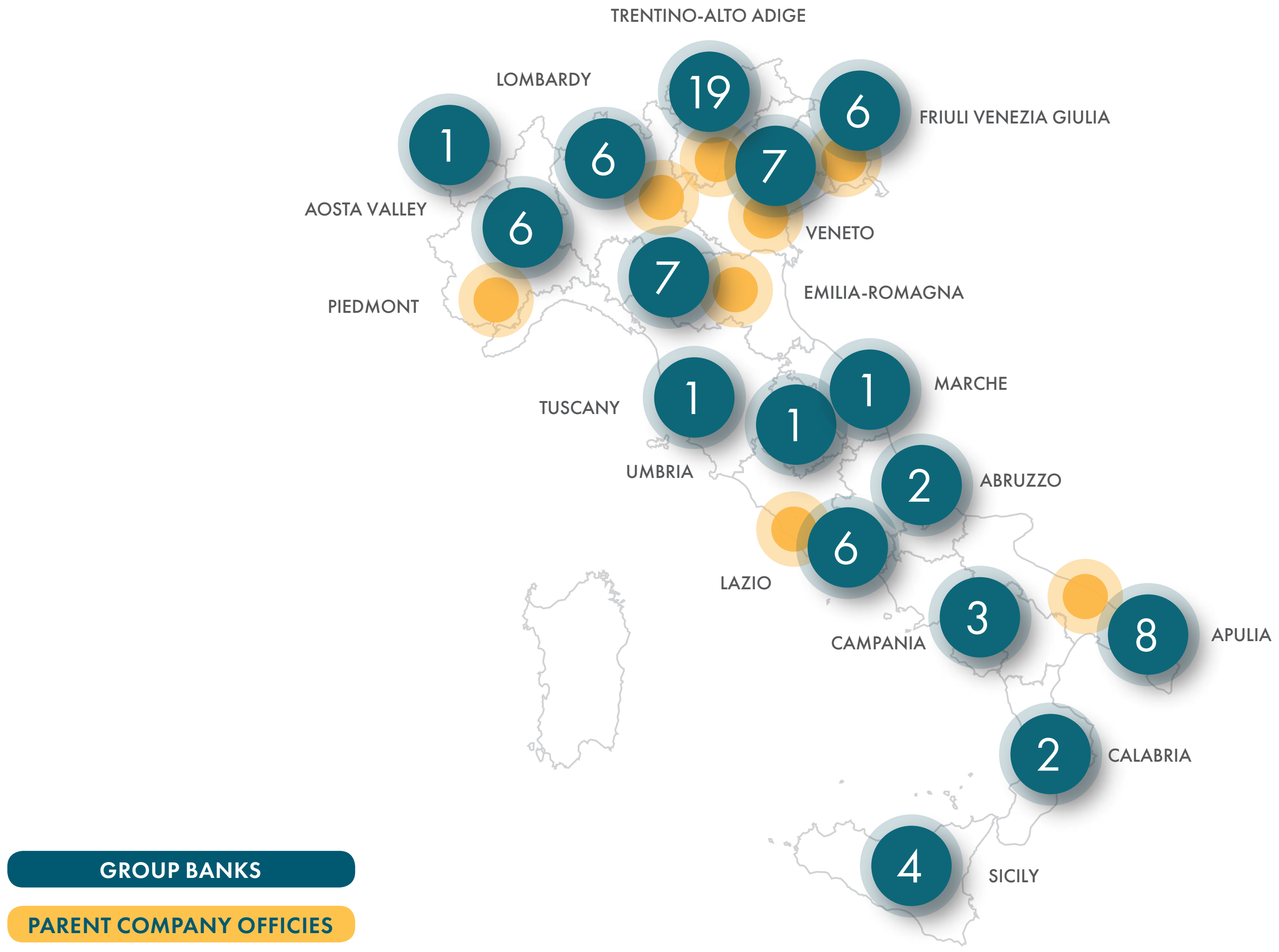
For further information and a detailed description of the corporate governance system, please refer to the "Corporate Governance Project" available on the Cassa Centrale Banca website at - www.cassacentrale.it, in the "Governance" section.

Presence on the territory

Cassa Centrale Banca has been a reference partner of cooperative credit and small and medium-sized banks that do not belong to banking groups for over 40 years, sharing their values, culture, strategies and reference model.

It has always operated as a second-level bank, providing support and impetus to the activities of BCC-CR-RAIKAs, their shareholders and customers, with an offer that has always been characterised by reliability and innovation in products and services, supported by highly specialised consulting.

With the birth of the Cooperative Banking Group, the spirit of proximity to the territory has been strengthened, through a system of autonomous local banks and cooperatives organised in a modern Banking Group that enhances the contribution of each party within a central coordination system. The business model provides for a widespread presence in the territory characterised by a strong attention to the relationship with the customer (typically families and small economic operators), the territory and local institutions.



As at 31 December 2019, the Group's branch network was characterised by the presence of 80 affiliated Banks with approximately 1,500 branches throughout Italy and 10 regional offices of the Parent Company (including 3 in Trento). Following several extraordinary mergers, the number of affiliated Banks decreased by 7 during 2019. This dynamic must be observed in light of the aggregation process, within the BCC-CR-RAIKA category, aimed at pursuing objectives of stability, efficiency and competitiveness.

PRESENCE ON THE TERRITORY	Trentino-Alto Adige	North East	North West	Central	South and the Islands	Total
REGISTERED OFFICES						
Parent Company	3	2	2	2	1	10
Affiliated Banks	19	13	13	18	17	80
BRANCHES						
Parent Company	1	0	0	0	0	1
Affiliated Banks	273	374	356	322	174	1,499

The special legal regulations, in relation to the mutualistic aims pursued, and the business model that characterises the BCC-CR-RAIKAs, are at the basis of the high number of members in the corporate structure. Cooperative shareholders play a key role as they are a crucial resource for preserving the value of cooperative credit banks. They are in fact the first customers, suppliers of their own equity, witnesses of the vitality of the company, as well as the creators of projects within the social and economic fabric.

As can be seen from the table below, the number of shareholders at 31 December 2019 is approximately 446 thousand, mostly concentrated in the central-north area of the country.

AREA	Trentino-Alto Adige	North East	North West	Central	South and the Islands	Total
No. of Shareholders at 31/12/2019	131,486	91,129	98,508	94,607	30,974	446,704
% of total	29.4%	20.4%	22.1%	21.2%	6.9%	100%

Mission, values and business model of the affiliated Banks and the Group

The BCC-CR-RAIKAs are local banks which are an expression of the communities, established in the form of cooperative companies with prevalent mutuality. Consistent with the principles and values that inspired their birth and accompanied their growth, they have always made a concrete contribution to the economic, social and cultural development of local communities. As stated in the Articles of Association, they have *"the purpose of favouring cooperative shareholders and members of local communities in banking operations and services, pursuing the improvement of their moral, cultural and economic conditions and promoting the development of cooperation and education in savings and pension planning as well as social cohesion and the responsible and sustainable growth of the territory in which they operate"*.

The sharing of the values that characterise the social function of cooperation provides a peculiar characteristic to the modus operandi of the affiliated Banks and at the same time represents a concrete wealth for the territorial communities in which they operate.

The commitment to the territory is implemented both in the active presence in the economic system through reinvestment in the areas of competence of savings collected, and in the support of initiatives in favour of bodies and associations that make the non-profit sector their objective. Of particular importance are the conferences and round tables with trade associations to promote discussion of the most important issues in the economic sectors in which the Group operates.

The social and service function of the affiliated Banks is characterised by a qualified, updated and dedicated offer in which the services provided by the individual entities are flanked by the services and consulting provided by the Parent Company and the Group Companies, which are designed to meet the organisational, business and compliance needs of the affiliated Banks and to understand the needs of shareholders and customers.

The activity of the affiliated Banks is strongly oriented towards the provision of credit through traditional forms, such as mortgages and commercial loans, in order to better meet the financial needs of customers. Direct funding also consists of traditional offerings such as deposit accounts, repos, current accounts, savings accounts and bonds. Indirect funding and assets under management mainly consist of products and services designed to ensure profitability while minimising risks.

Affiliated Banks are therefore the main interlocutors in the support and development of the real economy of the territories in which they operate, thanks to a specific offer of banking products and services that over the years has made it possible to maintain the stability of savings and to allow for constant access to credit, also by enhancing the value of proximity information that is a peculiarity that only local banks possess.

Also worthy of note is the commitment to offering and placing ethical and environmentally relevant investment products. With reference, in particular, to the offer of banking and credit products linked to eco-sustainable initiatives, of note are the initiatives aimed at spreading the culture of energy saving and the responsible use of resources with actions that directly involve the affiliated Banks and, indirectly, customers, through products with low environmental impact, financing dedicated to businesses and households for the installation of systems for the production of electricity or heat from renewable sources and the implementation of interventions aimed at improving the energy efficiency of buildings.

Economic background

International scenario and italian context

In 2019, the international economic cycle slowed down again as a result of increased uncertainties linked to geopolitical factors, trade tensions between the world's two leading economies, the United States and China, and weak business investment. The duties war, which began in March last year, has gradually intensified until a ceasefire was reached in mid-December 2019 with the proposal of a so-called "Phase 1" agreement. According to the estimates of the International Monetary Fund (hereinafter also "IMF") the growth of Gross Domestic Product (hereinafter also "GDP") was 2.9% for 2019, the lowest value since the financial crisis.

Considering the main countries, the GDP of the euro area increased by 1.2% according to IMF estimates, showing signs of weakness in growth dynamics, as indicated in particular by the German manufacturing PMI indices which collapsed in the wake of difficulties in the automotive sector. The euro area economy was also slowed down by uncertainty stemming from the risk of a hard Brexit, with concerns gradually returning at the end of the year with the UK Parliament's approval of the exit agreement by January 2020. US growth was also more moderate than the previous year with an increase of 2.3% and Chinese growth fell to 6.1% from 6.6% in 2018.

Inflation worldwide has not changed significantly, with prices growth falling back slightly to 3.4%, according to IMF estimates, partly due to lower energy commodity prices. Despite the very accommodating attitude of central banks, there were no particular inflationary pressures in the euro area and the US, with data generally showing marginal weakness.

The labour market and consumer spending were two factors supporting economic growth, especially in the euro area and the United States, where employment data confirmed solid results with unemployment rates at pre-crisis levels of 7.6% and 3.7% respectively. This dynamic has fuelled wage growth and enabled domestic demand to be sustained by expanding consumption at a steady pace. In the United States, the creation of new jobs in non-agricultural sectors has remained robust, but naturally declining.

As far as the Italian economy is concerned, in 2019, GDP grew slightly in the first three quarters of the year, driven by domestic demand and expansion in the services sector. According to ISTAT's estimate, GDP increased by 0.2% in real terms over the whole year. At the same time, there were consistent signs of moderation in economic activity.

The annual change in industrial production for 2019 was negative in the area, registering a -1.0% (from 0.6% in 2018), while a certain weakness was also confirmed by leading indicators on the confidence of businesses and purchasing managers in the various sectors: during 2019 these fell, some even below the expansion threshold, such as the manufacturing PMI.

Inflation, as measured by the annual change in the national consumer price index, declined in the second half of the year (0.7% per year for 2019 compared to 1.3% in 2018). The unemployment rate confirmed the continuation of the recovery path already initiated in previous years, with the index gradually falling in 2019 to 9.8% in December.

Financial and currency markets

In the course of 2019, the progressive deterioration of the economic situation and the increase in uncertainty linked to geopolitical and commercial factors led the main Central Banks to interrupt the process of normalising monetary policy previously underway, taking a very accommodating stance which resulted, in the second half of the year, in the introduction of a new series of expansionary measures by both the European Central Bank (hereinafter also "ECB") and the Federal Reserve (hereinafter also "FED").

At its meeting on 7 March 2019, the Governing Council of the ECB (hereinafter also referred to as "the Council") announced a new set of targeted longer-term refinancing operations (so-called "TLTRO-III), aimed at preserving favourable liquidity conditions and ensuring the proper transmission of monetary policy. The new TLTRO-III operations, seven in total and to be implemented on a quarterly basis between September 2019 and March 2021, provide for an incentive mechanism for the granting of credit to households and businesses similar to that of the operations still in place (so-called TLTRO-II). At the same meeting, the Council also announced that the Eurosystem's refinancing operations will continue to be conducted through fixed rate auctions with full allotment of the required amount as long as necessary and at least until the end of the maintenance period starting in March 2021.

At its meeting on 12 September 2019, the Governing Council of the ECB subsequently approved a further expansionary package of measures to counter the new downward risks to inflation arising from the weakening outlook for economic activity. The Council reduced the rate on deposits with the Eurosystem by 10 basis points to -0.50%, and indicated that the official rates will remain at or below current levels until the inflation outlook is sufficiently close to 2%. The Council also decided to restart, from the beginning of November 2019, the expanded programme of net purchases of financial assets at a rate of EUR 20 billion per month; it eased the terms of the new TLTRO-III operations announced in March, reducing their cost by 10 basis points and extending their duration from two to three years; finally, it introduced a new system for remunerating reserves held with the Eurosystem, whereby part of the excess liquidity held by banks will be exempt from payment of the negative interest rate on deposits.

As far as the United States is concerned, the FED interrupted the phase of official interest rate increases that had lasted since 2015; at each of its meetings in July, September and October, the Institute led by Jerome Powell lowered the interval within which it aims to maintain interest rates on Federal Funds by 25 basis points (which at the end of 2019 was 1.50% - 1.75%).

Also in 2019 the monetary policy choices of the ECB and the FED were among the main drivers for the Euro and Dollar on the currency markets, together with the general increase in risk aversion resulting from the increase in uncertainty on a global scale (commercial tensions, Brexit). The EUR/USD cross rate decreased from 1.1450 to 1.1230 (-1.92%) in the twelve months of 2019.

The expansive monetary policies of the main central banks also supported the trend in share prices in 2019: the major share prices were also conditioned by the succession of news in relation to the trade war between the United States and China. If, on the one hand, the worsening of tensions has generated abrupt corrections, signs of relaxation have on the other hand during the year led to several rallies of markets and the increase in appetite for risk.

The main American markets continued to update their historical highs during the year. The expansive drive of the FED and the positive financial stability of the companies also supported the buybacks phenomenon, which in 2019 exceeded the volumes recorded in the previous year.

In Europe, all indices recorded a double-digit performance, the Italian market above all with a positive result from the beginning of the year of more than 28%, despite the difficulties recorded in May and August in conjunction with the escalation of trade tensions at a global level and then the Italian government crisis.

The Italian market, which in any case presented all its sectors in a positive light, was driven by cyclical components, such as IT and Financials. The latter benefited during the year from the reduction in the Btp-Bund spread, a movement that has been triggered since the beginning of June. Emerging markets struggled to follow the rally of the world's major stock exchanges.

The continuation of expansionary monetary policies by the main central banks has led to a further decline in European bond yields during 2019, with signs of a slowdown in the economy and continued low inflation completing the favourable picture for fixed income. In the summer, anticipating new expansionary policies by the ECB, the 10-year Bund reached a new record low of -0.71% and for the first time in history all the points of the German curve up to 30 years traded at negative yields. In the last quarter, as a result of the ECB's changes to the remuneration of reserves held with the Eurosystem, European government yields rose again, especially in the short part of the curves: the German 2-year yield rose from -90 basis points in September to -60 basis points in December.

For Italy, political events once again played a decisive role, especially in August when the government crisis occurred: the risk of a return to the polls and the consequent uncertainty led to a significant increase in BTP yields (10 years, +40 basis points). Following the formation of the new government, in September there was a narrowing of the spread towards the German ten-year maturity of up to 130 basis points, while the ten-year absolute yield reached an all-time low of 0.81%.

Italian banking system

On the basis of December 2019[2] figures, Italian loans (calculated including securitised loans subject to derecognition in bank financial statements) to residents in Italy (including public administrations and private individuals) amounted to EUR 1,666 billion, showing a marginal decrease compared to the previous year (-0.4%); EUR 1,411 billion was allocated to the private sector. An analysis of the data on loans to businesses shows that in December 2019 the trend in loans to non-financial businesses was -1.9% compared to 2018, while loans to households increased by 2.6%, driven by an increase in mortgage loans (+2.4%) and consumer credit. The distribution of credit by branch of economic activity shows that in December 2019, manufacturing, mineral extraction and services accounted for approximately 56.8% of the total. This is followed by trade financing and accommodation and catering activities with 21.7%, construction with 11.4% and agriculture with 5.6% and residual activities with approximately 4.6%. The dynamics of financing continued to be influenced by the trend in investments and the economic cycle, which was almost flat in 2019. From the point of view of corporate finance demand, while overall this showed a moderate contraction in the third quarter of 2019 and stabilisation in the fourth, the investment component contracted more sharply.

Total funding from banks in Italy, represented by deposits from resident customers and bonds (net of those repurchased by banks) increased by 4.8% on an annual basis, reaching EUR 1,572 billion of deposits from resident customers at the end of 2019 (+5.6%) and EUR 243 billion of bonds net of those repurchased by banks, with no change compared to the previous year. Deposits from abroad amounted to EUR 324.1 billion in December 2019 (+1.8% year-on-year). Overall, 2019 also confirmed the trend of a progressive increase in bank funding from customers set up at the end of 2007.

There was a reduction in non-performing loans, since in December 2019, EUR 27.5 billion of non-performing loans were recorded net of write-downs and provisions made by banks with their own resources (-13.7% on an annual basis), with a ratio of net non-performing loans to total loans of 1.61%.

[2] ABI Monthly Outlook Economy and Financial-Credit Markets - January and February 2020.

Significant events during the year

The main events of the year ended 31 December 2019 are provided below.

Establishment and start-up of the Cassa Centrale Cooperative Banking Group

Having completed all the formalities required by the regulations on the part of the Parent Company and the affiliated Banks, the Supervisory Authority, by resolution of the Executive Board of 18 December 2018, has ordered that the Cassa Centrale Group be entered in the Register of Banking Groups, with effect from 1 January 2019.

2019 is therefore the first year for Cassa Centrale Banca, as the Parent Company of the Cooperative Banking Group (hereinafter also referred to as "CBG"). Cassa Centrale Banca and its affiliated Banks, being among the largest and most complex banks, are subject to the supervision of the European Central Bank (hereinafter also "ECB").

The establishment of the CBG has brought with it significant impacts in terms of change and in particular in the area of corporate governance. The Cohesion Contract is now the main instrument that ensures the Group's consistency in its strategic direction and operational objectives, as well as the unity and effectiveness of its management and control tools. In order to guarantee the solidity and stability of the Group, the Parent Company has management and coordination powers over its affiliated Banks and other Group Companies directly controlled. The organisational model that the Cassa Centrale Group pursues guarantees broad autonomy to its affiliated Banks which are in the highest risk categories, albeit within guidelines and regulations that ensure unity of purpose and the pursuit of shared strategic guidelines.

Classification of the Cassa Centrale Cooperative Banking Group as a significant entity

On 19 February 2019, the ECB sent specific notice regarding the decision to classify Cassa Centrale Banca as a significant supervised entity under Article 6(4) of Council Regulation (EU) no. 1024/2013. In accordance with Regulation no. 468/2014 (ECB/2014/17), each of the supervised entities belonging to the group that are part of the supervised CBG must be considered as significant supervised entities. For these reasons, the Parent Company and all entities that are part of the supervised Group have been included in the ECB list of supervised entities.

Banca Carige S.p.A. Cassa di Risparmio di Genova e Imperia - Carige transaction

After the failure, in December 2018, to approve the capital increase of Banca Carige S.p.A. Cassa di Risparmio di Genova e Imperia (hereinafter also "Carige") the ECB has placed the bank under extraordinary administration. Starting from the first months of 2019, several due diligences have been carried out by institutional investors with the aim of defining a rescue plan for the Ligurian Bank, which would require, as a first indispensable and urgent step, a substantial capital strengthening to be completed through a share capital increase operation.

In this context, at the beginning of June, Cassa Centrale Banca was contacted by the *Fondo Interbancario di Tutela dei Depositi (Interbank Deposit* Protection Fund - hereinafter also referred to as "FITD") in order to verify its interest in being involved in the Carige rescue project. Although conducted in a very limited time, given the strict deadline imposed by the Supervisory Authority for the definition of an agreement, the analyses and activities carried out have shown potential in terms of industrial synergies. On 9 August 2019, the Cassa Centrale Group signed a framework agreement with the FITD and the *Schema Volontario di Intervento del Fondo Interbancario di Tutela dei Depositi* (Interbank Deposit Protection Fund's Voluntary Intervention Scheme - hereinafter also referred to as "SVI") concerning the commitments undertaken in relation to the execution of the Carige rescue operation.

For Cassa Centrale Banca, the agreement provided for participation in the share capital increase of a total of EUR 700 million with a disbursement of EUR 63 million (equal to 8.34% of the share capital) and the subscription of EUR 100 million of the subordinated bond loan at an annual rate of 8.25% on a total of EUR 200 million issued by Carige. At the same time, a call option contract was signed, whereby FITD and SVI grant Cassa Centrale Banca an irrevocable purchase option on the Carige shares held by the latter following the execution of the capital increase. This option will be exercisable between 1 July 2020 and 31 December 2021. These two transactions - the subscription of Carige's capital increase and the possible exercise of the call option by the end of 2021 - are formally and substantially separate.

Over the next few months, appropriate initiatives will be launched to analyse the overall benefits of the transaction and adequately weigh up any risks arising from the business combination between Cassa Centrale Banca and Carige in order to provide the Board of Directors with all the elements necessary to reach a final decision for the Group.

Agreement with the Iccrea Group

In October 2019, an agreement between Cassa Centrale Banca and Iccrea Banca S.p.A. (hereinafter also referred to as "Iccrea") was signed, which allowed for the reorganisation of the respective holdings in the instrumental companies as well as the definition of the progressive withdrawal of the Cassa Centrale Group from the share capital of Iccrea. It should be noted that Cassa Centrale Banca and its affiliated Banks held a stake of more than 18% of Iccrea itself.

This agreement allowed, by 31 December 2019, the share of the Cassa Centrale Group to be reduced below the 10% threshold. The remainder will be sold in full in annual and proportional instalments by 31 December 2022. In addition, as from 1 January 2020 and until complete disposal, the Cassa Centrale Group will be able to fully exercise the equity rights inherent in the shareholding, previously sterilised for the portion exceeding 10% as established by the new Iccrea Articles of Association.

The agreement also made it possible to define reciprocal relationships regarding further shareholding structures in the service companies controlled by the respective Parent Companies, thus dissolving interweaving situations and rationalising the corporate structures.

The reorganisation of the ownership structure will enable the Cassa Centrale Group to promote stability, competitiveness and efficiency even more incisively.

Reduction in impaired assets

During 2019, Cassa Centrale Banca continued its plan to reduce the stock of the Group's impaired loans by initiating various sale transactions, including the multi-originator securitisation transaction Buonconsiglio 2, which saw the sale of more than half a billion gross non-performing loans mostly belonging to the CBG.

In this context, attention is also drawn to the assignment without recourse of non-performing loans initiated in October 2019 coordinated by Centrale Credit Solutions S.r.l., which had as its purpose, a portfolio of gross non-performing loans of approximately EUR 345 million.

The above transactions were carried out with the aim of improving asset quality by removing assets from banks' financial statements, and are part of the Group's broader NPL management plan. At 31 December 2019 the NPL ratio was 9.3%.

Business combinations between banks

Following the birth of the Group, the following 3 business combinations between affiliated Banks took place.

Such business combinations pursue objectives of stability, efficiency and competitiveness. During 2019 the number of affiliated Banks reached 80. Details of the business combinations subsequent to the creation of the Group are provided below:

- Banca Prealpi - Banca S. Biagio del Veneto Orientale: effective 1 July 2019, Veneto Region;
- CR Adamello Brenta - CR di Pinzolo - CR Val Rendena: effective 1 July 2019, Trentino-Alto Adige region;
- CR Alta Vallagarina - CR di Lizzana: effective 1 July 2019, Trentino-Alto Adige region.

During the reporting year, three combination processes were activated which may lead to the completion of the authorisation process and the approval by the extraordinary shareholders' meetings of the affiliated Banks involved in further rationalising the territorial presence of the CBG.

Industrial reorganisation of IT and banking services

In October 2019, with the aim of reorganising the corporate structure of the entities of the Cassa Centrale Group operating in the ICT and back office services sector, the merger by incorporation of the following so-called service companies was approved: Servizi Bancari Associati S.p.A., Centro Sistemi Direzionali S.r.l., Informatica Bancaria Trentina S.r.l., Informatica Bancaria Finanziaria S.p.A., (hereinafter also "SBA", "CSD", "IBT", "IBFin") - into Phoenix Informatica Bancaria S.p.A. (hereinafter also "Phoenix"). The integration operation was carried out in line with the established objectives and deadlines that saw the start-up of the new structure, Allitude S.p.A. (hereinafter also referred to as "Allitude"), from 1 January 2020. During the first half of 2020, with effect from 1 July 2020, the merger of CESVE S.p.A. and Bologna Servizi Bancari S.r.l. into Allitude will also be completed.

This has led to the creation of a single reference IT and banking services company in order to guarantee efficiency and involvement, as well as to develop operational synergies and build specialist centres, including territorial centres, always at the service of the business development of the affiliated Banks and the Group as a whole. The aim of this process was to enhance the best practices in the Group and make them a common factor. In the reorganisation of the ICT side, particular attention was paid to further enhancing the indispensable "market company" profile by also supporting third parties with services and products.

Strengthening the commercial offer

With the aim of strengthening its presence in certain sectors of activity, the Group has carried out the following operations:

- start-up of Prestipay S.p.A.'s operations by obtaining the Bank of Italy's authorisation to operate on 10 December 2019. As early as 2018, Cassa Centrale Banca, through its specialised business area, had already laid the foundations for direct control of the consumer credit market segment through the launch of the proprietary brand Prestipay and the incorporation of Prestipay S.p.A. by deed dated 5 October 2018, 60% of which was held by CCB and the remaining 40% by Deutsche Bank S.p.A. As a result of this authorisation being obtained in 2020, a spin-off of the operating unit from Cassa Centrale Banca to the subsidiary will take place;
- incorporation, on 18 December 2019, of Claris Rent S.p.A. (hereinafter also "Claris Rent"), with sole shareholder the subsidiary Claris Leasing S.p.A., in order to implement the long-term rental development project (hereinafter also "NTL"). Operationally, Claris Rent will begin operations in 2020, thus increasing the range of products available to the CBG both for the management of its own machine inventory and to meet specific customer needs.

Significant regulatory events during the year

The reference regulatory context in which the Group operates, also following its recognition as a significant supervised entity, is broad and articulated and has led, over time, to a process of organisational and procedural adjustment.

The main measures implemented by the Group with reference to the most important regulatory changes are set out below.

Payment services

On 1 July 2019 the Bank of Italy's Measure of 19 March 2019 amending the provisions on "Transparency of banking and financial transactions and services; fairness of relationships between intermediaries and customers" came into force. The Measure is aimed at transposing, in particular, the provisions introduced by the so-called "PSD2 - Payment Services Directive 2", i.e. Directive (EU) 2015/2366 (transposed into national law with Legislative Decree no. 218/2017), aimed at achieving greater harmonisation of existing rules in different European countries, promoting the development of an efficient, secure and competitive internal market for retail payments, strengthening the protection of payment service users, supporting innovation and increasing the level of security of electronic payment services.

Since 15 December 2019, Regulation (EU) no. 518/2019 of the European Parliament and of the Council of 19 March 2019 amending Regulation (EC) no. 924/2009 as regards certain charges levied for cross-border payments within the Union (cross-border) and currency conversion charges applies.

As part of the organisational and procedural adaptation activities, the Group has initiated, since 2018, several project activities still in progress, in order to achieve the various requirements of the directive, strengthening the processes and enhancing the data and information sets available.

With reference to the Delegated Regulation EU/2018/389, containing regulatory technical standards (so-called "RTS") for strong customer authentication (so-called "SCA") the Parent Company, in cooperation with the IT service outsourcer, has implemented an appropriate SCA system for consulting access to online payment accounts and electronic payment arrangements via the Inbank channel.

With reference to the EBA Guidelines on fraud reporting under the revised PSD2 Directive, the Parent Company has defined the reporting methodology and the information to be reported that each Affiliated Bank is required to send independently.

Product governance for retail banking products (POG)

The new Italian legislation on Product Oversight Governance (the so called POG) of retail banking products (referred to in Title VI of the TUB), published in December 2018 to complement the provisions on transparency of banking services and transactions (Section XI), transposes the EBA Guidelines of 22 March 2016.

The new provisions of the Bank of Italy, applicable from 1 January 2019 for larger intermediaries and from 1 January 2020 also for smaller intermediaries and cooperative credit banks, reinforce the need to ensure an adequate level of protection for customers receiving banking and financial products and services regulated by Title VI of the TUB, i.e. both consumers and retail customers (freelancers/ sole proprietorships, micro enterprises and non-profit entities).

The standard introduces the obligation for Cassa Centrale Banca as an intermediary producer and distributor of third party products to adopt internal policies and procedures for the preparation, monitoring, review and distribution of new products that take into account the interests, objectives and characteristics of the clientèle (so-called Target Market).

The standard also requires, at every stage of the intermediation activity, constant and specific attention to the transparency of the contractual conditions and the correctness of conduct towards customers.

These provisions require the adoption, also through the use of IT tools, of organisational measures that guarantee the development and offer of products that are, in terms of characteristics, costs and risks, suitable, consistent and useful with respect to the interests, objectives, characteristics and degree of financial capacity and literacy of the reference market, thus identifying the classes of customers for which a given product is suitable (positive target market) and not suitable (negative target market).

Within this context, the Group Regulation on new products has been issued, which governs the process of preparation, offer, distribution and monitoring of new products and substantially modified products, within which the POG rules applicable to products falling within the scope of application of Title VI of the TUB and the transparency provisions mentioned above are also incorporated.

The Group has therefore started, since September 2019, the study and development of IT implementations and the specific requirements necessary to implement the model defined for the adoption of the legislation.

Outsourcing

On 25 February 2019, the Final Report on EBA Guidelines on outsourcing arrangements (hereinafter also referred to as "the Guidelines") was issued, which introduces specific provisions aimed at ensuring the harmonisation and homogeneity of the regulatory framework for outsourcing. The Guidelines entered into force on 30 September 2019 and require the addressees to adapt existing contractual arrangements by 31 December 2021.

These Guidelines will be implemented by the Bank of Italy through the update of Circular no. 285/2013 ("Supervisory provisions for Banks") in 2020.

In implementation of the indications contained in the Guidelines, the Parent Company has created a Group register for outsourcing and has made an individual register available to its affiliated Banks with a request to complete it, update it and maintain it as far as is required. During 2020, work will continue towards complying with the guidelines (e.g. through the revision, where necessary, of the relevant Group regulations).

Anti-Money Laundering

The regulatory environment in the area of anti-money laundering and terrorist financing was characterised by an important development that led to the following documents being issued during 2019:

- provisions from the Bank of Italy of 26 March 2019 on the organisation, procedures and internal controls aimed at preventing the use of intermediaries for the purposes of money laundering and terrorist financing, with adjustment as of 1 June 2019, with the exception of certain areas whose application has been envisaged as of 1 January 2020;
- instructions on objective communications from the Financial Intelligence Unit for Italy of 28 March 2019, with the provision to fulfil the obligation to send the first "objective communications" as from April 2019 by 15 September 2019;
- provisions from the Bank of Italy of 30 July 2019 on customer due diligence to combat money laundering and terrorist financing, with adjustment as of 1 January 2020;
- Legislative Decree no. 125/2019 implementing Directive (EU) 843/2018 (the so-called Fifth Anti-Money Laundering Directive). The aforementioned decree, which came into force on 10 November 2019, amended Legislative Decree no. 231/2007, which is further updated compared to the previous implementation in 2017 following the implementation of the Fourth Anti-Money Laundering Directive.

The regulatory framework was completed on 24 March with the provisions for the retention and availability of documents, data and information for combating money laundering and terrorist financing, which will become operational on 1 January 2021. The Treasury Department of the Ministry of Economy and Finance (MEF) has published a consultation document containing a draft decree implementing the provisions on the register of actual ownership of companies with legal status, private legal persons, trusts and related legal entities and institutions.

As part of the evolution of the regulatory context described above, the Parent Company has carried out an analysis of the impacts on its existing AML organisational and operational model, identifying actions for compliance, including through the release of dedicated IT interventions, in order to ensure compliance with the regulatory provisions issued during the year, with particular reference to the affiliated Banks of the Cooperative Banking Group.

At the same time, the Parent Company updated its internal regulations on anti-money laundering and the fight against terrorist financing in light of changes in the regulatory framework and the plan of action defined.

During the year, the regulatory framework, the customer profiling model, the control system, the procedure for reporting suspicious transactions, the self-assessment model, adjustments to the due diligence process, the implementation of the control system in relation to AML / CTF lists for transfers, the adoption of the Group risk profile (coinciding with the highest of those calculated by each participating bank), the implementation and initiation of the system for the forwarding of objective communications were defined at Group level. Further implementation and development activities are planned and/or in progress.

IDD - Insurance Distribution Directive

As part of the activities aimed at implementing Directive (EU) 97/2016 on insurance distribution (IDD - Insurance Distribution Directive), the Parent Company has defined the Group's guidelines and organisational measures for the management of activities related to the distribution of insurance products.

In this context, the Group Companies authorised to carry out insurance brokerage activities have been provided with a model of Regulation on insurance distribution and suitable guidelines in order to comply with the obligations provided for by the regulations implementing the IDD Directive and the indications issued from time to time by the competent Supervisory Authorities.

Transparency

The Parent Company has directed the adjustment of its affiliated Banks to the changes introduced in the transparency provisions for the implementation of:

- Directive (EU) 92/2014 (so called "PAD") for payment accounts offered to consumers;
- Directive (EU) 2366/2015 (so-called PSD2).

In particular, with reference to the PAD Directive, it has carried out the following adaptation activities, in collaboration with the IT services outsourcer:

- updating of the information sheet for the current account offered to consumers to the new standard required by the provisions;
- preparation of the new information document model on expenses (so-called FID), prepared in accordance with the information sheet made available in the departmental procedure;
- introduction of the ICC to replace the ISC.

These adjustments were also made available in the procedure, for the benefit of the affiliated Banks from 3 January 2020. The expense summary model (so-called SOF) is currently being released, which, for consumers only, will replace the annual statement of expenses and will include the ICC which will be removed from the quarterly account statement.

With reference to the PSD2 Directive, the Parent Company:

- for customers, has made the practical guides available at the counter and on the website and updated the regulation on the handling of complaints;
- has updated, in collaboration with the IT services outsourcer, the transparency documentation for MCD and CCD contracts in order to ensure the automatic inclusion of information relating to reference indices.

With reference to the Bank of Italy's communication of 4 December 2019 on early repayment of CCD loans, the Parent Company has identified the main impacts of the new guidelines on the processes of early repayment and curtailment of the relationships involved (CCD mortgage loans) as well as the repayment and accounting criteria to be adopted pending the IT implementations required by the Parent Company to the IT outsourcer for the automated management of repayments. The impacts and the criteria for reimbursement and accounting have been communicated to Group Companies.

SEPA Instant Payments

In the context of the radical evolution of payment services, the European Payments Council (EPC) has defined the guidelines for the first pan-European instant payment scheme (SCT Inst). Within the SEPA Instant Credit Transfer, Instant Payment represents an essential digital service provision for the Group Banks, allowing customers, personal and business, to make and receive "real time" transfers with counterparties located throughout the SEPA area who have activated the service. Instant payments will mark a quantum leap in payment systems and help businesses and institutions streamline processes for the digital transition.

The adaptation project launched by the Group is at an advanced stage of implementation.

SFTR - Securities Financing Transactions

Article 4 of Regulation (EU) no. 2365/2015 on the transparency of securities financing transactions (SFT) and re-use, introduces a new reporting obligation by requiring SFT counterparties to report information on SFT transactions they have entered into, modified or terminated, to a trade repository.

This information must be transmitted, at the latest, on the working day following the conclusion, amendment or termination of the transaction. On 11 April 2019, Regulation (EU) no. 356/2019, which specifies the information on SFT transactions to be reported to trade repositories, and Regulation (EU) no. 363/2019, which establishes technical standards on the format and frequency of reporting, entered into force. The date of application of the reporting obligation varies according to the type of counterparty (for investment firms and credit institutions, 11 April 2020; insurance and reinsurance undertakings, UCITS and their management companies, alternative investment funds managed by GEFIA, institutions for occupational retirement provision: 11 October 2020; non-financial counterparties: 11 January 2021).

In this regard, the Parent Company has launched a centralised reporting service for the SFT transactions of its affiliated Banks.

CSDR - Central Securities Depositories Regulation

Pursuant to Article 9 of Regulation (EU) no. 909/2014 on Central Securities Depositories (CSDR), settlement internalisers must report quarterly to the competent authorities (Consob), in aggregate form, the volume and value of all securities transactions settled outside a securities settlement system.

On 30 April 2019, the ESMA Guidelines on reporting of internalised settlements under Article 9 were issued. The Parent Company has developed the project activities aimed at defining solutions to support the GBCI companies qualified as internalisers of settlements.

In this context, the Parent Company has launched a centralised reporting service for the internalised settlements carried out by the affiliated Banks.

Privacy

The main provisions on data protection are contained in the European General Data Protection Regulation and the Privacy Code, which underwent major changes in the course of 2018, while the main amendments carried out in 2019 include:

- the revision of the Code of conduct for information systems managed by private entities in terms of consumer credit, reliability and punctuality of payments (Measure no. 163 of 12 September 2019 of the Authority for data protection). The most important innovations concern the modification of the legal basis used by the bank to send data to credit information systems (no longer the consent of the interested party but the legitimate interest), the identification of new forms of contact and the lengthening of storage times for positive data;
- by order of the Privacy Authority of 5 June 2019, the measure containing the provisions relating to the processing of special categories of data, pursuant to Article 21, paragraph 1 of Legislative Decree no. 101 of 10 August 2018, was also adopted. The measure sets out specific requirements that examine in more detail how personal data is processed.

In order to implement the changes, the Parent Company has prepared and provided all Group banks and companies with an updated SIC information model and an evolved employee information model.

Operating performance of the Cassa Centrale Group

Performance indicators of the Group

The main performance and risk indicators for the year ended 31 December 2019 are shown below. It should be noted that the Group's income statement and statement of financial position information does not show the comparative balances for the previous year, as described in Part A - Accounting policies - A.1 - GENERAL PART - Section 3 - "Scope and methods of consolidation" of the Explanatory Notes to this financial report.

CONTENTS	31/12/2019
STRUCTURAL RATIOS	
Loans to customers* / Total assets	56.6%
Direct funding / Total assets	77.8%
Equity / Total assets	8.9%
Net loans / Direct funding from customers	72.8%
PROFITABILITY RATIOS	
Net profit / Equity (ROE)	3.5%
Net profit / Total assets (ROA)	0.3%
Cost / Income**	68.6%
Interest margin / Net interest and other banking income	58.9%
Net commissions / Net interest and other banking income	32.2%
Net interest and other banking income / Total assets	2.8%
OPERATIONAL EFFECTIVENESS INDEXES	
Operating costs / Traded volumes***	1.1%
Traded volumes per employee (mln)****	11.2

* Loans to customers include loans and advances to customers at amortised cost and fair value, thus differing from the exposures to customers shown in the financial statements;

** Indicator calculated as the ratio of operating costs to net interest and other banking income;

*** The traded volumes are calculated considering the gross non-impaired loans to customers, the total funding excluding the repos component with Cassa di Compensazione e Garanzia;

**** The number of employees of the Group is taken from the figure on the reference date with a weight of 50% for part-time staff.

The results of the indicators shown in the table provide an in-depth analysis of several of the operating dynamics of the Cassa Centrale Group at the end of 2019.

As regards the structural ratios, loans to customers represent 56.6% of the Group's total consolidated assets, reflecting the Group's high degree of liquidity. The remaining portion of assets is mainly represented by government securities issued by the Italian government.

Direct funding represents 77.8% of the financial statements total and confirms the historical capacity of cooperative credit to attract depositors.

The ratio of net loans to direct funding from customers at the end of 2019 was 72.8%, confirming the Group's high degree of liquidity.

With reference to profitability ratios, the ROE, calculated as the ratio of profit for the year to equity, is 3.5%, while the ROA[3], calculated as the ratio of net profit to the financial statements total, is 0.3%.

Productivity, measured by the traded volumes per employee index, stood at approximately EUR 11.2 million at the end of 2019. The Group's operating costs account for 1.1% of the volumes brokered.

The following is a brief description of the Group's main income statement and statement of financial position aggregates, together with further management evidence commenting on the indicators previously reported.

[3] The ROA is calculated in accordance with Directive (EU) no. 36/2013 (the so-called CRD IV).

Economic results

Reclassified income statement[4]

(Figures in millions of euro)	31/12/2019
Interest margin	**1,179**
Net commissions	644
Dividends	3
Net trading revenues	177
Net interest and other banking income	**2,003**
Net value adjustments/write-backs	(313)
Income from financial activities	**1,690**
Operating charges*	(1,575)
Net allocations to provisions for risks and charges	(20)
Other income (charges)	222
Value adjustments to goodwill and other intangible assets	(27)
Profit (loss) from disposal of investments and equity investments	(5)
Gross current result	**285**
Income tax	(60)
Profit (loss) for the year for minority interests	(4)
Net result of the Parent Company	**221**

* This item includes personnel costs, other administrative expenses and operating amortisation/depreciation.

At the end of December 2019, the Group's net interest and other banking income amounted to approximately EUR 2 billion. The Group's marginality is mainly attributable to the interest margin, confirming its vocation for traditional banking activities, which still largely characterises its affiliated Banks today.

Net commissions, which are constantly growing, now account for approximately 32% of net interest and other banking income.

Net value adjustments amounted to EUR 313 million and brought total provisions for impaired loans to around 55% despite a year characterised by a significant reduction in the stock of problem loans.

Profit before tax amounted to EUR 285 million, while net profit attributable to the Parent Company amounted to EUR 221 million.

[4] In order to provide a better management representation of the results, the reclassified income statement figures differ from the layouts of the financial statements envisaged by Bank of Italy Circular no. 262 of 2005, 6th update.

Interest margin

(Figures in millions of euro)	31/12/2019
Financial assets measured at amortised cost not comprising loans	149
Other financial assets and liabilities measured at FVTPL	3
Other financial assets measured at FVOCI	44
Financial instruments	**196**
Net interest to customers (loans)	1,029
Debt securities in issue	(87)
Customer relations	**942**
Net interest to banks	**13**
Differentials on hedging derivatives	**(5)**
Other net interest	**33**
Total net interest margin	**1,179**

The interest margin amounted to approximately EUR 1,2 billion and consisted of approximately 80% of the margin generated by traditional banking business with customers. Operations with customers benefited from the increase in volumes of new loans disbursed but had to suffer a contraction in the unit credit spread, as a result of the prevailing market conditions on new loans, which have seen lending rates drop significantly for years. The financial portfolio also made a significant contribution, generating a net contribution of approximately EUR 200 million to the margin.

The interest margin is the Group's main revenue component and represents 58.9% of net interest and other banking income at 31 December 2019.

Net commissions

(Figures in millions of euro)	31/12/2019
Commission income	**737**
Management, trading and consulting services	241
Collection and payment services	193
Current account maintenance and management	251
Guarantees issued	15
Other banking services	37
Commission expenses	**(93)**
Management and trading services	(18)
Collection and payment services	(43)
Other banking services	(32)
Total net commissions	**644**

Net commissions amounted to approximately EUR 644 million, a constant increase over the last few years as a measure of the progressive improvement in the ability of Group banks to diversify their sources of income.

The contribution of commissions generated by asset management services is constantly growing, in particular thanks to the growth in volumes of managed indirect funding and insurance. Also significant is the contribution of the so-called traditional commissions, which continue to support the Group's basic profitability.

Net result from financial operations

(Figures in millions of euro)	31/12/2019
Financial assets and liabilities held for trading	14
- Equities	*2*
- Debt securities	*1*
- UCITS units	*5*
- Derivative instruments	*2*
- Other	*4*
Net result from the sale of financial assets and liabilities	146
Net result from hedging activities	(2)
Dividends and similar income	3
Net change in value of other financial assets and liabilities	19
Total net result from financial operations	**180**

The net result from financial operations is approximately EUR 180 million. The most significant component is that deriving from the sale of financial assets during the year, which can be traced in the first instance to the sale of government securities held in the financial portfolio.

Operating costs

(Figures in millions of euro)	31/12/2019
Administrative expenses	(1,454)
- personnel costs	*(849)*
- other administrative expenses	*(605)*
Operating amortisation/depreciation	(121)
Other provisions (excluding credit risk adjustments)	(20)
- of which on commitments and guarantees	*(7)*
Other operating charges/income	222
Total operating costs	**(1,373)**

Operating costs amounted to EUR 1.37 billion; personnel costs accounted for a total of EUR 849 million (62% of operating costs). This figure also reflects the dynamics of strengthening the Parent Company structures following the establishment of the Cooperative Banking Group.

Other administrative expenses totalled EUR 605 million, while amortisation and depreciation amounted to EUR 121 million. Administrative expenses are also significantly affected by the extraordinary costs, incurred mainly by the Parent Company, for activities connected with the establishment of the Cooperative Banking Group. Other operating income and charges total EUR 222 million and include the recovery of taxes and expenses relating to the ordinary operations of the affiliated Banks.

As at 31 December 2019, the Group's cost income, calculated as the ratio of operating costs to net interest and other banking income, stood at 68.5%, reflecting the aforementioned cost dynamics also resulting from the Group's start-up phase.

Net value adjustments/write-backs to financial assets

(Figures in millions of euro)	31/12/2019
Loans to customers	(317)
- of which write-offs	*(55)*
Loans to banks	(2)
OCI debt securities	9
Contractual changes without derecognitions	(3)
Total net value adjustments/write-backs	**(313)**

In 2019, loan adjustments were carried out for approximately EUR 313 million. Net adjustments arising from write-offs account for approximately EUR 55 million.

Value adjustments on financial assets measured at fair value through other comprehensive income show write-backs of approximately EUR 9 million.

Financial position aggregates

Reclassified statement of financial position [5]

(Figures in millions of euro)	31/12/2019
ASSETS	
Cash and cash equivalents	555
Exposures to banks	1,166
Exposures to customers	41,230
- of which at fair value	*286*
Financial assets	26,689
Equity investments	89
Tangible and intangible assets	1,353
Tax assets	872
Other asset items	851
Total assets	**72,805**
LIABILITIES	
Due to banks	7,474
Direct funding	56,669
- Due to customers	*50,055*
- Debt securities in issue	*6,614*
Other financial liabilities	101
Provisions (Risks, charges and personnel)	386
Tax liabilities	80
Other liability items	1,611
Total liabilities	**66,321**
Third party minority interests	4
Group equity	6,480
Consolidated equity	**6,484**
Total liabilities and equity	**72,805**

[5] In order to provide a better management representation of the results, the reclassified income statement figures differ from the layouts of the financial statements envisaged by Bank of Italy Circular no. 262 of 2005, 6th update.

Group assets as at 31 December 2019 amounted to approximately EUR 72.8 billion and consisted mainly of exposures to customers which included loans measured at amortised cost and at fair value totalling EUR 41.2 billion, accounting for 57% of total assets. The owned portfolio of EUR 26.7 million is equal to 37% of assets.

Liabilities, on the other hand, consisted mainly of direct funding, details of which are provided in the table below, amounts due to banks of EUR 7.5 billion and the Group's equity, inclusive of realised profit, of approximately EUR 6.5 billion.

Total customer funding

(Figures in millions of euro)	31/12/2019	% impact
Current accounts and deposits on demand	44,472	78%
Fixed-term deposits	3,301	6%
Repos and securities lending	1,695	3%
Bonds	3,258	6%
Other funding	3,943	7%
Direct funding	**56,669**	**100%**

Total direct funding from customers amounted to approximately EUR 56,7 billion at the end of 2019. The aggregate is represented mainly by current accounts and deposits on demand, which amount to EUR 44.5 billion and represent 78% of direct funding.

Fixed-term funding, in the form of deposits, repos and bonds, amounted to EUR 8.3 billion, equal to 15% of direct funding volumes. Repos include transactions carried out by the Parent Company with the counterparty Cassa di Compensazione e Garanzia for a total of EUR 1.5 billion.

(Figures in millions of euro)	31/12/2019	% impact
Assets under management	**16,801**	**61%**
Mutual funds and SICAVs	5,944	22%
Asset management	5,492	20%
Banking-insurance products	5,365	19%
Assets under administration	**10,819**	**39%**
Bonds	8,278	30%
Shares	2,540	9%
Indirect funding*	**27,620**	**100%**

* Indirect funding is expressed at market values.

Total indirect funding of the Group amount to approximately EUR 27.6 billion; assets under management, equal to EUR 16.8 billion, account for 61% of indirect funding, whilst the administered component, equal to EUR 10.8 billion, accounts for 39%. Although the largest volume is represented by assets under management, the entire composition of indirect funding reflects a balance between the individual forms of assets under administration and management, the result of policies of adequate and prudent diversification of investments implemented with customers.

Group funding, consisting of overall traded volumes on behalf of customers, amounted to EUR 84.3 billion as at 31 December 2019 and consisted of 67% from direct funding and the remaining 33% from indirect funding with the component of managed funding accounting for 20% of total volumes.

Percentage composition of funding

PERCENTAGE COMPOSITION OF FUNDING	31/12/2019
Direct funding	67%
Indirect funding	33%

Net loans to customers

(Figures in millions of euro)	31/12/2019	Incidenza %
Loans at amortised cost	**40,944**	**99%**
Mortgage loans	29,429	71%
Current accounts	4,707	11%
Other loans	3,578	9%
Finance leases	586	1%
Credit cards, personal loans and CQS	759	2%
Impaired assets	1,885	5%
Loans at fair value	**286**	**1%**
Total net loans to customers	**41,230**	**100%**

Net loans to customers of the Group as at 31 December 2019 amounted to EUR 41.2 billion and consisted mainly of mortgage loans amounting to EUR 29.4 billion, accounting for approximately 71% of total loans to customers, and active current accounts for EUR 4.7 billion accounting for 11%.

Credit quality

The Group adopts an extremely rigorous policy in the valuation of impaired loans. Part E of the Explanatory Notes, to which explicit reference is made, provides details of all quantitative and qualitative information on risks and the related hedging policies. Loans granted to customers are the main sources of credit risk for the Group and require precise control and monitoring. A summary by degree of risk relating to loans to customers is provided below.

Cash assets to customers

(Figures in millions of euro)	31/12/2019			
	Gross exposure	Total value adjustments	Net exposure	Coverage
Impaired loans	**4,191**	**(2,305)**	**1,886**	**55.0 %**
Non-performing	1,960	(1,351)	609	68.9 %
Unlikely to pay	2,144	(942)	1,202	43.9 %
Overdue/past due	87	(12)	75	13.8 %
- of which forborne	*1,536*	*(718)*	*818*	*46.7 %*
Non-impaired exposures	**39,656**	**(312)**	**39,344**	**0.8 %**
- of which forborne	*889*	*(55)*	*834*	*6.2 %*
Total cash assets to customers	**43,847**	**(2,617)**	**41,230**	**6.0 %**

As at 31 December 2019, the Group had net loans to customers of EUR 41.2 billion, compared to gross exposure of EUR 43.8 billion and adjustment funds totalling EUR 2.6 billion, providing a total portfolio coverage of 6.0%.

Net performing loans amounted to EUR 39.3 billion at the end of 2019, accounting for 95,4% of total loans, while impaired loans, amounting to approximately EUR 1.9 billion, accounted for 4.6%. These ratios confirm a structure of the Group's loan portfolio that reflects the sharp contraction in impaired loans that occurred during the year, including through extraordinary transactions for the active management of non-performing positions.

In December 2019, the impaired portfolio, in terms of net exposure, had non-performing positions amounting to EUR 609 million written down by a total of EUR 1.4 billion, and unlikely to pay amounting to EUR 1.2 billion with value adjustments of EUR 942 million.

Within impaired exposures, which are transversal to the degree of risk, there are forborne exposures of EUR 818 million, equal to 2.0% of total loans.

Performing loans, at the end of 2019, showed value adjustments of EUR 312 million which provide a coverage level of 0.8%. The item includes forborne positions whose net value is EUR 834 million (2.0% of net loans) with a coverage ratio of 6.2%.

The provisions for performing loans, together with the significant coverage of non-performing and unlikely to pay positions, which amount to 68.9% and 43.9% respectively, allow the Group to provide significant protection against credit risk.

The table below shows the main credit risk management indicators[6].

RISK MANAGEMENT RATIOS	31/12/2019
NPL ratio	9.3%
Coverage NPL	55.0%
Texas ratio	47.5%
Cost of risk (bps)	76

The NPL ratio at 31 December 2019 was 9.3%. The value reflects the various actions taken by the Group during the year, aimed at gradually reducing the overall stock of non-performing loans, also in line with the guidelines issued by the Supervisory Authority. In particular, reference is made to extraordinary transactions involving the sale of impaired credit exposures (securitisation transaction known as Buonconsiglio 2 and CCS NPL 8 assignment without recourse), write-offs and direct recoveries.

The ongoing attention paid to the valuation of NPL's is reflected in a level of average coverage of impaired loans of 55.0%, despite a significant reduction in non-performing loans conducted as part of the aforementioned strategy to reduce impaired assets.

The active management of impaired credit and its progressive contraction are confirmed by the Texas ratio, which stands at 47.5%, while the cost of risk of the loans portfolio amounts to 76 bps.

(Figures in millions of euro)

ECONOMIC SECTOR	Gross exposure	Value adjustments	Net exposure
Public Administrations	209	(1)	208
Financial and insurance companies	1,140	(25)	1,115
Non-financial companies	20,845	(1,785)	19,060
Consumer households and other unclassifiable enterprises	21,653	(806)	20,847
TOTAL	**43,847**	**(2,617)**	**41,230**

In representing the loans portfolio by economic sector, it is clear that the Group, reflecting the nature of the affiliated Banks, has a prevalent allocation of loans to customers with counterparties represented by consumer households and non-financial companies, which account for 50.6% and 46.2% of net exposures to customers respectively.

[6] The calculation of the indices - NPL ratio, NPL Coverage and Texas ratio (which as its numerator considers gross impaired loans) - was carried out on the basis of the EBA data model (EBA methodological guidance on risk indicators, last updated in March 2019). The Cost of risk index, on the other hand, is determined as the ratio between net adjustments and write-backs for credit risk and net loans at amortised cost.

Composition of financial instruments

(Figures in millions of euro)	31/12/2019
SECURITIES PORTFOLIO	
Trading book assets (FVTPL)	309
Financial liabilities	(51)
Banking book assets (FVOCI)	7,548
Financial fixed assets excluding loans (CA)	18,822
Total securities portfolio	**26,628**
DERIVATIVES PORTFOLIO	
Trading assets (FVTPL)	7
Trading liabilities (FVTPL)	(7)
TOTAL FINANCIAL INSTRUMENTS	**26,628**

The portfolio owned by the Group, which as at 31 December 2019 amounted to EUR 26.6 billion, was managed during the year on the basis of two main strategic guidelines: the maintenance of 70% of the total value of the portfolio in financial instruments attributed to the Hold to Collect business model and the progressive increase in the degree of diversification. At year-end, Italian government securities accounted for 89% of the total portfolio. The remainder of the portfolio consists of government securities from other euro area countries, corporate bonds, funds and equity shares.

OTC derivative activities are mainly aimed at hedging the interest rate risk of the Group's banking book and, residually, at brokerage in relation to these types of instruments in favour of client banks, an activity carried out by the Parent Company.

Financial assets

(Figures in millions of euro)	31/12/2019
Debt securities	**26,151**
- Mandatorily measured at fair value (FVTPL)	64
- Measured at fair value through other comprehensive income (FVOCI)	7,265
- Measured at amortised cost (AC)	18,822
Equities	**301**
- Mandatorily measured at fair value (FVTPL)	18
- Measured at fair value through other comprehensive income (FVOCI)	283
UCITS units	**227**
- Mandatorily measured at fair value (FVTPL)	227
Total financial assets	**26,679**

As at 31 December 2019 the composition of financial assets was almost entirely debt securities (98%). The latter are mainly government bonds of euro area countries or supranational issuers.

Exposure to the banking system: net financial position

(Figures in millions of euro)	31/12/2019
Loans to central banks	455
Loans to other banks	711
Current accounts and deposits on demand	*337*
Fixed-term deposits	*281*
Other loans	*93*
Total loans (A)	**1,166**
Due to central banks	(4,803)
Due to other banks	(2,671)
Current accounts and deposits on demand	*(293)*
Fixed-term deposits	*(144)*
Repos	*(469)*
Other loans	*(1,765)*
Total payables (B)	**(7,474)**
NET FINANCIAL POSITION (A-B)	**(6,308)**

As at 31 December 2019, total loans to banks amounted to EUR 1.2 billion and included EUR 455 million of liquidity held at the Bank of Italy. The recourse to refinancing via the Eurosystem is fully represented by participation in the TLTRO-II and TLTRO-III operations. The 'other loans' item, the main component of payables due to other banks, is represented by loans secured by ECB eligible securities obtained by the affiliated Banks as part of their participation in TLTRO-II operations, through other banking intermediaries, and carried out prior to the establishment of the Cooperative Banking Group.

Fixed assets

(Figures in millions of euro)	31/12/2019
Equity investments	89
Goodwill	28
Tangible	1,272
Intangible	53
Total fixed assets	**1,442**

Tangible assets, totalling EUR 1.4 billion, mainly includes properties for functional use. Other intangible assets refer mainly to user licenses and software. Goodwill refers to assets with an indefinite life present among intangible assets, as more fully detailed in Part B of the Consolidated Explanatory Notes.

Consolidated equity

(Figures in millions of euro)	31/12/2019
Share capital	1,276
Own shares (-)	(869)
Share premium	75
Reserves	5,716
Valuation reserves	55
Equity instruments	6
Profit (loss) for the year	221
Group equity	**6,480**
Third party minority interests	4
Consolidated equity	**6,484**

Consolidated equity amounts to approximately EUR 6.5 billion. Own shares represent the capital of the Parent Company held by the affiliated Banks participating in the accounting consolidation of the Group in accordance with Art. 1072 of Law no. 145/2018.

Reconciliation between the Parent Company's equity and profit for the year and the consolidated equity and profit for the year

(Figures in millions of euro)	Equity	Result for the period
Accounting balances of the Parent Company	1,134	31
Effect of the consolidation of subsidiaries	5,208	222
Effect of the measurement of associates using the equity method	85	1
Reversal of writedowns of equity investments and recognition of goodwill impairment	(20)	(20)
Elimination of dividends received from subsidiaries and associates		(7)
Other consolidation adjustments	73	(6)
BALANCES AS AT 31 DECEMBER 2019 AS PER THE CONSOLIDATED FINANCIAL STATEMENTS	**6,480**	**221**

Own funds and capital adequacy

Own funds and capital ratios

(Figures in millions of euro)	31/12/2019
Common Equity Tier 1 capital - CET 1	6,742
Tier 1 capital - TIER 1	6,747
Total own funds - Total Capital	6,771
Total risk-weighted assets	34,193
CET1 Capital ratio (Common equity Tier 1 capital / Total risk-weighted assets)	19.72%
Tier 1 Capital ratio (Tier 1 capital / Total risk-weighted assets)	19.73%
Total Capital ratio (Total own funds/Total risk-weighted assets)	19.80%

Risk Weighted Assets

(Figures in millions of euro)	31/12/2019
Credit and counterparty risk	30,101
Credit valuation adjustment risk	39
Market risk	122
Operating risk	3,768
Other prudential requirements	163
Total RWA	**34,193**

Own funds for prudential purposes are calculated on the basis of the capital and economic result determined in accordance with IAS/IFRS and the accounting policies adopted, and taking into account the prudential rules in force at the time.

In accordance with the above provisions, own funds derive from the sum of positive and negative components, based on their capital quality; the positive components are fully available to the Bank allowing them to be used in full to cover the overall regulatory capital requirements pertaining to risks.

Own funds as at 31 December 2019 totalled EUR 6,771 million and consisted almost entirely of Tier 1 capital.

At the end of December 2019, the Group's Common Equity Tier 1 capital (CET1), determined in application of the standards and references already mentioned, amounted to EUR 6,742 million, Tier 1 capital amounted to EUR 6,747 million and Total own funds (Total Capital) amounted to EUR 6,771 million. The CET1 capital ratio is 19.72%, the Tier 1 capital ratio is 19.73% and the Total capital ratio is 19.80%.

Main strategic business areas of the Cassa Centrale Group

The Cassa Centrale Group has developed its business and service model through an organisational structure divided into two main areas:

- the affiliated Banks, which represent the Group's core business through the management of banking activities in the territory;
- the Industrial Group, including the Parent Company and the companies that offer services to affiliated Banks in finance, credit, insurance, ICT, NPLs and asset management.

The definition of strategic business areas is consistent with the methods adopted by the governance function for making operational and strategic decisions and is based on internal management reporting.

*The industrial group as described above refers to an operational representation of the main strategic areas of the Group that contribute to the economic and equity results at 31 December 2019, commented on below.

Affiliated Banks

The affiliated Banks represent the most important part of the Group's consolidated assets and the strength of the Group's current and future development. The affiliated Banks traditionally operate with the aim of fostering the development of communities and the local economy. The principles of mutuality, which characterise cooperative credit, allow banks to play a fundamental role in the national banking industry and be an important reference point for households and small and medium-sized enterprises (hereinafter also "SMEs").

The Group's strategic plan aims to develop relationships with households and SMEs by making the most of the territorial network and exploiting synergies, the expansion of the commercial offer and economies of scale resulting from belonging to a Group of national importance.

In general, the structure of cooperative credit banks reflects the nature of territorial banks, characterised by high customer funding deriving from historical ties with the territory to which they belong, a prevalence of loans to counterparties represented by households and small companies and a low ratio of loans to deposits, with excess liquidity invested mainly in government securities.

Below is a summary representation of the main income statement and statement of financial position aggregates of the affiliated Banks, with a focus on the individual territorial areas in which the Group operates.

(Figures in millions of euro)

LOANS TO CUSTOMERS	Trentino-Alto Adige	North East	North West	Central	South and the Islands	Total
Gross customer loans	10,164	9,161	9,604	9,581	4,043	**42,553**
of which performing	*9,152*	*8,400*	*8,644*	*8,717*	*3,574*	***38,487***
of which non-performing	*1,012*	*761*	*960*	*864*	*469*	***4,066***
Value adjustments	582	498	586	551	303	**2,520**
Net customer loans	9,582	8,663	9,018	9,030	3,740	**40,033**

The operations of the affiliated Banks are mainly concentrated in the northern part of Italy, in line with the territorial structure of the branches.

Total gross loans amounted to EUR 42.6 billion at the end of 2019 (approximately EUR 40.0 billion net of adjustment funds) and was allocated on a uniform basis to four of the five geographical areas into which the Group is divided. There is less of a presence in the South and the Islands area which sees a significant number of affiliated Banks, but on average of small size. In a year in which the many activities connected with the launch of the first Italian Cooperative Banking Group have certainly fully engaged the operating structures, the affiliated Banks have seen a constant growth in the volumes of credit, confirming their central role in supporting the growth, including economic growth, of the reference territories. New credit provisions to both households and local SMEs have grown, in a development that has characterised all territorial areas, but more rapidly for the South and the Islands.

The percentage of impaired loans to gross loans, around 9.3% at Group level, is more virtuous in the North-East and progressively higher in the Central, South and the Islands areas. It should be noted that in all areas, during the Group's first year of operations, there was a marked reduction in the stock of impaired loans, in line with the Group's guidelines and strategies.

Confirming the Group's strong focus on risk management and credit risk management in particular, provisions have been further increased and have reached average coverage levels, for the affiliated Banks, among the highest in the national banking system, despite the sharp decline in the stock of impaired loans.

(Figures in millions of euro)

FUNDING	Trentino-Alto Adige	North East	North West	Central	South and the Islands	Total
Overall funding	19,652	17,166	18,395	15,884	6,416	**77,513**
Direct funding	13,489	11,343	12,633	11,335	5,717	**54,517**
Indirect funding*	6,163	5,823	5,762	4,549	699	**22,996**
of which administrated	*1,822*	*2,131*	*2,377*	*1,460*	*371*	***8,161***
of which managed	*4,341*	*3,692*	*3,385*	*3,089*	*328*	***14,835***

* Indirect funding is expressed at market values

Direct funding also sees a distribution among the territorial areas proportionally in line with that already described for the credit volumes. All areas show a structural surplus of funding resources in the ratio of lending to funding, which results in a high degree of liquidity for the affiliated Banks and therefore for the Group. The prudent approach to the investment of resources funded from depositors (typically households) historically characterises the operations of the BCC-CR-RAIKAs, which allocate these resources mainly to households and small and medium-sized enterprises in the area of reference.

Administrated and managed funding of the affiliated Banks, amounting to approximately EUR 23 billion, accounts for 30% of total funding, with a differentiated situation at the level of individual geographical areas, spanning from 34% in the North-East to 11% in the South and the Islands. In indirect funding volumes, the incidence of managed and insurance funding products prevails, with the exception of the South and the Islands area where volumes are very low.

This operation has always seen affiliated Banks lagging behind the rest of the banking industry, having historically favoured the placement of direct funding products. The trend has changed in recent years; important investments have been made in the specialist training of staff of the affiliated Banks in order to increase their ability to offer shareholders and customers a high level of advisory support. These investments, supported by the careful research of the Industrial Group's companies for products suitable for BCC-CR-RAIKAs' shareholders and customers, is gradually closing the gap, while maintaining a high level of attention to the quality of the overall service offered to the savings customer.

(Figures in millions of euro)

MARGINS AND COMMISSIONS	Trentino-Alto Adige	North East	North West	Central	South and the Islands	Total
Interest margin	266	238	229	257	145	**1,136**
Net commissions	112	125	130	127	53	**547**
Net interest and other banking income	413	388	389	420	222	**1,832**

The income contribution from the interest margin for the affiliated Banks amounts to approximately EUR 1.1 billion, equal to 62% of net interest and other banking income, with a higher percentage in the South and the Islands and Trentino-Alto Adige.

The contribution of the interest margin to overall profitability is high, confirming the predominantly traditional banking operations that characterise the affiliated Banks and therefore the Group as a whole. The main source of income remains the traditional activity of collection of savings and lending in the territories where the affiliated Banks are located. To this must be added the investment of excess liquidity mainly in securities of government issuers or in relation to the Parent Company.

The prevailing market conditions have for years now seen interest rates at an all-time low. These conditions have contributed to the gradual reduction of the contribution of the interest margin to primary profitability. The ability of the affiliated Banks to offer shareholders and customers services capable of completing the commercial offer and increasing margins from services, is becoming increasingly decisive. This path will continue, but always with a strong focus on the protection of shareholders and customers in compliance with the cooperative principles that are the basis of the operations of the affiliated Banks.

The net commissions of the affiliated Banks totalled EUR 547 million, with a contribution which shows a fairly uniform distribution in the Centre and North of Italy. The percentage of net commissions is increasing for the Group as a whole and for the individual territorial areas, confirming the progressive greater capacity of the affiliated Banks to diversify their sources of income. The average contribution of the net commissions of the territorial areas to net interest and other banking income is 30%, with the territorial incidence spanning from 24% in the South and the Islands to 33% in the North-West.

Industrial Group

The Industrial Group is represented by the Parent Company and the subsidiaries and associates that operate in different areas of activity, namely:

- ICT and back office services, with the subsidiary Allitude S.p.A. (hereinafter also "Allitude" and until the subsequent integration into Allitude: CESVE S.p.A. and Bologna Servizi Bancari S.r.l. (hereinafter also "CESVE" and "BSB");
- leasing services, with the subsidiary Claris Leasing S.p.A. (hereinafter also "Claris Leasing" or "Claris");
- insurance services, with the subsidiaries Assicura Agenzia S.r.l. and Assicura Broker S.r.l. (hereinafter also "Assicura Agenzia" and "Assicura Broker");
- collective asset management services, with the subsidiary Nord Est Asset Management S.A. (hereinafter also "NEAM");
- other ancillary services, with the subsidiaries Centrale Credit Solutions S.r.l., Centrale Soluzioni Immobiliari S.r.l., Centrale Casa S.r.l. and the associate Centrale Trading S.r.l.

Below are the main figures for the Industrial Group as at 31 December 2019.

(Figures in millions of euro)

LOANS TO CUSTOMERS*	31/12/2019
Gross customer loans	1,294
of which performing	*1,169*
of which non-performing	*125*
Value adjustments	97
Net customer loans	1,197

* Management data including all intra-group eliminations.

With regard to loans to customers, the contribution of the Industrial Group to the Cassa Centrale Group's statement of financial position is mainly due to the activities of the Parent Company and the subsidiary Claris Leasing. Gross loans to customers, amounting to approximately EUR 1.3 billion, are in fact concentrated on these structures and provisions for adjustment funds of approximately EUR 95 million have been set aside with net loans amounting to EUR 1.2 billion.

(Figures in millions of euro)

FUNDING*	31/12/2019
Overall funding	6,776
Direct funding	2,152
Indirect funding**	4,623
of which administrated	*2,657*
of which managed	*1,966*

* Management data including all intra-group eliminations.
** Indirect funding is expressed at market values.

Funding from customers of the Industrial Group amounted to EUR 6.8 billion and was attributable to the Parent Company. EUR 2,2 billion is composed of direct funding which is mainly represented by transactions with the counterparty Cassa di Compensazione e Garanzia. Indirect funding[7], on the other hand, amounted to approximately EUR 4.6 billion, of which EUR 2.0 billion, or 43%, related to assets under management, with operations mainly related to asset management products, while assets under administration amounted to EUR 2.6 billion and represented 57% of indirect funding, with operations mainly in the bond market.

[7] The indirect funding represented refers to the component placed by Cassa Centrale Banca directly with customers and does not include the component placed through banks.

(Figures in millions of euro)

MARGINS AND COMMISSIONS*	31/12/2019
Interest margin	43
Net commissions	97
Net interest and other banking income	171

* Management data including all intra-group eliminations.

The breakdown of revenues highlights the service oriented nature of the Industrial Group. In fact, net commissions amounting to EUR 97 million, represented 57% of net interest and other banking income, while the interest margin, equal to EUR 43 million, represented 25%.

Below is a brief review of the Industrial Group, with particular focus on the activities carried out by the Parent Company and the service companies supporting the affiliated Banks.

1. Parent Company

The establishment of the Group has led to an enrichment of the system of offering financial products and services and to the strengthening of financial risk controls for the entire Group. This includes the management of the Group's financial activities, through the definition and proposal of investment strategies and the management of liquidity and funding, the activities and services provided in relation to capital and the money market and hedging, which are designed to ensure that funding requirements are met at an individual and consolidated level, as well as the constant maintenance of an optimal level of structural liquidity, both in the normal course of business and under stress conditions.

The range of services offered by Cassa Centrale Banca is divided into the following areas:

- Finance;
- Loans;
- Consumer credit;
- Payment systems;
- Governance and support.

Finance

In the finance sector, Cassa Centrale Banca offers its affiliated Banks and other client banks a complete range of services and products for access to financial markets and for offering depositing customers multiple investment solutions.

Cassa Centrale Banca offers access services to the main bond, equity and derivatives markets both for retail customers and for management of the owned portfolio: during 2019, Cassa Centrale Banca carried out transactions on bond markets for approximately EUR 34 billion (down by approximately 10% compared to 2018) and on stock markets for approximately EUR 3 billion (+40% compared to the previous year).

With regard to operations in the interbank sector, intermediation of refinancing operations with the ECB and securitised financing operations of affiliated Banks and customers as part of the "Collateral Account" service increased to EUR 2.6 billion at the end of 2019, compared to EUR 1.6 billion the previous year. The dynamic was driven both by the launch of the new TLTRO-III programme and the use of the MTS Repo market through Cassa di Compensazione e Garanzia. At the Cassa Centrale Group level, recourse to refinancing via the Eurosystem amounted to EUR 4.8 billion at the end of 2019 and was fully represented by participation in the TLTRO-II and TLTRO-III operations.

OTC derivative activities are mainly aimed at hedging the interest rate risk of the Group's banking book and, residually, at brokerage in relation to these types of instruments in favour of other client banks. During the year, OTC derivatives were traded for a total original notional amount of EUR 132 million. The types of OTC derivatives in the portfolio are configured into interest rate swaps (IRS) and interest rate options.

A further activity that is carried out within the Treasury support services of affiliated Banks and customers is foreign currency trading. During 2019, the volume of spot and forward foreign currency trading accelerated the growth trend of previous years, exceeding the threshold of EUR 2.9 billion (+30% compared to 2018) also thanks to the fact that during the year several affiliated Banks that previously operated with other intermediaries brought their operations to Cassa Centrale Banca.

The Finance Department has always offered services aimed at managing the relationship with savings customers, which over time have become an element of excellence in the overall commercial offer of Cassa Centrale Banca.

Among these, the main products and services offered are:

- **Asset Management:** Cassa Centrale Banca's Asset Management (hereinafter also referred to as "AM") closed 2019 with EUR 7.7 [8] billion in assets under management. The investment lines, marketed by 121 banks, were already enriched at the end of 2018 by three new lines with variable commissions (whose assets reached EUR 250 million at the end of the year), characterised by a commission profile based on the result obtained by the portfolio during the period.

  The Programmed Investment Plans (PIP) - introduced in 2016 - are now widely used by banks: there are currently over 13 thousand active plans. In 2019, all management lines recorded particularly satisfactory performances both in absolute terms (in many cases even double-digit figures) and in terms of comparison with reference indices. Numerous events were organised with customers during the year to raise awareness of the benefits of diversifying investments deriving from the use of asset management, in addition to training meetings with consultants, held in collaboration with individual banks.
- **Funds Partner:** the third-party fund placement platform called Funds Partner is made available to affiliated Banks and client banks. It is a useful tool for the consultant, who can access a database consisting of approximately 3 thousand funds available on the platform, the tools provided by Morningstar, the reporting provided by the 12 investment houses and the "example portfolios" compliant with the MiFID risk profile. For these houses, Cassa Centrale Banca also carries out the service of entity appointed to perform payments. At the end of 2019, traded volumes were just under EUR 2 billion.
- **Advanced Advisory services:** the advanced advisory service is provided to customers of 23 banks. Cassa Centrale Banca supports these banks as advisor in identifying the best investment strategies. The assets monitored by the service at the end of 2019 exceeded EUR 200 million.

[8] The amount refers to assets placed directly by Cassa Centrale Banca for approximately EUR 1.8 billion, assets placed through banks for approximately EUR 4.7 billion, institutional asset management for EUR 500 million and pension funds, for which CCB has delegated management powers, for EUR 700 million.

Loans

The 2019 financial year was the first year of operations of the Cassa Centrale Group with a scope extended to the affiliated Banks that have signed the Cohesion Contract.

Considering the reference context, recent regulatory changes and the expectations of the Supervisory Authorities, the Group has adopted, since this first year, uniform criteria and processes for the evaluation and management of loans, formalising them in the Group Credit Regulation and the Group Policy for the Classification and Evaluation of Loans. The criteria and processes adopted can be summarised as follows:

- cautious and rigorous valuations in the classification of loans with a particular focus on guarantees;
- suitable write-downs of loans classified as problematic with subsequent prudential allocations;
- identification of portfolios of non-performing loans to be transferred or securitised.

During the year, the Parent Company verified the adoption of the Regulation and Policy by the affiliated Banks. The objective of risk splitting, in order to avoid phenomena of excessive concentration for the participating Banks, has been pursued through the application of the mechanism of maximum exposure thresholds. Under this mechanism, prudential maximum lending limits have been set for each Group Bank for each counterparty or group of connected customers, calculated on the basis of their eligible capital.

The Cassa Centrale Group's operational start-up was characterised by a significant further strengthening of the corporate network through the opening of new offices in Udine, Brescia and Cuneo for the Northern Corporate Service and Bologna, Rome and Bari for the Central-Southern Corporate Service. Thanks to this structural investment, it has been possible to:

- increase the volume of business in the areas of the North West and Central, South and the Islands that were previously under-served;
- improve coordination with the affiliated Banks, their productive economic fabric and their partners and customers.

In providing the new loans, the Group pays great attention to credit quality, product, geographical and above all dimensional diversification. In particular, the latter (the dimensional aspect) is considered of fundamental importance and represents the backbone of the Group's credit supply strategy.

The logic of spreading the risk over a multitude of small recipients, which has always been the main component of the credit approach of the affiliated cooperative banks, has been fully implemented by the Parent Company and further strengthened not only with the introduction of risk thresholds but also through an operational practice pursued in the day-to-day relationships between the Group's corporate structures and the credit departments of the individual affiliated Banks.

Moreover, with a view to strengthening sustainable and homogeneous credit management at Group level, the Parent Company has already started, as a matter of priority, to develop tools for monitoring and managing credit. In particular, the aim of the project is to provide affiliated Banks with an "early warning" and "trigger" tool that makes it possible to identify the advance symptoms of potential transfer to another stage for each individual exposure and to promptly activate management initiatives to prevent/remedy and recover exposure.

With regard to activities in the sector of credit agreements/subsidised loans, collaboration continued with the main national references in the sector (e.g. Medio Credito Centrale, MISE per la Sabatini, ISMEA and Sace), territorial/regional associations, trade associations and Consortia for Collective Credit Guarantees in Trentino, Veneto and Friuli Venezia Giulia. In particular, a number of conventions were entered into in 2019, the most relevant of which are listed below:

- as part of the rationalisation of the relationship between the Cassa Centrale Group and the Guarantee Consortia, a Group Framework Agreement has been signed with 24 supervised consortia and 23 minor consortia; to date, 190 memberships have been received from affiliated Banks. The subscription activities will conclude in 2020;
- in the internationalisation area, an agreement was signed with Finest S.p.A. on 4 June 2019. These are companies with government participating interest (representative of the Ministry of Economic Development) which actively support undertakings in the Triveneto area by acquiring minority interests in the share capital of the foreign joint venture and developing direct foreign financing for the undertaking;
- again in the internationalisation field, operations with Sace S.p.A. have begun to be assessed in order to reach a Group agreement for the acquisition of guarantees for companies that make investments in Italy aimed at increasing export activity;
- agreement signed with Friulia S.p.A. (Friuli-Venezia Giulia regional financial company) on 2 December 2019 to grant BCC customers (with branches in Friuli-Venezia Giulia) "subsidised" loans thanks to the funding made available by Friulia S.p.A. at a subsidised rate;
- agreement signed in July with Veneto Sviluppo S.p.A. (financial company in the Veneto region) to take over from the Veneto Federation of BCCs in the agreements in place for the BCCs in the region;
- information support provided on new regional measures and the signing of new agreements in the name and on behalf of the delegating BCCs operating in the Veneto region;
- agreement signed with the Autonomous Province of Trento in relation to loans for advance government tax deduction for expenses related to energy recovery and redevelopment of buildings (2019 Call for tender);
- agreement signed with Agri-Hub S.r.l in order to facilitate the customers of Cassa Centrale Banca and its affiliated Banks by offering advisory services and assistance in the field of subsidised credit in the agricultural, agro-industry, tourism and hospitality sectors at EU, national and regional level;
- expanded agreements with Finpiemonte S.p.A. (financial company in the Piedmont region) and with Filse S.p.A. (Ligurian financial company for economic development) in relation to subsidised credit for the respective regions (rotation and guarantee funds).

The credit assessment of banking counterparties has always been a fundamentally important activity that has become even more significant and strategic with the launch of the Cassa Centrale Group. The development of this activity over time has also been possible thanks to the establishment of periodic in-depth meetings with all the affiliated Banks.

Consumer credit

In the course of 2019, in line with the development outlined in the initial road map for 2017, Cassa Centrale Banca has directly controlled the consumer credit market segment through its proprietary brand Prestipay in order to develop its business in a continuously growing market.

With regard to the activities developed during 2019 by the specialised business area, in order to consolidate the Group's presence in a sector that remains strategic, the most significant are listed below:

- the activation of all of the affiliated Banks for the distribution of Prestipay white label consumer credit products, within the scope of a framework agreement defined with Deutsche Bank S.p.A. (hereinafter also "Deutsche Bank");
- consolidation of the service offered to the Group banks in the segment, with planning and commercial assistance dedicated to the affiliated Banks, through activities intended to energise the sales network;
- revision of the Prestipay S.p.A. product website equipped with quote and store locator functions, in order to identify the branches located closest to customers;
- activation of online advertising and marketing campaigns intended to improve brand awareness amongst target customers.

As at 31 December 2019, essentially all the Group affiliated Banks signed on to the agreement and another 6 client banks entered into the agreement and were authorised to place Prestipay brand products.

The planning of activities made it possible, during 2019, to disburse more than EUR 215 million in personal loans with an increase in volumes of 26.5% compared to the previous year (compared to 5.1% growth in the reference market). In terms of the number of transactions, over 20,500 customer requests were financed, with significant returns for the Group in terms of fees and an increase of 20.6% in the number of transactions.

During 2019, the consumer credit sector also took steps to activate, after the initial test phase on a number of pilot banks, the placement of pension and salary backed loans by providing over EUR 5.5 million in loans at this initial stage.

Payment systems

Within the payment systems it is possible to identify, for the Cassa Centrale Group, five different areas of activity, specifically (i) Settlements, (ii) Foreign, (iii) Centralised services, (iv) Treasury, (v) E-money. Below is a brief description of the activities carried out in the various areas.

Settlements

In the Settlements area, the activities in 2019 were mainly focused on the migration of certain services for the affiliated Banks that joined the Cassa Centrale Group and that previously operated with other intermediaries.

The process that led to the introduction of the new interbank procedure "Check Image Truncation" (abbreviated as "CIT"), which replaced the procedure of presenting cheques in paper form for payment, can be said to have been concluded. All the affiliated Banks are fully operational in the new procedure and two other banks outside the Group were added during the year. A new commercial agreement has been signed with the company Coinservice which will gradually make it possible to meet the needs for metallic money. During 2019, the INPS pension and tax delegation procedures were completely overhauled. With regard to cash management, a further 15 new BCCs were activated, bringing the number of service points to 2,150 (branches, ATMs, large scale distribution) and reaching all the regions of the participating banks. Regulated transfers increased by 8.69% year-on-year, while the electronic portfolio grew by 6.38%. The volumes of cheques traded increased by 31% compared to 2018. Cheques traded in 2019 in fact amounted to more than 11 million for a value of EUR 32 billion. It is believed that the maximum level of cheques traded in this sector has now been reached and that in the future we may see a reduction in volumes supported by the use of alternative methods. Service fees increased by 16.4%.

Foreign

The Foreign Service manages all cross border transactions such as payments, collections, cheque management, documentary credits, guarantees and international relations. After the increases recorded during 2018, following the participation of the new BCCs, the number of transactions processed in 2019 has substantially stabilised, although there is still ample scope for growth in the sector, which will have to be accompanied by specific training and commercial campaigns.

During the year, transactions in physical gold were consolidated with the disbursement of 47 gold use loans for a total of 194 kilos and 174 spot sales of gold for goldsmithing.

Centralised Services

During 2019, first level anti-money laundering controls on prepaid cards and asset management were also included among the activities carried out. Currently, the centralised services are involved in defining the rules and the system of the new "group database" fed into by all the affiliated Banks.

Treasury

The payment systems area also includes treasury activities carried out for several entities in Italy. At the end of 2019 the total number of entities managed was 896, an increase compared to 2018. There are currently 528 entities with an IT mandate, confirming the Department's constant effort in the introduction of more modern methods for the performance of the service. Support was also provided to the Banks for participation in 225 tenders (211 won and 14 lost). The high number of tenders is due to the simultaneous expiry, at the end of the year, of 116 "Land Improvement Consortia" which have all been renewed.

During 2019, work continued on the development of the new treasury application to be issued by the first half of 2020.

E-money

The activities related to E-money are mainly directed at supporting the banks that subscribed to the 'ABI Unico 3599' service (debit and credit) and that place the prepaid products of Cassa Centrale Banca. In 2019, transactions exceeded EUR 231 million with a 36% increase compared to the previous year.

There are approximately 1.3 million debit cards, an increase of 21%. Of these, more than 90% are available for customers on media migrated to contact-less technology. An increase was also recorded for prepaid cards, particularly those reserved for legal entities, which reached 26,376 or +35%.

Among the main innovations that characterised 2019 were (i) the introduction of CBI Globe as a technical solution to respond to the introduction of PSD2, (ii) the revision of the accounting system for Prepaid Cards, (iii) the update of the debit and credit cards proposed by Cassa Centrale Banca to the "contactless" function for the PagoBANCOMAT® network, (iv) the release of the new Bancomat Pay® application, (v) the activation of "on-us" settlement management for International POS payment transactions. Regarding the payer segment MyBank product, we point out the participation in the service by 67 banks and the execution of approximately 70,000 payment transactions for a value of around EUR 225 million (+48%). The growth trend is extremely important and it confirms that the instrument is particularly appreciated in B2B operations with an average amount of EUR 3,179.

Governance and support

During 2019, the Parent Company's governance and support functions were involved in various activities aimed at strengthening the organisational structures and developing the activities of the Cassa Centrale Group.

The creation of the Group has led to the creation within the Planning and HR Department of a unit dedicated to ensuring the management of relations and communications with the EU and national authorities and supervisory bodies and the financial community.

Again in the planning area, work continued to coordinate an orderly business development of the Group with a dedicated structure that has constantly transferred the Parent Company's operational and strategic guidelines to the affiliated Banks, ensuring their effective understanding and implementation.

Activities also continued aimed at:

- the development and sharing of the guidelines for the Group's operational plan and strategic plan;
- supporting activities relating to merger projects initiated and/or concluded during the financial year;
- the development of an IT platform integrated with all Group Companies and developed with the aim of ensuring consistency between the planning of each individual Affiliated Bank and that of the Group as a whole.

The Operations Department's commitment has been strong, providing continuous support to the Group in a variety of projects and activities, both in terms of the continuous development and innovation of the offer for affiliated Banks and customers, and with a view to adapting the various products. As part of the revision of the Group's organisational model, the Cost Management & Procurement service was set up, which provided for greater responsibilities at Parent Company level in terms of guidance, monitoring and expense management, in accordance with the objectives of cost saving and compliance with current regulations. Centralised procurement strategies have therefore been developed, through the management of the single register of suppliers and through the establishment of standardised processes and procedures for all the affiliated Banks. Activities in the area of ICT Governance and Security continued with a view to constant collaboration with the IT companies of the Cooperative Banking Group, through the support and development of information and computer systems in order to guarantee adequate levels of security and operational continuity.

The General Affairs and Shareholdings Department has overseen the management of operational and administrative activities with regard to the Parent Company's Corporate Bodies, also providing support and corporate consulting to the affiliated Banks and Group Companies. There were many activities to support the process of analysis carried out by the affiliated Banks for the purposes of self-assessment of Corporate Bodies and checks on the requirements of the relative corporate officers.

The Legal Department has supported the Group Companies and the affiliated Banks in all aspects related to contracts and the management of ongoing lawsuits with targeted consulting activities. A fundamental role was also played in the activities related to the so-called Carige transaction.

The structures responsible for the Financial Statements, Supervisory and Tax Reporting have been strengthened in order to pursue the correct and timely representation of the Parent Company's separate and consolidated results of operations and financial position, as well as the fulfilment of the related accounting, supervisory and tax obligations. In this sense, the Parent Company has provided important support to the affiliated Banks in the management of accounting, tax and reporting processes, as well as in the activities to improve efficiency and correct management of the Group's income statement and statement of financial position consolidation processes.

The Group's adjustment in the national economic framework has required investments in communication and media, leading to an intensification of the activities of both the affiliated Banks and the Parent Company.

The preparation of the consolidated non-financial statement pursuant to Legislative Decree no. 254/2016, included for the first time the 80 affiliated Banks within the scope and led to the involvement of all stakeholders through structured engagement.

2. ICT and back office services

During 2019, the ICT and back office services companies of the Cassa Centrale Group began working on a process of gradual integration and operational standardisation. The companies in question are: Phoenix Informatica Bancaria S.p.A. (hereinafter also "Phoenix" or "PIB"), Centro Sistemi Direzionali S.r.l. (hereinafter also referred to as "CSD"), CESVE, BSB, the Informatica Bancaria Group (hereinafter also referred to as "IBFIn") consisting of Informatica Bancaria Trentina S.r.l. (hereinafter also "IBT") and Servizi Informatici Bancari Trentini S.r.l. (hereinafter also "SIBT"), and Servizi Bancari Associati S.p.A. (hereinafter also "SBA").

This process culminated with the creation of Allitude S.p.A. on 1 January 2020. In this regard, reference should be made to that already noted in the "Significant events during the year" regarding the business reorganisation of IT and banking services.

The 2019 financial year was characterised by numerous activities in support of the Group's implementation requirements, in particular those arising from the acquisition of operational requirements consistent with the Group's qualification as a significant supervised entity. The development activities linked to the need to implement the new policies, regulations and controls of the Parent Company were also significant.

In parallel with the in-house development of new content in relation to the Group's information systems (Sib2000 and Gesbank), the best market solutions were selected and purchased to meet many of the new specialist needs that have emerged.

The main interventions involved the installation of platforms and applications at Group level for the management of the following operations:

- the control and monitoring of liquidity and interest rate risk;
- the management and governance of impaired loans;
- monitoring of liquidity and funding and hedging transactions in real time;
- centralised management of the purchasing cycle processes with the achievement of cost savings at Parent Company level;
- consolidated financial statements;
- the planning and management control process.

As in previous years, PIB and IBT also managed the merger processes involving the affiliated Banks and other client banks and supported them until their start-up.

It should also be noted that many of the activities of the companies in question are carried out not only with the affiliated Banks, but also with other client banks, whether they are BCCs of the Iccrea Cooperative Banking Group or other client banks (industrial cooperative banks, savings banks, private banks, etc.).

With reference to aggregate data, revenues from services provided by the ICT service companies of the Cassa Centrale Group in 2019 amounted to approximately EUR 196 million. Against these revenues the total costs amounted to approximately EUR 145 million. Total profits generated by ICT and back office services companies in 2019 amounted to EUR 36 million, of which EUR 33 million were recorded by PIB.

3. Leasing services

2019 was a year of commercial recovery for Claris Leasing, thanks in part to its entry into the Group and its policy of maintaining positive asset quality. At the beginning of the year, agreements were signed with Group banks for the distribution of leasing products.

In 2019, the final value of contracts entered into amounted to EUR 132.5 million, with 746 contracts signed in the year, an increase of more than 300% on the previous year. It should be noted that, during 2019, the downward trend in non-performing exposures continued, in line with the Cassa Centrale Group's broader objective of improving asset quality. The ratio of net impaired exposures to total leasing receivables as at 31 December 2019 was 5.2%, down from 5.6% as at 31 December 2018.

Overall, the year recorded a profit of EUR 4.7 million, proof of the Company's ability to relaunch its business.

Finally, on 18 December 2019, Claris Rent S.p.A. was incorporated, with the sole shareholder Claris Leasing S.p.A., in order to implement the long-term rental development project. Operationally, the Company will begin operations in 2020, thus increasing the range of products available to the CBG both for the management of its own machine inventory and to meet specific customer needs.

The offer of services in the leasing sector is supplemented by the collaboration agreement between the Parent Company and Fraer Leasing S.p.A. The brokerage agreement made it possible to define, during 2019, 1,402 contracts for a total of EUR 233 million entered into with the distribution network of the Cooperative Banking Group.

4. Insurance services

The insurance services business is managed by the Assicura Group, which includes Assicura Agenzia, a wholly-owned subsidiary of the Parent Company and holder of a 100% stake in Assicura Broker.

Assicura Agenzia has extended its activities to the entire national territory thanks to the collaboration with around ninety banking institutions, represented by the affiliated Banks and the Parent Company as well as a number of industrial cooperative banks.

The commitment of Assicura Agenzia was mainly focused on:

- training of the network of collaborators, made up of over three thousand people working in insurance brokerage, to guarantee the professionalism required for suitable advice aimed at highlighting the needs of their customers and identifying the most suitable solutions;
- continuous updating of the "Sicuro" product catalogue with simple and clear solutions, constantly monitoring the market offer and activating mandates with new companies (such as Amissima Assicurazioni S.p.A);
- rationalisation and simplification of processes, monitoring regulatory developments;
- assistance to customers in the management of claims;
- support in commercial planning and support with marketing initiatives;
- activation of new customer services with the creation of a reserved online area (MyAssicura).

During 2019, new production rose from EUR 630 million in 2018 to EUR 976 million, an overall increase of 55%, of which EUR 853 million in the financial life segment (+58%) and with an increase in the placement of temporary life insurance policies of 59% and CPI (Credit Protection Insurance) non-life policies of 33%.

As a result, the portfolio increased by 25% to over EUR 4.4 billion (of which over EUR 189 million is attributable to the protection area) with 541,741 active policies as at 31 December 2019.

Total fees paid to banks exceeded EUR 36 million and generated revenues for Assicura Agenzia of EUR 6.7 million, an overall increase of 29.8% compared to 2018. In particular, fees earned in life business increased by 32% and in non-life business by 25%.

In 2019, Assicura Broker expanded its activities by developing a range of services both to affiliated Banks and to companies outside the Group.

The commitment of Assicura Broker was mainly focused on:

- funding of "brokerage" engagements from the participating banks in order to prepare an overall analysis of policies to protect operating risks;
- collaboration with the Parent Company's Risk Management Department in order to verify the insurance recovery made on individual operating losses reported by the banks;
- signing collaboration agreements with the affiliated Banks in order to be able to offer "brokerage" services to their client companies.

During 2019, the amount of brokered premiums rose from 15.45 million in 2018 to 16.3 million, an increase of 6%, 63% of which related to policies of Group Companies.

5. Collective asset management services

NEAM is the Luxembourg-based asset management company wholly owned by Cassa Centrale Banca which manages the NEF mutual investment fund.

The NEF Funds are placed by all affiliated Banks and by numerous client banks (a total of 145 placement agents) which use Cassa Centrale Banca as the entity appointed to perform payments, i.e. the intermediary called upon to carry out activities to support customers in the administrative and settlement phases of orders relating to the funds subscribed.

NEF's assets under management marketed through Cassa Centrale Banca closed 2019 at just under EUR 3.8 billion, with funding of over EUR 380 million. A particularly significant development is the ethical component of the NEF fund, which has made it possible to make a range of 4 funds (one bond, two balanced, one equity) available to the commercial network.

The increase in Assets under Management (hereinafter also referred to as "AuM") was achieved thanks to the commercial strategy and positive financial market conditions. The focus has favoured the growth of so-called capital accumulation plans (CAP) and the ESG offering (an acronym for Environmental, Social, Governance, which implies "responsible" investments, i.e. those that pursue ethical investment strategies that respect environmental, social and governance aspects) also presented at the annual Savings Fair. Further support for placement came from the CAP prize competition, which was launched in November 2019 and concluded in March 2020.

In 2019, more than 90,000 new CAPs were opened, reaching a total of more than 406,000 outstanding positions that generate a cash flow of more than EUR 45 million in new funding every month.

In October, the business proposal also focused on the new NEF Ethical Global Trends SDG, an innovative global equity solution with an ESG character, which in a couple of months raised over EUR 100 million.

The equity sub-funds saw average yields of 25% during the year, in the bond sub-funds the further rate compression led to results well above expectations. Spread bond sub-funds (Emerging Market, Corporate, Global) were the most rewarding. There was also a positive performance as regards the NEF Short Term Bond, which has almost reached the AuM 500 million threshold, thanks in part to its use in the planned switches that allow for consolidation of earnings and then investment in other sub-funds of the fund itself.

The increase in the fund's assets amounted to approximately EUR 938 million, or about 32%, of which EUR 446 million was attributable to net funding and the remainder to the positive performance of the financial markets.

6. Other services

Centrale Credit Solutions S.r.l. (hereinafter also referred to as "CCS") is mainly concerned with consulting activities in extraordinary finance transactions such as the sale of impaired loans, securitisations and project financing and also ensures, through companies specialised in the sector, administrative support to other Group Companies operating in the real estate sector.

During 2019, CCS was mainly involved in the structuring, as advisor, of two transactions involving the sale of NPLs by Cassa Centrale Banca and other banks both within and outside the Group:

- Buonconsiglio 2 securitisation, in which 21 credit institutions participated and which released non-performing loans amounting to approximately EUR 734 million in terms of gross book value;
- CCS NPL 8 assignment without recourse (so-called true sale assignment), to which 35 credit institutions (33 belonging to the Group) have adhered, which have released non-performing loans of approximately EUR 345 million in terms of gross book value.

The financial statements for the year ended 31 December 2019 show a net profit of EUR 1.8 million.

Centrale Soluzioni Immobiliari S.r.l. (hereinafter also referred to as "CSI") was set up to allow for the purchase, sale, exchange of real estate assets, including the development or completion of the same with a view to their replacement on the market. This activity is carried out mainly as an ancillary activity to the activities of Cassa Centrale Banca, with the aim of safeguarding the creditworthiness of impaired loans secured by real guarantees.

During the year just ended, CSI continued - through specialised companies - to create, complete and maintain the sites relating to real estate acquired through bankruptcy proceedings. At the end of November, a new real estate package was purchased for a total of EUR 3 million consisting of two buildable areas of land in the province of Trento and a restaurant in Belluno with interesting development prospects for the next two years.

Against revenues (equal to EUR 477 thousand) deriving from the sale of certain apartments and hotel and office leases, after deduction of fixed costs (equal to EUR 120 thousand for amortisation and depreciation, building expenses, IMU/IMIS), gross profit amounts to EUR 23.6 thousand and net profit to EUR 18.6 thousand, entirely allocated to reserves.

The Group's real estate brokerage activity is carried out through its subsidiary Centrale Casa S.r.l., which aims to support its affiliated Banks in meeting the needs of customers intending to sell or purchase various types of real estate. The company therefore acts as a broker between supply and demand. This type of operations, which are carried out in compliance with the regulations in force, in a completely autonomous manner with respect to purely banking activities, allows the Group to implement policies of cross-selling services and products typically ancillary to the purchase/sale of a property.

The activity carried out during 2019 has seen the turnover of new agents and the continuation of the search for specialised personnel to offer quality services. Multiple "channels" were activated and managed, which led to approximately 3,300 new contacts/customers mainly related to the activities of agents, internet portals, the corporate website and reports from banks. In addition to buying and selling, also thanks to the operation of the network of agents, various rental contracts have been concluded and specific consulting services provided.

Originally established to provide support and assistance to banks that use the online trading service offered by Directa Sim, over the years the associate Centrale Trading S.r.l. (hereinafter also "Centrale Trading" or "CT") has entered into agreements with various companies which have made it possible to expand the range of services offered to affiliated Banks and other third party banks. At the end of 2019, there were 167 partner credit institutions, which were widespread throughout the country.

Over time, Centrale Trading has developed a series of complementary activities such as agreements with Italpreziosi, Six Financial Information, MasterChart with the main objective of ensuring an adequate flow of commissions that could offset the drop in revenues resulting from the reduction in the number of client banks.

In 2019, there was also a significant commitment to providing assistance to the partner banks. There was therefore no lack of commercial visits and training events, aimed both at the internal training of colleagues in banks and directly at the end customers.

Risk management and internal control system

The Cassa Centrale Group operates in a macroeconomic context that is permeated by a multitude of elements of discontinuity with respect to the past, not only due to the uncertain prospects for economic recovery, the continuing negative rates, the ongoing measures issued in Europe and Italy, but also with reference to the reform of cooperative credit.

The Group attaches great importance to the management and control of risks, in order to ensure prudent and stable management of banking activities, in compliance with the Group's cooperative principles and mission.

The guiding principle of the company's choices is therefore based on two fundamental assumptions:

- the awareness that an effective system of controls is an essential condition for the pursuit of the company's objectives and that organisational structures and processes must constantly be fit for purpose to support the realisation of the company's interests while contributing to ensuring conditions of sound and prudent management and corporate stability;
- the strategic importance of the role of the cooperative credit network, thanks to which the Group can offer its customers a complete range of banking and financial services, consistent with the operational and regulatory framework of reference.

Cassa Centrale Banca, as the Parent Company, carries out management, coordination and control activities in order to guide the Group towards business objectives consistent with the distinctive features of the individual affiliated Banks and in line with balanced risk management.

These objectives are intended to define:

- the organisational structures suitable for identifying and managing the risks to which the Group is exposed;
- the strategic guidelines aimed at safeguarding the Group's equity, economic and liquidity structure;
- the actions to be taken to safeguard the mutualistic purposes of the affiliated Banks, in compliance with the Cohesion Contract and the related Guarantee Agreement to which the affiliated Banks and the Parent Company are mutually committed.

Within the risk management model, the Risk Appetite Framework (RAF) represents the reference framework that defines - consistently with the maximum risk that can be assumed, the business model and the strategic plan - the risk appetite, the tolerance thresholds, the risk limits, the risk management policies, the reference processes necessary to define and implement them.

The methodological framework used is based on a precise management of the various types of risk to which the Group is exposed and is characterised by a unified vision of the risks and the simplicity of the setting of the chosen indicators for the advantage of immediate "governance" by top management.

The RAF is a general reference framework that makes it possible to establish the level of risk (overall and by type) that is intended to be achieved, in accordance with the set strategic objectives and the particular business model adopted; as such, it is an indispensable tool for the purposes of prudent positioning (i.e. within acceptable limits) of the Group's effective capacity to assume risk.

With reference to quantifiable risks, the declination of the elements making up the RAF has been set with reference to the same risk measurement methods used in the internal capital adequacy assessment process (hereinafter also "ICAAP") and the internal liquidity adequacy assessment process (hereinafter also "ILAAP").

The RAF adopted by the Group defines the thresholds of risk capacity (maximum risk that the Group is technically capable of assuming without violating regulatory requirements or other constraints imposed by shareholders or the supervisory authority), risk appetite (risk objective or propensity to risk, i.e. the level of risk, overall and by type, that the Group intends to assume in order to achieve its strategic objectives) and risk tolerance (tolerance threshold, i.e. the maximum deviation from risk appetite allowed; the tolerance threshold is set so as to ensure in any case sufficient margins to operate, even under stress conditions, within the maximum risk that can be assumed).

The risk management process phase is integrated into the Risk Appetite Framework adopted by the Group through 2 macro-phases:

- **Monitoring:** collection and structured organisation of the results obtained from measurement and evaluation activities, as well as further quantitative and qualitative surveys that support the analysis of exposure to the risks under examination and the verification of compliance with the RAF indicators in their various forms, adopted in compliance with the RAF Regulations.
- **Reporting and communication:** activities aimed at preparing the appropriate information to be transmitted to corporate bodies and other functions (including control functions) regarding the risks assumed or assumable in the different segments, also capturing, in an integrated logic, the interrelationships with each other and with the evolution of the external environment.

Taking into account the specific characteristics of the Group and its operations, as well as the context in which it operates, risk mapping was carried out at Group level when defining the RAF, approved by the Board of Directors of the Parent Company.

The risks identified are the result of the first risk mapping carried out at the start of the CBG, and are preparatory to the first consolidated ICAAP/ILAAP process, issued in 2019.

These risks, which could undermine the pursuit of business strategies and objectives, are listed below:

Credit risk
Risk of loss deriving from the insolvency or worsening of the creditworthiness of counterparties entrusted by the Group.

Counterparty risk
Risk that the counterparty to a transaction involving certain financial instruments defaults before the settlement of the transaction. Counterparty risk is borne by the following types of transactions: financial and credit derivatives traded over the counter; repos and reverse repos on securities or commodities, securities or commodities lending or borrowing transactions and margin loans (securities financing transactions); transactions with long-term settlement. This risk is therefore a particular type of credit risk, which generates a loss if transactions with a given counterparty have a positive value at the time of insolvency.

Market risk
This represents the risk of significant losses from adverse movements in market prices (share prices, interest rates, exchange rates, commodity prices, volatility of risk factors, etc.).

Operating risk
This represents the risk of sustaining losses deriving from the inadequacy or dysfunction of procedures, human resources and internal systems or those caused by exogenous events. This includes, among other things, losses resulting from fraud, human error, interruptions in operations, unavailability of systems, breach of contract, natural disasters. In line with the definition provided in the Operating risk management policy, the following risks are included: legal, model, outsourcing, ICT systems, conduct, money laundering and terrorist financing. Only for the purposes of the ICAAP process, given their relevance, the risks of non-compliance and operations with related parties are specifically addressed with respect to the set of operating risks defined.

Reputational risk
Current or prospective risk of a decline in profits or capital resulting from a negative perception of the Group's image by customers, counterparties, Group shareholders, investors or supervisory authorities.

Risk of non-compliance
Risk of incurring judicial or administrative sanctions, significant financial

losses or damage to reputation as a result of violations of mandatory rules (law or regulations) or self-regulation (e.g. Articles of Association, codes of conduct, corporate governance codes).

Risk of money laundering and terrorist financing
The risk arising from the violation of legal, regulatory and self-regulatory provisions functional to the prevention of the use of the financial system for the purposes of money laundering, terrorist financing or the financing of weapons of mass destruction development programmes as well as the risk of involvement in money laundering and terrorist financing or the financing of weapons of mass destruction development programmes.

Interest rate risk
Interest rate risk arising from activities other than trading: risk arising from potential changes in interest rates.

Country risk
This is the risk of losses caused by events occurring in a country other than Italy. It should be understood in a broader sense of sovereign risk as it relates to all exposures regardless of the nature of the counterparties, whether natural persons, corporations, banks or governments.

Concentration risk
Risk arising from exposures to counterparties, groups of connected counterparties and counterparties in the same economic sector that carry out the same activity or belong to the same geographical area.

Concentration risk can be distinguished in the following sub-types of risk:

- risk of single-name concentration (concentration towards subjects belonging to the same economic group and/or connected);
- risk of geo-sectoral concentration (concentration towards particular economic sectors and/or geographical areas);
- risk of concentration of products;
- risk of concentration of collateral and personal guarantees.

Strategic risk
Current or prospective risk of a decline in profits or capital resulting from changes in the operating environment or erroneous business decisions, inadequate implementation of decisions, poor responsiveness to changes in the competitive environment.

Risk of equity investments in non-financial companies
Risk of excessive fixed assets deriving from equity investments in non-financial companies.

Leverage risk
There is a risk that a particularly high level of indebtedness in relation to capital endowment will make the bank vulnerable, making it necessary to take corrective measures to its business plan, including the sale of assets with losses that could also lead to value adjustments on the remaining assets.

Liquidity risk
This represents the possibility of difficulty or inability in relation to the company meeting its maturing cash commitments on time. It may be caused by the inability to raise funds (funding liquidity risk) or by the presence of limits on the disposal of assets (market liquidity risk).

Risk of operations with related parties
This represents the risk that the proximity of certain parties to the Bank's decision-making centres may compromise the objectivity and impartiality of decisions relating to the granting of loans and other transactions with the same parties, with possible distortions in the process of allocating resources, exposure of the Bank to risks that are not adequately measured or monitored, and potential damage to depositors and shareholders.

Basis risk
This represents, in the context of market risk, the risk of losses caused by misaligned changes in the values of opposing balances, similar but not identical.

Transfer risk
This is the risk that the bank, exposed to a borrower financing in a currency other than the one in which it receives its main sources of income, will incur losses due to the borrower's difficulties in converting its currency into the currency in which the exposure is denominated.

Securitisation risk
This represents the risk that the economic substance of the securitisation transaction is not fully reflected in the risk assessment and risk management decisions.

Residual risk
This represents the risk that recognised credit risk mitigation techniques used by the bank will be less effective than expected.

It should be noted that, as part of the activities aimed at the ICAAP/ILAAP 2020 report, the Parent Company began preparatory work during the last few months of 2019 to revise and update the Group Risk Map, to be completed by the end of the first half of 2020.

Main actions and functions involved in the mitigation and control of risks to which the Group is subject

The risks identified within the risk map can be classified into two categories:

- risks quantifiable in terms of internal capital absorption, in relation to which the Group uses specific metrics to measure capital absorption;
- risks that cannot be quantified in terms of internal capital absorption, for which, since there are not yet robust and shared methodologies for determining the relative capital absorption, a capital buffer is not determined and for which, in accordance with the supervisory provisions, adequate control and mitigation systems are established.

The main risk controls currently implemented by the Group are summarised below.

Credit risk
The Group uses credit risk mitigation (hereinafter also "CRM") techniques, to mitigate credit risk.

The Group considers as eligible credit risk mitigation techniques the forms of credit protection that comply with the general and specific requirements of Part Three, Title II, Chapter 4 of Regulation (EU) no. 575/2013.

In accordance with the relevant legislation, eligible credit risk mitigation techniques may be collateral or personal forms of credit protection, provided that the assets on which the protection is based meet the requirements of the legislation.

The Group, in compliance with the regulations, has identified the following CRM tools:

- financial collateral, i.e. collateral rights and other rights of equivalent content in respect of assets with an adequate degree of liquidity and a sufficiently stable market value over time;
- mortgage guarantees, i.e. residential and non-residential real estate mortgages;
- other forms of collateral credit protection, represented by financial instruments issued by supervised intermediaries which the issuer itself has undertaken to repurchase at the bearer's request, life insurance policies;
- personal guarantees and counter-guarantees represented by sureties and given by supervised intermediaries within the scope of eligible authorities. These also include mutualistic guarantees of personal type provided by credit guarantee consortia which meet the subjective and objective criteria for admissibility;
- framework offsetting agreements, i.e. bilateral offsetting agreements covering repurchase agreements, securities or commodities lending or borrowing transactions or other financial market-related transactions with a counterparty;
- offsetting in the financial statements.

Finally, specific policies have been defined regarding the acquisition and management of the main forms of guarantee used or protection of credit exposures, in order to ensure that the legal, economic and organisational requirements for their recognition for prudential purposes are met.

In order to mitigate credit risk, the Group is continuing to reduce its NPL stock through:

- the sale of impaired loans;
- the process of recovering impaired exposures by centralising management with the Parent Company.

Market risk
The Group pursues a prudent approach aimed at maintaining low levels of exposure to market risk, both in absolute and relative terms, meaning the trading book not primarily for investment purposes but rather for the allocation of financial instruments held for intermediation with banking and

non-banking customers and derivatives to hedge risks and not otherwise included in the Banking Book.

This approach is mainly based on the following:

- compliance with regulatory requirements for the purposes of determining internal capital for market risks (Pillar I);
- compliance with the constraint of containing the net open position in exchange rates for the affiliated Banks within 2% of their own funds, in accordance with Bank of Italy Circular no. 285/2013 (Part Three, Chapter 5, Section III);
- the limitation, provided for in the Group's portfolio management strategy, of the trading book to only financial instruments held for intermediation with banking and non-banking customers and to derivatives entered into for hedging risks and not otherwise included in the Banking Book.

Liquidity risk

The Group pursues a prudent approach aimed at ensuring an adequate level of liquidity to meet expected and unexpected payment commitments so as to guarantee banking operations over time under normal and stress conditions. At the same time ensuring a structural liquidity balance to minimise stress scenarios on medium to long-term sources of funding.

This approach mainly consists of:

- an intra-day liquidity management strategy aimed at constituting, ex ante, a liquidity surplus for settlement purposes;
- prudent management in terms of quantity and quality of the liquidity reserves, preserving their current prevalent composition as level 1 high quality liquid assets (HQLA);
- a diversified funding strategy per customer, product and duration, where the Group's main sources of funding include: (i) deposits from the domestic retail market which represent the stable part of the funding, (ii) short-term funding in wholesale markets, mainly consisting of repo transactions, (iii) medium to long-term funding consisting mainly of refinancing operations with the Eurosystem (TLTRO-II) and bond issues;
- a process for monitoring intra-day, operational and structural liquidity through the use of the regulatory maturity ladder and a system of management indicators aimed at highlighting any deviations from the main metrics underlying the strategy;
- a severe but realistic scenario analysis and stress testing system in order to identify the emergence of elements of increased liquidity and funding risk sufficiently in advance to activate appropriate countermeasures from a management point of view.

Interest rate risk

The Group pursues a prudent approach aimed at keeping Delta EVE and Delta NII values within the space defined by the alert thresholds for these indicators defined in the CBG Risk Appetite Statement.

This approach is mainly based on the following:

- compliance with regulatory requirements for the purposes of determining internal capital for Interest rate risks (Pillar II);
- monitoring of the indexed portion of the Banking Book assets in order to maintain the prospective equilibrium of the repricing profile functional to the control of Delta EVE and Delta NII values.

Operating risk

The actions deemed most effective for the reduction of losses and the mitigation of risk exposure, based on assessments of economic convenience and efficiency, are aimed at adapting processes, organisational structures and information systems to the specific needs of risk mitigation or the transfer of the same through the underwriting of insurance cover or the outsourcing of activities with a view to ensuring more effective risk management.

Supervisory review and evaluation process and MREL requirement

With reference to the results of the supervisory review and evaluation process (SREP) the supervisory authority communicated to the Parent Company, by letter dated 25 November 2019, the consolidated SREP requirements of the Group, in force from 1 January 2020.

The Group is required to meet, on a consolidated basis, a total SREP capital requirement (TSCR) of 10.25%, including an additional requirement with regard to Pillar 2 (P2R) own funds of 2.25%, to be held in the form of Common Equity Tier 1 (CET1) capital.

The Supervisory Authority also expects the Group to meet the Pillar 2 (P2G) approach of 1% on a consolidated basis, which should consist entirely of Common Equity Tier 1 capital and held in addition to the total capital requirement.

With reference to the requests of the Resolution Board in application of the European Directive establishing a framework for the reorganisation and resolution of credit institutions and investment firms (so-called Bank Recovery and Resolution Directive - BRRD), during 2019 the activities aimed at defining the MREL (Minimum Requirement of Eligible Liabilities) target to be assigned to the Group were initiated with the SRB (Single Resolution Board).

Completion of the so-called "banking package"

On 7 June 2019, Regulation (EU) no. 876/2019, Directive (EU) no. 878/2019, Regulation no. 877/2019, Directive (EU) no. 879/2019 of the European Parliament and of the Council of 20 May 2019 were published in the Official Journal of the European Union, which are an integral part and culmination of the so called "banking package" aimed at increasing the resilience of the European banking and financial system by adapting the European prudential framework to the guidelines shared, at international level, by the Basel Committee (hereinafter also "BCBS") and the Financial Stability Board (hereinafter also "FSB").

The aforementioned provisions came into force on 27 June 2019 with Regulation (EU) no. 876/2019 (the so-called "CRR 2"), the provisions of which apply - with some exceptions - from 28 June 2021. The standards issued by the BCBS are transposed into Community law in relation to (i) total loss absorbing capacity (TLAC) of global systemically important entities; (ii) new methodologies for calculating capital requirements for market risk; (iii) new methodologies for calculating capital requirements for counterparty risk; (iv) prudential treatment of exposures to central counterparties; (v) net stable funding ratio (NSFR); (vi) a financial leverage ratio.

In addition, the provisions relating to the so-called "Pillar III disclosure", have been amended to adapt their contents to the changes referred to, as well as the reporting obligations of banks to the competent authorities.

As part of its ordinary activities to monitor capital adequacy and the quality of prudential and reporting treatments, the Group carefully monitors the changes introduced by the banking package both with regard to the appropriate consideration of these changes in the definition of prospective operating policies and the timely start of compliance activities.

Supervisory expectations regarding minimum coverage of losses on impaired exposures

In March 2018, the ECB published an Addendum to the impaired loan management guidelines on prudential provisions (the so-called "Calendar Provisioning" or "Vintage"), which, in summary, provides for increasing levels of provisions depending on the date of classification as impaired.

On 25 April 2019, the European Parliament issued Regulation (EU) no. 630/2019 on minimum coverage of losses on impaired credit exposures, which, in summary, provides for increasing levels of provisions depending on the date of classification as impaired, taking account of the date of disbursement of the exposure.

On 22 August 2019 the ECB published the technical paper on supervisory expectations regarding provisions for non-performing exposure (hereinafter also 'NPEs'), adjustments and interactions between the ECB's Pillar 2 approach (hereinafter also 'ECB Addendum') and the prudential treatment of NPEs under Pillar 1 (EU Regulation). In other words, the technical document aims to align the requirements set out in the Addendum of March 2018 with Regulation (EU) no. 630/2019, in particular with reference to the quantitative table containing the prudential write-down percentages to be applied per vintage band.

It should be noted that the ECB Addendum applies to loans classified as impaired (impaired past due and/or overdue, 'unlikely to pay', non-performing exposures) as from 1 April 2018, while the Regulation (EU) is applicable to new loans granted as from 26 April 2019 that have deteriorated at a later date.

In addition to the two regulatory requirements described above, there are supervisory expectations for the NPE stocks, i.e. exposures classified as impaired as at 31 March 2018, for which minimum levels of coverage are required from the end of 2020 as part of the Supervisory Review and Evaluation Process (SREP).

The Group is carrying out the activities necessary to implement the regulatory requirements described above, with continuous monitoring and supervision of the potential impacts on the main statement of financial position and income statement ratios and on credit processes.

New default definition

The new definition of default falls within the regulatory scope defined by Article 178 of Regulation (EU) no. 575/2013, which specifies the criteria according to which a debtor may be considered in default. On 28 September 2016, the European Banking Authority (hereinafter also "EBA") published the final version of the Default Definition Guidelines (EBA/GL/2016/07). This document reports the key aspects related to the new default definition and aims to harmonise implementation among European Banks.

The new materiality thresholds (which will change the current relative threshold of 5%) have been set for "significant" entities by Regulation (EU) no. 1845/2018 of the ECB in accordance with Delegated Regulation (EU) no. 171/2018.

The draft version of Bank of Italy Circular no. 272/2008 and subsequent updates is added to the above European legislation, which transposes, at national level, the requirements of the EBA Guidelines and Delegated Regulation (EU) no. 171/2018 by modifying the classification methods for the three classes of impaired loans (impaired past due and/or overdue, unlikely to pay and non-performing exposures, in addition to the methods for assigning the attribute of forborne).

Having said all this, the Group is further developing the infrastructure to support credit management activities in the various phases of its life cycle and implementing all the activities necessary to initiate the application of the rules against the new definition of default, adapting the relevant applications and procedures accordingly.

ICAAP and ILAAP

The Group has adjusted its internal capital adequacy assessment process ("ICAAP") and the internal liquidity adequacy assessment process ("ILAAP") to the regulatory framework with specific reference to the prudential supervisory provisions (Basel III framework) and the provisions in relation to the internal control system, also in order to ensure consistency with the adopted Risk Appetite Framework.

Procedures have been defined in the ICAAP/ILAAP process for:

- the identification of all risks to which the Group is or could be exposed, i.e. risks that could affect its operations, the pursuit of defined strategies and the achievement of corporate objectives. In carrying out the activities mentioned above, the Group takes into account the regulatory framework of reference, its operations in terms of products and markets, the specific features related to its nature as a cooperative mutual bank operating in a network and, in order to identify any prospective risks, the strategic objectives defined by the Board of Directors, as well as the risk objectives defined in the Risk Appetite Framework and the Recovery Plan;
- the measurement/assessment of risks from a current, prospective and stress situation perspective. In this context, the above measurement methodologies have been adapted to the new supervisory provisions, and the methodologies for conducting stress tests on the most significant risks have been strengthened;
- the self-assessment of capital adequacy, taking into account the results separately obtained with reference to the measurement of risks and capital from current, prospective and stress situation viewpoints on current and prospective values;
- the self-assessment of the adequacy of the liquidity and funding risk management process, taking into account the results obtained with regard to the measurement of liquidity risk from a current and prospective perspective and in stress situations.

Internal control system

The Cassa Centrale Group has created a structured system of internal controls which, on a daily basis and proportionally to the complexity of the activities carried out, involves the entire organisational structure and conforms to the legislation governing the 'Internal Control System', reported in Part One, Title IV, Chapter 3 of Bank of Italy Circular 285/2013 and subsequent updates.

The Cassa Centrale Group attributes strategic importance to the integrated management of controls and related risks as they constitute, among other things:

- an element to ensure that all activities are carried out in accordance with the principles of sound and prudent management and defined strategic guidelines;
- a clear and complete representation for the corporate bodies of the internal control system to monitor risks, the critical elements to which the Group is exposed and the interventions in progress;
- an important element for monitoring compliance with the relevant provisions by the competent authorities, as well as spreading the use of integration parameters.

The Parent Company has adopted a unitary and integrated system of internal controls that allows effective control over both the strategic choices of the Group as a whole and the managerial balance, organisation, technical situation and financial position of the individual Group Companies. This system consists of all the rules, functions, structures, resources, processes and procedures that aim to ensure, in compliance with sound and prudent management, the achievement of the following objectives:

- verification of the implementation of company strategies and policies;
- containment of risks within the limits indicated in the Risk Appetite Framework (RAF);
- safeguarding the value of assets and protection against losses;
- effectiveness and efficiency of business processes;
- reliability and security of company information and IT procedures;
- prevention of the risk that the Group may be involved, even involuntarily, in illegal activities (with particular reference to those connected with money laundering and terrorist financing);
- compliance of the company's operations with the law and supervisory regulations, as well as with internal policies, regulations and procedures.

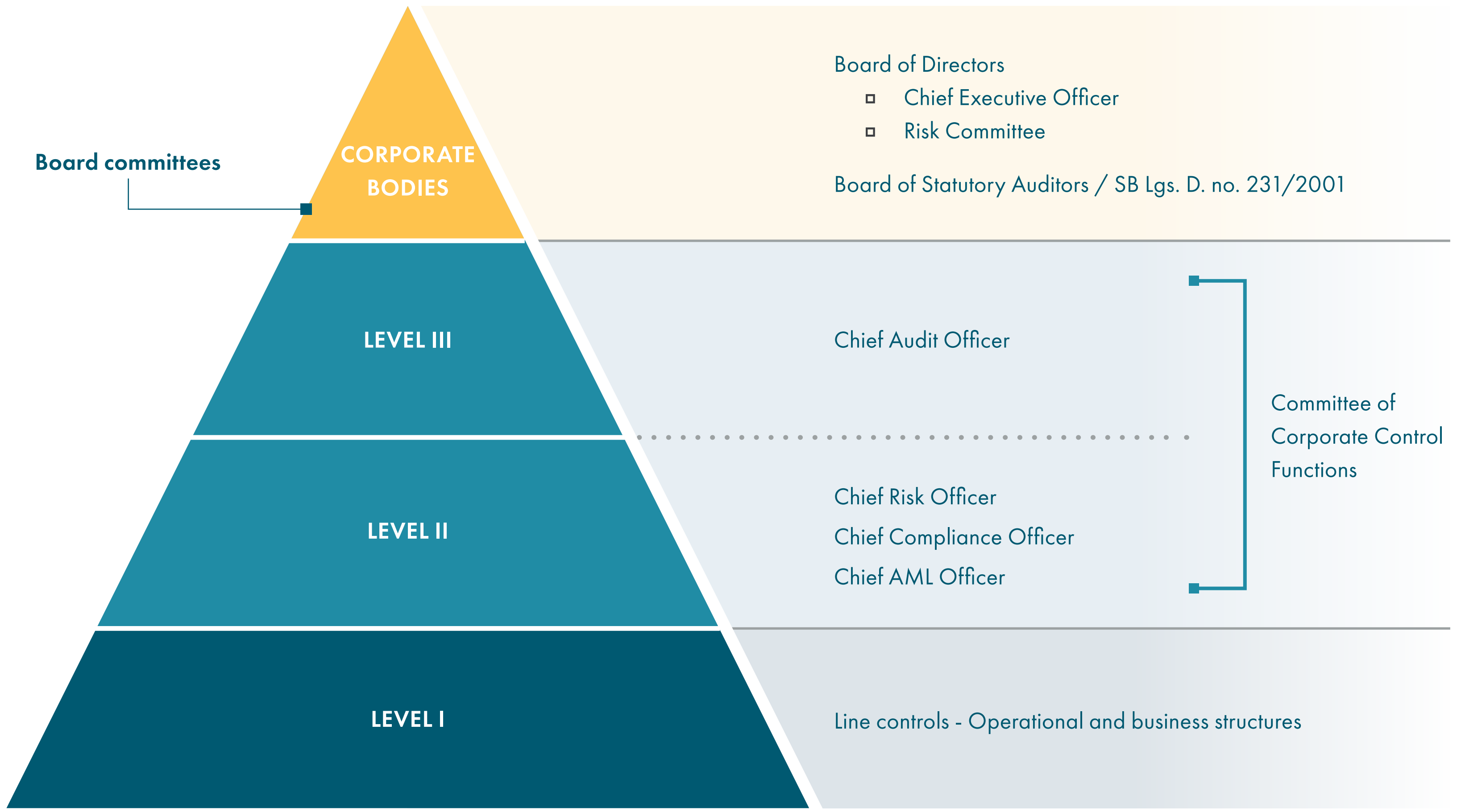
The central role of the internal control system within the Group's corporate organisation means that:

- it takes on strategic importance. In this regard, the "control culture" holds a prominent position on the scale of the Group's values, affecting not only the Corporate Control Functions, but the entire corporate organisation of the Parent Company and all Group Companies (e.g. corporate bodies, structures, hierarchical levels, personnel);
- it represents a primary element of the corporate governance system of the Parent Company and Group Companies and plays a decisive role in identifying, measuring, assessing and mitigating the Group's significant risks, ensuring the Group's sound and prudent management and financial stability.

The Group's internal control system provides for the following types of controls, in accordance with the laws and regulations in force:

- **Line controls** (so-called "first-level controls"): controls which are designed to ensure the proper conduct of operations (e.g. hierarchical, systematic and spot checks) and which, as far as possible, are incorporated into computerised procedures. These are carried out by the same operational and business structures (the so-called "Level I functions"), including through units dedicated exclusively to control tasks that report back to the managers of the structures themselves, i.e. performed within the back office.
- **Controls on risks and compliance** (so-called "second level controls"): controls designed to ensure, inter alia:
  - the proper implementation of the risk management process;
  - compliance with the operational limits assigned to the various functions;
  - compliance of the company's operations with regulations, including self-regulation. The functions responsible for these controls are separate from the operational functions and contribute to the definition of risk management policies and the risk management process.
- **Internal Audit** (so-called "third level controls"): internal audit controls aimed at identifying breaches of procedures and regulations and periodically assessing the completeness, adequacy, functionality (in terms of efficiency and effectiveness) and reliability of the organisational structure of the other components of the internal control system and information system (ICT audit) at Group level, at predetermined intervals in relation to the nature and intensity of the risks.

The Parent Company's Corporate Bodies, the Parent Company's Risks Committee, the Committee of Corporate Control Functions, as well as the Corporate Control Functions themselves represent the main players in the internal control system.



Specifically:

- the **Board of Directors** is responsible for strategic planning, organisational guidance, evaluation and monitoring; in particular, as a body with strategic supervision functions, it defines and approves the business model, strategic guidelines, risk appetite, tolerance threshold (where identified) and risk management policies at Group level, the guidelines of the internal control system, the criteria for identifying the most significant transactions to be submitted for prior review by the Risk Management Department and the general terms of the ICAAP process in order to ensure overall consistency with the RAF and the strategic guidelines;
- the **Risks Committee** is responsible for the tasks assigned to it by the regulations in force from time to time and by the Board of Directors, also with regard to the affiliated Banks and, in particular, it performs support functions for the Parent Company's Corporate Bodies with regard to risks and the internal control system, paying particular attention to all activities that are instrumental and necessary for the Parent Company's Board of Directors to arrive at a correct and effective determination of the Risk Appetite Framework (RAF) and risk management policies;
- the **Board of Statutory Auditors**, as the body with control functions, is responsible for overseeing the completeness, adequacy, functionality and reliability of the internal control system and the RAF at Group level, in accordance with the provisions of current legislation, the Cohesion Contract and the Articles of Association of Cassa Centrale Banca. The Board of Statutory Auditors performs the functions of the supervisory body - established pursuant to Legislative Decree no. 231/2001, concerning the administrative liability of entities - which supervises the functioning and compliance with the organisational and management model adopted by the Parent Company for the purposes of the same legislative decree;
- the **Chief Executive Officer**, as an entity with management functions, has an understanding of all business risks, including the possible risks of malfunctioning of internal measurement systems (the so-called "model risk'), where present, and, within the scope of integrated management, of their interrelationships with each other and with the evolution of the external environment. In this context, they are able to identify and assess the factors, including the complexity of the organisational structure, from which risks may arise for the Group;
- the **Committee of Corporate Control Functions**, consisting of the Managers of the Corporate Control Functions, carries out the coordination and integration activities of the Functions overseeing the internal control system.

The Group's Corporate Control Functions are represented by the following structures:

- Internal audit function **(Internal Audit Department)**;
- Standards compliance function **(Compliance Department)**;
- Risk control function **(Risk Management Department)**;
- Anti-Money Laundering Function **(Anti-Money Laundering Department)**.

The model adopted for the Group

The supervisory provisions for Banks in relation to the Cooperative Banking Group issued by the Bank of Italy establish that the Corporate Control Functions for affiliated cooperative credit banks are carried out under an outsourcing regime by the Parent Company or other companies of the Cooperative Banking Group.

The Parent Company carries out its tasks in compliance with the following criteria:

- the Corporate Bodies of the members of the Group are aware of the choices made by the Parent Company and are responsible, each according to their own competencies, for the implementation, within their respective business realities, of the strategies and policies pursued in the field of controls, favouring their integration within the scope of Group controls;
- special internal representatives are appointed within the user companies who: i) perform support tasks for the outsourced control function; ii) report functionally to the outsourced control function; iii) promptly report particular events or situations, which may change the risks generated by the subsidiary.

Each individual Group Company must have an effective system of information exchange that guarantees, on an ongoing basis:

- that the Corporate Bodies and related committees will be able to fulfil their roles and responsibilities within the internal control system;
- that the Corporate Control Functions pursue, in compliance with their respective competences, principles of collaboration and integration of controls, including:
  - mutual alignment on the basis of annual activity plans/programmes;
  - the sharing of any critical elements highlighted;
  - the constant updating of the committees in support of the main corporate functions established within the Group (and the participation of the relevant Managers of the aforesaid Corporate Control Functions) on matters relating to the integrated internal control system;
- the exchange of information preparatory to the implementation of specific moments of coordination between the Managers of the Corporate Control Functions in order to ensure a productive collaboration and coordination of the major initiatives at Group level related to the internal control system.

In order to ensure guidance and coordination, the Parent Company oversees Group Companies through the continuous exchange of flows, information and data in order to carry out management control that is useful for ensuring the balanced maintenance of economic, financial and equity conditions, the level of risk and, more generally, the integrated internal control system at Group level as a whole.

The Board of Directors of the user companies carries out its duties with precise reference to that defined by the Parent Company and in particular:

- appoints the internal representative who carries out support tasks for the outsourced control functions;
- approves the Audit Plan and Activity Programmes for the Compliance, AML and Risk Management Departments;
- takes action to eliminate the deficiencies found during the verification activities.

The Board of Statutory Auditors of the individual user companies carries out the activities required by current legislation with a view to monitoring the completeness, adequacy, functionality and reliability of the integrated internal control system, collaborating with the respective Parent Company Body.

The Supervisory Body established pursuant to Legislative Decree no. 231/2001, supervises the functioning and observance of the organisational and management model adopted by the company itself to prevent the offences relevant to the purposes of the same legislative decree.

The General Manager of the user companies supports the Board of Directors in the management function. As part of the internal control system, he/she supports the Company in the initiatives and corrective actions highlighted by the Corporate Control Functions and brought to the attention of the Corporate Bodies.

The internal representatives of the individual user companies perform support tasks for the outsourced Corporate Control Function, report functionally to the same and promptly report particular events or situations, which are likely to modify the risks generated by the subsidiary.

The bodies of the Group Companies other than the users are assigned the same responsibilities as those of the bodies of the user companies, insofar as they are compatible. These bodies are also the assignees of all the powers attributed to them by the regulations and regulatory provisions applicable to the company to which they belong. The internal Corporate Control Functions, where present, in compliance with the rules applicable to them, carry out their activities in line with the principles established by the Parent Company.

Internal Audit function

The Internal Audit Department oversees, according to a risk-based approach, on the one hand, the control of the regular performance of operations and development of risks and, on the other hand, the evaluation of the completeness, adequacy, functionality and reliability of the organisational structure and other components of the internal control system, bringing possible improvements to the attention of Corporate Bodies, with particular reference to the Risk Appetite Framework (RAF), the risk management process and the instruments for measuring and controlling risks and making recommendations to Corporate Bodies.

This function - which is separate from the other Corporate Control Functions from an organisational point of view - reports directly to the Board of Directors of Cassa Centrale Banca and has specific requirements such as independence, authority and professionalism, which are necessary to ensure effectiveness and efficiency in the performance of its duties. It operates according to principles based on the diligence and professionalism of its employees, in light of the awareness that an effective preventive activity can only be carried out if all staff are adequately responsible for the culture based on the value of integrity (honesty, fairness, responsibility) and on a set of values to be recognised and shared at all organisational levels.

The Internal Audit Department operates, for the affiliated Banks, under an outsourcing regime in compliance with the service levels established and formalised in the agreement to outsource the function and avails itself of the collaboration and support of the internal representatives of the same, who report functionally to the Manager of the Internal Audit Department of the Parent Company. With similar operating procedures, the Internal Audit Department also operates for Group Companies that sign an agreement to outsource the function. The Function also carries out any further activities aimed at assessing and reporting the various risk profiles brought to the Group by the Companies and the overall risks of the Group.

The main activities of the Internal Audit Department are the following:

- assessing the completeness, adequacy, functionality, reliability of the other components of the ICS, the risk management process and other business processes, also taking into account the ability to identify errors and irregularities. In this context, it reviews, among other things, the second level Corporate Control Functions (Risk Management, Compliance, Anti-Money Laundering);
- annually submitting an Audit Plan to the Corporate Bodies for approval, which reports the planned audit activities, taking into account the risks of the various corporate activities and structures; the Plan contains a specific section relating to the audit activity of the information system (the so-called "ICT Audit");
- assessing the effectiveness of the RAF definition process, the internal consistency of the overall scheme and the compliance of the company's operations with it and, in the case of particularly complex financial structures, their compliance with the strategies approved by the Corporate Bodies;
- assessing the consistency, adequacy and effectiveness of governance mechanisms and with the reference business model and carrying out periodic tests on the functioning of operational and internal control procedures;
- regularly checking the business continuity plan;
- carrying out detection tasks with regard to specific irregularities as well;
- carrying out also on request verifications in particular cases (so called "Special Investigation") for the reconstruction of facts or events considered to be of particular importance;
- coordinating with the other Corporate Control Functions in order to adopt consistent and integrated risk measurement and assessment methodologies and sharing priorities for risk-based intervention and providing a common and integrated representation of the areas of greatest risk;
- if, as part of the collaboration and exchange of information with the manager of the statutory audit, it becomes aware of critical issues that have emerged during the statutory audit activity, it shall take steps to ensure that the competent corporate functions adopt the necessary measures to overcome such critical issues.

In order to fulfil the responsibilities assigned to it, the Internal Audit Department has access to all the central and peripheral activities of Cassa Centrale Banca and the Group Companies and to any information relevant for this purpose, including through direct contact with staff.

Risk control function

The Risk Management Department oversees the identification, measurement and monitoring of the risks assumed or assumable and the definition of control activities aimed at ensuring compliance with the Group's risk profile in accordance with the RAF, as well as the identification of any corrective actions.

The Department is responsible for ensuring the correct measurement and control of exposure to the various types of risk identified and provides useful elements to the Corporate Bodies in defining guidelines and policies on risk management. The Risk Management Department collaborates with the other Corporate Control Functions in the adoption of consistent and integrated risk measurement and assessment methodologies to share priorities for risk-based intervention and to provide a common representation of the areas of greatest risk.

It operates, for the affiliated Banks, under an outsourcing regime in compliance with the service levels established and formalised in the contract to outsource the Function and avails itself of the collaboration and support of the internal representatives/operational support of the affiliated Banks, who report functionally to the Manager of the Risk Management Department of the Parent Company. With similar operating procedures, the Risk Management Department also operates for the other Group Companies that sign a contract to outsource the function.

In this area, the Risk Management Department is responsible for:

- defining the RAF, risk management and governance policies and determining the operational limits to the assumption of the various types of risk;
- developing, validating and maintaining risk measurement and control systems;
- ensuring the definition of common operational and reputational risk assessment metrics, in coordination with the Compliance Department

- and other relevant structures;
- developing and applying indicators capable of highlighting anomalous and inefficient situations in existing risk measurement and control systems;
- analysing the risks arising from the implementation of new products and services and entry into new operating and market segments;
- assessing the adequacy of internal capital (ICAAP) and public disclosure (Pillar III);
- ensuring the proper monitoring of the performance of individual credit exposures;
- ensuring the adequacy and effectiveness of the measures taken to remedy the shortcomings identified in the risk management process.

The Risk Management Department, as part of the Parent Company's management and coordination activities, also carries out any further activities aimed at assessing the various risk profiles brought to the Group by Group Companies and the Group's overall risks.

In order to carry out its tasks effectively, the Risk Management Department has access to all Group activities, both central and peripheral, and to any information relevant to this purpose, including through direct contact with personnel.

The Risk Management Committee has also been set up as a support and guidance body that contributes to the integrated monitoring of the Group's risks, with particular reference to risk appetite, capital allocation criteria, monitoring of risk profiles, measurement and stress test methods and related results, and risk management policies.

Compliance department

The Compliance Department takes a risk-based approach to managing the risk of non-compliance with regard to the entire business activity. This is done through the assessment of the adequacy of internal procedures aimed at preventing the violation of applicable external rules (laws and regulations) and self-regulation (e.g. Articles of Association, Cohesion Contract and code of ethics).

In particular, the Department, in its role as Parent Company Department, exercises control over the risks impending on the activities carried out by all Group Companies in order to assess the various risk profiles contributed by these Companies and the overall risks of the Group. This translates into the performance of specific monitoring and verification activities concerning the Group as a whole and/or individual Group Companies, which therefore guarantee adequate information flows, timely responses to specific requests and collaboration in the event of remote or on-site verification.

The Compliance Department is separate from the other Corporate Control Functions from an organisational point of view, it reports directly to the Board of Directors of Cassa Centrale Banca and has specific requirements such as independence, authority and professionalism, which are necessary to ensure effectiveness and efficiency in the performance of its duties.

The Compliance Department operates, for the affiliated Banks, under an outsourcing regime in compliance with the service levels established and formalised in the agreement to outsource the function and avails itself of the collaboration and support of the internal representatives of the same, who report hierarchically to the Board of Directors of the respective Company and, at the same time, report functionally to the Department Manager. With similar operating procedures, the Compliance Department also operates for the other Group Companies that sign an agreement to outsource the function. The Department also carries out any further activities aimed at assessing and reporting the various risk profiles brought to the Group by the Companies and the overall risks of the Group.

For the monitoring of certain regulatory areas for which it is permitted by applicable regulations or for the performance of specific obligations in which the Compliance Department's activities are articulated, the same may make use of specialist compliance control units and/or support, remaining in any case responsible for the definition of risk assessment methodologies. In particular, the role of specialist control units is attributed to the Tax Service and the Workplace Prevention and Protection Office, for the respective regulations indirectly supervised by the Department.

The main activities of the Compliance Department are the following:

- continuously identifying the applicable rules and assessing their impact on corporate processes and procedures;
- collaborating with the corporate structures for the definition of methodologies for the assessment of the risks of non-compliance with standards;
- identifying suitable procedures and/or organisational changes for the prevention of the detected risk, with the possibility of requesting their adoption;
- verifying the adequacy and correct application of the procedures for the prevention of the detected risk;
- ensuring ongoing and continuous monitoring of the adequacy and effectiveness of the measures, policies and procedures relating to investment services and activities;
- preparing information flows directed to the Corporate Bodies and structures involved (e.g.: operating risk management and internal audit);
- verifying the effectiveness of the organisational adjustments (structures, processes, procedures, including operational and commercial) suggested for the prevention of the risk of non-compliance with standards;
- involvement in the ex-ante assessment of the compliance with applicable regulations of all innovative projects (including the operation of new products or services) that the company intends to undertake as well as in the prevention and management of conflicts of interest between the different activities carried out by the company and also with regard to employees and company representatives;
- providing advice and assistance to Corporate Bodies in all matters in which the risk of non-compliance is significant;
- collaborating in the training of staff on the provisions applicable to the activities carried out;
- coordinating with the other Corporate Control Functions in order to adopt consistent and integrated risk measurement and assessment methodologies and sharing priorities for risk-based intervention and providing a common and integrated representation of the areas of greatest risk;
- spreading a corporate culture based on the principles of honesty, fairness and respect for the spirit and letter of the rules.

Anti-Money Laundering Department

The Anti-Money Laundering Department adopts a risk based approach in overseeing the management of the risks of money laundering and terrorist financing with regard to the company's activities by evaluating the adequacy of internal procedures intended to prevent the violation of applicable external standards (laws and regulations) and self-regulation (e.g. Articles of Association and Codes of Ethics).

The Anti-Money Laundering Department operates in accordance with the responsibilities assigned to it as a second-level Corporate Control Function of the Parent Company and fulfils the contractual obligations arising from its role as supplier to the affiliated Banks and the user companies.

The Anti-Money Laundering Department operates, for the affiliated Banks and the user companies, under an outsourcing regime in compliance with the service levels established and formalised in the agreement to outsource the function and avails itself of the collaboration and support of internal representatives, who, operating in close functional coordination with the Anti-Money Laundering Department, supervise the processes related to anti-money laundering legislation in the Affiliated Bank / user company.

The Anti-Money Laundering Department of the Parent Company formulates and prepares specific directives and instructions to which the Anti-Money Laundering representatives must adapt their operations, in order to ensure the operational consistency of the Group in relation to the management and measurement of the risks of money laundering and terrorist financing.

In the event that a Group Company is the recipient of anti-money laundering obligations and has not outsourced the function to the Parent Company, specific information flows are transmitted to the Anti-Money Laundering Department of the Parent Company by the same companies (the Annual Anti-Money Laundering Report, the annual planning of activities, any significant critical issues identified by the execution of anti-money laundering activities).

The Anti-Money Laundering Department has the objective of:

- contributing to the definition of strategic guidelines and policies for the overall governance of risks related to money laundering and terrorist financing, the preparation of communications and periodic reports to Corporate Bodies and the feeding of the Risk Appetite

Framework, collaborating with other Corporate Control Functions in order to achieve an effective integration of the risk management process;

- developing a global approach to risk based on the strategic decisions taken by the Parent Company, defining the Group's methodology for assessing the risks of money laundering and terrorist financing, the procedures for coordinating and sharing information between Group Companies and general standards for the adequate verification of customers, the retention of documentation and information and the identification and reporting of suspicious transactions;
- ensuring adequate Group supervision, continuously verifying the suitability, functionality and reliability of the anti-money laundering arrangements, the procedures and processes adopted within the Group and their degree of adequacy and compliance with the law;
- playing a management and coordination role in relation to Group Companies, promoting and spreading the culture of prevention of the risk of money laundering and terrorist financing.

The Anti-Money Laundering Department oversees and coordinates the management of money laundering and terrorist financing risks, through the execution of a series of activities that may be related to the following types of processes:

- main processes, i.e. the set of activities aimed at the correct fulfilment of the obligations of proper customer due diligence, data and information retention and reporting of suspicious transactions;
- cross-cutting processes, i.e. the set of activities functional to mitigate and contrast the risk of money laundering.

In the performance of its duties, the Anti-Money Laundering Department has access, in the manner deemed most appropriate, to all activities and to all central and peripheral structures of the Group, as well as to any information that it deems relevant for the performance of its duties and is equipped with tools that are useful for carrying out the controls for which it is responsible.

As part of the integrated internal control system, the Anti-Money Laundering Department contributes in its areas of responsibility to:

- the definition of a common risk taxonomy for analysis and evaluation activities;
- the constant exchange of information;
- the establishment of uniform risk measurement and reporting methods;
- the management of any misalignments in the level of risk assessments that have emerged during the planning of activities;
- the examination of the findings that have emerged and the related corrective actions proposed, examining any conflicting assessments in order to reach a single and satisfactory solution for all the Corporate Control Functions that have highlighted the same significance.

Human resources

The Cassa Centrale Group has a total workforce of 11,281 employees (FTE[9] of 10,846). The distribution of resources by Function/Department, gender and age groups is shown in the tables below.

Staff composition by category and gender

NUMBER OF EMPLOYEES BY CATEGORY AND GENDER	31/12/2019		
	Men	Women	Total
Executives	188	11	**199**
Middle managers	2,282	665	**2,947**
Employees	4,208	3,927	**8,135**
TOTAL	**6,678**	**4,603**	**11,281**

Staff composition by age group

NUMBER OF EMPLOYEES BY CATEGORY AND AGE GROUP	31/12/2019			
	<30	30-50	>50	Total
Executives	-	52	147	**199**
Middle managers	3	1,356	1,588	**2,947**
Employees	634	5,755	1,746	**8,135**
TOTAL	**637**	**7,163**	**3,481**	**11,281**

[9] Full time equivalent

The average age of the Group's personnel is predominantly in the 30-50 bracket with about 63% of employees in that bracket.

In a constantly evolving market environment and in an industry where profound change is increasingly a decisive competitiveness factor, it is essential to strengthen the most important asset of every company: its people. Strong investments were carried out to strengthen the Group, focusing in particular on the Corporate Control Functions and the areas of high technological and functional content managed within the Group's instrumental companies.

The long-term strategy of the Group remains our focus in relation to human resources, with a primary commitment in promoting the constant development of individual and group capabilities and skills.

The main guidelines followed by the Group are valuing initiative and flexibility, supporting growth opportunities through adequate development paths and promoting active participation in the implementation of projects, providing instruments and methods for the emergence of innovative contributions to be made available to the company.

Employer Branding

Strengthening its employer branding strategy is an effective method of attracting talent to the company: if the company succeeds in spreading its values and mission, including through its collaborators, the potential for finding the ideal candidate may be increased. Developing the company's visibility in the labour market, making it stand out from its competitors, is of fundamental importance.

For the Group, external events are an excellent opportunity for employer branding and recruiting: in 2019 the Group strengthened its partnership with the academic world in order to promote itself more effectively with young university talent, make itself known to a wider audience and thus build a solid communication strategy.

The CBG has launched a "career day" university course, with the corporate stand and public presentations in order to represent all the Group Companies.

The process of establishing the Parent Company involves a decidedly significant increase in resources, with fundamental experience and new skills to achieve the objectives required by Regulators and affiliated Banks.

In 2019, with a view to the continuous growth of the company's reputation, the partnership with JeTN - Junior Enterprise of the Università degli Studi Trento was established and the "CCB Hiring Challenge" was implemented. This is an event that may be promoted in collaboration with all Italian universities in order to support recruitment for the Group's Banks.

The initiatives carried out are usually presented in event video reports, published on the Linkedin page, generating thousands of views, all testifying to the importance of storytelling on social networks to increase the process of brand awareness.

Partnerships to innovate and compete

The consolidated partnership with the SDA Bocconi School of Management has allowed us to create high level professional training courses over time, to customise important Group initiatives that have involved thousands of employees of the affiliated Banks throughout Italy.

The partnership with CeTIF, Research Centre for Technology, Innovation and Financial Services of the Università Cattolica del Sacro Cuore, has contributed to bringing expertise to our Academy. The direct participation of the Parent Company's managers in the various Digital Research Hubs has made it possible to broaden their vision and, thanks to the network of major Italian banking groups and participation in the Steering Committee, the ability to discuss possible innovative solutions in the evolution of the financial world.

Other collaborations include the Politecnico di Milano (in particular, the Innovative Payments Observatory) which studies innovative payment systems for consumers and the additional services connected to them.

The Cassa Centrale Group is now confronted with the management of other banking groups, thanks to the communities created within these partnerships, contributing to the construction of reflections and study guidelines aimed at new approaches and new solutions.

Development of skills and training in the Cassa Centrale Group

The Banking Care Academy, a brand for the development of Group skills, deals with the design, promotion and implementation of training courses for the Banking Group. Through the SAP Success Factors Learning Management System (LMS) platform, the training proposals reach all Group employees, with awareness and participation objectives for the individual growth of employees within the affiliated Banks.

The offer includes training for managers and employees through different methods:

- in the classroom, with courses created in-house or at the territorial offices of the Parent Company in various Italian cities;
- online, usable from the cloud platform and available from any device;
- in "blended" mode.

The choice of how the training is used is guided by an analysis of educational effectiveness and cost/benefit requirements for the bank.

The collection of training needs is managed by the HR Training and Development Service in direct and continuous relationship with the training representatives of each bank. Representatives have the task of linking the needs of the different areas of the bank, which they discuss and prepare through the annual planning of training activities.

Those involved in training within the Group are increasingly questioning the meaning to be given to the educational process, with the awareness that training courses become real courses of organisational development, which are part of a project consistent with the Bank's decisions and vision.

The question "what is training?" is answered as follows: we like to think of it as a process through which we are better able to build and define the way we learn, act and interact, so that we become more able to successfully face the complexity of the problems we encounter.

In relation to the Banking Care Academy, training is a real challenge for the Banks that invest in it: the most important learning is not developed by absorbing technicalities administered with resolute solutions, suitable for all situations, but through personal and collective re-thinking of actions that require reflection.

Nowadays, those working in the Bank must have up-to-date business relationship skills, must master regulations and procedures that involve responsibilities and risks, must be recognised by families and businesses as consultants and must provide answers to increasingly complex questions.

For this reason, the 2019 training proposal has reached all the Group's Banks, with overall numbers showing a good launching pad for the HR Training and Development Service. In particular, during the year, more than 360,000 hours of training were provided in total (classroom and online courses) with a considerable individual average of 32 hours per employee, considering the Parent Company, Group Companies and affiliated Banks.

Starting in autumn 2019, the training project for company representatives was launched, involving all Group banks, for a total of 7,100 hours of training.

Remuneration policies

On 25 May 2019, the Ordinary Shareholders' Meeting of the Parent Company - on the proposal of the Board of Directors - approved the Group's remuneration and incentive policies for all personnel, including the most important personnel, as well as members of corporate bodies.

With regard to Group Companies within "scope", the remuneration policies (hereinafter also referred to as the "Policies") approved by the Shareholders' Meeting of the Parent Company were adopted by formal resolution of the respective Shareholders' Meetings for the Banks and by various competent bodies for the other companies.

Remuneration and incentive policies have been defined on the basis of:

- the supervisory provisions on "Remuneration and incentive policies and practices" updated by the Bank of Italy in October 2018 with the 25th update of Circular no. 285 of 17 December 2013 in implementation of EU Directive 2013/36/EU of 26 June 2013 (the so-called CRD IV);
- the Delegated Regulation (EU) no. 604/2014 containing the new "Regulatory Technical Standards" (RTS), relating to the appropriate qualitative and quantitative criteria to identify the categories of staff whose professional activities have a material impact on the risk profile of the institution (the so-called "Risk Taker") intended to

complement Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 (so-called CRD IV).

The Policies describe in an organic manner: the principles on which the Cassa Centrale Group's remuneration and incentive system is based; the roles, timing and activities that define the governance of the process of drafting, reviewing and adopting Group remuneration policies; the remuneration and incentive system for the entire Group.

The objective is to achieve, in the interests of all stakeholders, remuneration systems that are consistent with the Group's values and the mutualistic aims of the affiliated Banks, with the corporate objectives, long-term strategies and with the Group's prudent risk management policies, as defined in the provisions in force on the prudential control process, such as to avoid distorted incentives that could lead to regulatory violations or excessive risk taking for the bank and the financial system as a whole.

For further information and a detailed description of the policies in place, please refer to the document "Group remuneration and incentive policies" available on the Cassa Centrale Banca website at the address www.cassacentrale.it, in the Governance section.

Welfare and Trade Union Relations

During the month of January 2019, negotiations for the renewal of the national collective labour agreement came to an end, providing, among other new features, an average economic adjustment for personnel of EUR 85 per month, in line with that already in place in the rest of the banking industry.

2019 saw the Welfare and Trade Union Relations Service engaged in various trade union negotiations for the aggregation of banks and companies in the Banking Group, reorganisation and restructuring, as well as redundancy management and generational turnover.

During these negotiations, welfare measures aimed at supporting employees' families were also discussed with trade unions; forms of harmonisation of collective bargaining and pension and insurance instruments were sought; work-life balance was discussed, introducing principles and instruments of flexibility and elasticity of work performance that favour the reconciliation of working time with family needs; new methods and measures of sustainable mobility for work travel were introduced.

Other information on operations

Rebranding and corporate identity development activities

During 2019, the Group was heavily involved in the rebranding process, since with the birth of the new Banking Group, the need for an identity had emerged, which would be common to all affiliated Banks, recognisable to shareholders and customers, distinctive from direct competitors and the largest groups in the national credit sector.

Initially, the rebranding activity involved the identity reinvention of the Parent Company, and then involved all the Group's instrumental companies and affiliated Banks, identifying a Style Guide for the creation of individual logos, personalised for each Bank but in line with that created for the Group and the Parent Company.

During the year, over 90% of the Group's banks approved the adoption of the new logo with the addition of the pictogram. The logo is presented as the narrative of a Group that was created to preserve and safeguard the values of cooperative credit: cooperation, reciprocity and localism, and represents the synthesis of the history of cooperative credit combined with projection to the future and new challenges.

The brand thus becomes an echo of the Group's strategic-value positioning, which is unique and distinctive from the rest of the credit sector.

In view of this quantum shift, it was considered strategic and fundamental to inform the traditional stakeholders and those who are now learning about the Group and the Parent Company in a more coherent manner, through a new web portal (www.cassacentrale.it) developed with a state-of-the-art technological platform that guarantees the highest standards of security and customer experience.

The Group has made the new MyCMS (Content Management System) service available to its affiliated Banks, an easy-to-manage multi-site shared platform that allows the individual bank to configure and customise its website in just a few steps. To date, over 50.00% of the Group's Banks joined during 2019.

During the year, in collaboration with NEF, a prize competition ("Il Risparmio ti premia") was launched for shareholders, customers and prospects of the Group's Banks and those that have indicated Cassa Centrale Banca as the "entity appointed to perform payments", aimed at favouring savings and investment formulas that mitigate risk, such as the Capital Accumulation Plans (CAP). The theme of the competition is eco-sustainability, also in line with NEAM's strategy.

The launch of this initiative provided the opportunity to plan, for the first time, a national communication campaign under the NEF brand and coordinated with the new brand identity of the Cassa Centrale Group. The campaign included a high-impact advertising plan in the most popular national newspapers, on the main information web portals, in the territory, in branches and with tools to support the bank in its relationship with its customers.

Research and development

As part of the research activities, the importance of ongoing studies carried out by the Group to deepen the knowledge of the cooperative credit context is underlined, through market analysis and social media research on the concept of territoriality and consumers' perception of the brand. The aim is to strengthen the Group's image and its positioning in the Italian credit landscape, to evaluate strategies and to describe territoriality in a distinctive manner with respect to competitors.

The expenses incurred for research and development activities involved investments in research on the concept of cooperative credit and its perception by consumers, for the development of the new brand of the Parent Company, Cassa Centrale Banca, the Cassa Centrale Group and the rebranding of the same and of the individual affiliated Banks, and for the general growth of the Group and the Banks in online communication.

Relations with related parties

Details of transactions with related parties are provided in Part H of the Consolidated Explanatory Notes, to which reference should be made.

Information on going concern, financial risks, impairment testing of assets and uncertainties in the use of estimates

With reference to the Bank of Italy, Consob and Isvap documents no. 2 of 6 February 2009 and no. 4 of 3 March 2010, concerning the information to be provided in the financial reports on the business outlook, with particular reference to business continuity, financial risks, impairment testing and uncertainties in the use of estimates, the Board of Directors confirms that it has a reasonable expectation that the Group can continue to operate in the foreseeable future and therefore certifies that the consolidated financial statements for the year have been prepared on a going concern basis.

There are no elements or warnings in the Group's equity and financial structure and operating performance that could lead to uncertainties as to its ability to continue as a going concern.

For information on financial risks, impairment testing of assets and uncertainties in the use of estimates, reference should be made to the information provided in this report, comments on operating performance, and/or in specific sections of the Explanatory Notes.

Own shares

The share capital of the Parent Company Cassa Centrale Banca amounts to EUR 952,031,808, made up of 18,158,304 ordinary shares and 150,000 preference shares, both with a nominal value of EUR 52.

During the year, as a result of the settlement agreement between Cassa Centrale Banca and Iccrea Banca S.p.A., 84,607 "Cassa Centrale" shares held by the banks of the Iccrea Group were acquired, of which 84,507 ordinary shares were acquired by the affiliated Banks of the Cassa Centrale Group and 100 preference shares by another preference shareholder of the CBG for a total of EUR 4,399,564.

As a result of this transaction and the signing of the Cohesion Contract as at 31 December 2019, 15,874,453 ordinary and preference shares with a nominal value of EUR 825,471,556 (corresponding to 86.71% of the share capital) are held by the affiliated Banks of the Cassa Centrale Group and therefore, in the consolidated financial statements, these are to be considered as own shares held in portfolio.

No shares of the Parent Company were sold during the year.

Policies for business continuity management

During 2019, the Board of Directors approved the organisational and operating model of the Cassa Centrale Group with regard to Business Continuity. The application of the resolution also involved updating the name of the Group Continuity Plan Manager and assigning operations in this area to the Processes, Internal Regulations and Business Continuity Office. During the 2020 financial year, the Cassa Centrale Group will update the following documents:

- the Business Continuity Management Policies and Strategies;
- the Operational Continuity Plan of Cassa Centrale Banca;
- the Disaster Recovery Plan;
- the documentation on Continuity for the affiliated Banks and Group Companies.

This updating activity was launched in February 2020 with the approval by the Board of Directors of the Group Regulation on Business Continuity and Crisis Management. In addition, the competent offices of Cassa Centrale Banca have updated the "Business Impact Analysis", a preparatory activity for the implementation of the Continuity Plan of Cassa Centrale Banca.

Organisational, management and control model for crime prevention pursuant to italian Legislative Decree no. 231/2001

Legislative Decree no. 231/2001 (Legislative Decree no. 231 of 8 June 2001, containing the "Regulations governing the administrative liability of legal persons, companies and associations, including those without legal personality, pursuant to Article 11 of Law no. 300 of 29 September 2000"), and subsequent amendments and additions, aimed to bring Italian legislation on the liability of entities into line with the provisions of certain international conventions ratified by Italy.

In particular, with the entry into force of Legislative Decree no. 231/2001 (hereinafter also "Model 231", "Model" or the "Decree") a form of administrative liability for entities, such as companies, associations and consortia, deriving from the commission, or attempted commission of certain crimes, expressly referred to in Legislative Decree no. 231/2001, by top management or other employees and collaborators, in the interest or to the benefit of the entity, was also introduced in Italy.

The company shall not be liable, however, if the aforementioned parties have acted in their own exclusive interest or in the interest of third parties.

In any case, the administrative liability of entities is independent of the criminal liability of the natural person who committed the offence.

The offences for which the administrative liability of entities is configurable, with specific indication of the applicable sanctions, are listed in Section III of Legislative Decree no. 231/2001. At the date of writing of this report the categories of offences referred to are:

- undue receipt of payments, fraud to the detriment of the State or a public body or for obtaining public funds and computer fraud to the detriment of the State or a public body;
- cyber crimes and unlawful data processing;
- extortion, undue induction to provide or promise utilities and bribery;
- forgery of coins, public credit cards, revenue stamps and identification instruments or signs;
- crimes against industry and commerce;
- corporate crime;
- crimes for the purposes of terrorism or subversion of the democratic order;
- female genital mutilation practices;
- crimes against the individual personality;
- market abuses;
- transnational crime;
- negligent homicide or serious or very serious injury committed in violation of occupational health and safety regulations;
- receipt of stolen goods, money laundering and use of money, goods or benefits of unlawful origin as well as self-laundering;
- copyright infringement offences;
- inducement to not make statements or to make false statements to the judicial authorities;
- environmental crime;
- employment of illegal third-country nationals;
- racism and xenophobia;
- offences relating to fraud in sports competitions, illegal gambling or betting and gambling by means of prohibited apparatus;
- tax crimes.

Legislative Decree no. 231/2001 provides for forms of exemption from the administrative liability of entities. In particular, the Decree establishes that, in the event of a crime committed by a top management party, the entity is not liable if it proves that:

- the management body has adopted and effectively implemented, prior to the commission of the offence, organisational and management models suitable for preventing offences of the type that occurred;
- the task of supervising the functioning and observance of the models and their updating has been entrusted to a corporate body with autonomous powers of initiative and control;
- individuals have committed the offence by fraudulently circumventing organisational and management models;

- there has been no lack of or insufficient supervision by the body responsible.

Therefore, in the case of a crime committed by top management, there is a presumption of liability on the part of the entity due to the fact that such parties express and represent the policy and, therefore, the will of the entity itself: this presumption, however, can be overcome if the entity can demonstrate the existence of the four conditions indicated above.

In this case, although there is personal responsibility on the part of the top management, the entity is not liable under Legislative Decree no. 231/2001.

In the same way, the administrative liability of the entity also exists for offences committed by subordinates, if their action was made possible by failure to comply with management or supervisory obligations. In any case, failure to comply with these management or supervisory obligations is excluded if the company demonstrates that it has adopted and effectively implemented, prior to the commission of the offence, an organisational and management model suitable for preventing offences of the type that has occurred.

The Model must meet the following requirements:

- identification of the activities within the scope of which there is the potential that offences provided for in the decree may be committed;
- provision of specific protocols aimed at planning the formation and implementation of the company's decisions in relation to the crimes to be prevented;
- identification of methods of managing financial resources suitable to prevent the commission of such offences;
- provision of information obligations towards the body responsible for supervising the functioning of and compliance with the Model;
- introduction of a disciplinary system suitable to sanction non-compliance with the measures indicated in the Model.

The Parent Company has long since adopted the measures provided for the exemption from administrative liability of entities.

In particular, through the adoption and constant updating of the Model, the Parent Company has proposed pursuing the following main objectives:

- contribution to the internal dissemination of knowledge of the offences provided for in the Decree and of the activities that may lead to their implementation;
- communication within the Bank of the knowledge of activities in the context of which there is a risk of offences being committed and the internal rules adopted by the Bank governing the same activities;
- communication of full awareness that conduct contrary to the law and internal provisions is condemned by the Bank, as, in carrying out its corporate mission, it intends to comply with the principles of legality, fairness, diligence and transparency;
- assurance of an organisation and system of controls appropriate to the activities carried out by the Parent Company and guarantees of the correctness of the behaviour of top management, employees and collaborators.

With the establishment of the Cooperative Banking Group, the Parent Company immediately launched a project to progressively adapt its pre-existing Model 231 in order to guarantee its exemption capacity.

At the same time, it has promoted a project at Group level with the aim, on the one hand, of achieving the adoption of a Model 231 by the affiliated Banks and the other Group Companies that previously lacked it and, on the other, of adapting the existing Models 231 of the affiliated Banks and the other companies already equipped with them, in order to bring them into line with the approach adopted at Group level.

The maintenance and updating project was launched during 2018 with the objective of:

- providing the Parent Company, the affiliated Banks and other Group Companies with an updated reference framework in line with changes in the regulatory context;
- developing and making tools available for the conduct of risk assessment activities and the formats required to implement Model 231;
- identifying shared solutions regarding the possible composition and operating methods of the Supervisory Body.

Within the project, therefore, both the legal and organisational profiles of the contents of Legislative Decree no. 231/2001 were analysed, by developing

methodological insights and operational support, to guide the Parent Company, the affiliated Banks and other Group Companies in analysing their own business situation and deciding on the action to be taken.

As far as the Parent Company is concerned, at the end of the 2019 financial year the updating and adjustment project was being finalised, to be completed and submitted to the Board of Directors for approval in the first months of the 2020 financial year.

At Group level, during 2019 the project, conducted with the support of an external consultant with specific experience in the cooperative credit sector, was developed through appropriate presentation, illustration, comparison and support to the affiliated Banks with regard to the various project phases, both for banks without the Organisational Model 231 and for those interested in updating the same.

At the same time, a specific training activity was carried out, aimed at ensuring a widespread and updated knowledge of the subject, including that addressed to the members of the Supervisory Bodies established or being established: an online course was made available in four modules, with a final self-test, and a further 5 training meetings for the members of the Supervisory Bodies.

Reference documents for the alignment of the Models have also been made available to all the affiliated Banks concerned, and in particular:

- the SB Regulations;
- the Organisational and Management Model 231 and special section;
- the Code of Ethics;
- the flow Regulation;
- the Database Assessment;
- the Crime Legend updated;
- the draft minutes of the first meeting of the Supervisory Body.

The majority of the affiliated Banks of the Group adopted the organisational model by the end of 2019 (51 had a model that was in line with the Parent Company's instructions; 15 had a model, but not yet aligned; 14 were still lacking).

Adoption for all the affiliated Banks, with the associated activation of the Supervisory Body, is expected to take place within the first months of the 2020 financial year.

As regards the other Group Companies, those operating in the insurance sector have an updated organisational model or are in the process of being updated; the organisational model of the company operating in the leasing sector is updated to 2019; companies with limited operations do not currently have the Model; lastly, as regards companies operating in the IT services sector, following the corporate integration operation that took place in 2019, the project to define the organisational model 231 will be launched from 2020, with several companies involved in the operation having already adopted it some time ago.

Country-by-country reporting

The "Country-by country" reporting as provided for by Art. 89 of Directive 2013/36/EU of the European Parliament and of the Council (the so-called CRD IV), is published on the Bank's website www.cassacentrale.it.

Consolidated non-financial statement

The Cassa Centrale Group prepares the Consolidated non-financial statement pursuant to Art. 5, paragraph 3 of Legislative Decree no. 254/2016 in a separate document published on the Cassa Centrale Banca website at www.cassacentrale.it in the "Investors" section.

Significant events occurred after the end of the financial year

Please note that after 31 December 2019 and up to the date of approval of these financial statements, no events occurred in the company that had a material impact on the statement of financial position and income statement results reported.

The main events that occurred after the end of the year are shown below.

Spread of the "Covid-19" Coronavirus

The element of greatest impact, also with longer term implications, which characterised the first part of 2020 is represented by the Coronavirus health emergency (hereinafter also "Covid-19" or "Virus"). As is well known, this epidemic currently represents a threat to public health with economic impacts resulting from the suspension of certain economic activities in the areas most affected by the Virus that cannot be definitively and reliably estimated.

In the face of the pandemic, several legislative measures were implemented in Italy containing, first and foremost, measures to contain the epidemic (Law Decree no. 6 on "Urgent measures for the containment and management of the Covid-19 epidemiological emergency"), which led to the suspension of several important economic activities and support for the national economy (Law Decree no. 18 of 17 March 2020, also known as the "Cura Italia Decree"). Among the measures issued by the Italian government, of particular note are: measures to support liquidity through the banking system and the possibility of transforming deferred tax assets into tax credits under certain conditions.

With reference to the issue of moratoriums for the Coronavirus emergency, the Cassa Centrale Group has promptly implemented all actions to encourage the granting of benefits to its customers. These benefits include the following interventions:

- measures made available at the Group's discretion as early as the beginning of March 2020;
- unitary adhesion of the Group to the Addendum to the 2019 Credit Agreement promoted by ABI;
- Law Decree no. 18 of 17 March 2020.

The above benefits mainly consist in the suspension of the loan for a variable duration, depending on the type of intervention, the principal or interest or both, the postponement of the maturity of the loan and the non-revocability of certain exposures.

In addition to the initiatives coordinated by the Parent Company, there have been specific loans proposed by many Group Banks, with dedicated ceilings on preferential terms, direct donations, fundraising activities and other initiatives, generating a number of interventions that represent the Group's contribution to the needs that have arisen in the area.

In response to circumstances of an exceptional macroeconomic nature and volatility in the financial markets, the Cassa Centrale Group promptly and proactively updated its portfolio management strategy for the Group's financial instruments in order to support its contribution to the interest margin, through greater use of TLTRO-III auctions, greater diversification of its debt securities portfolio and an increase in the proportion of financial assets allocated to the Hold to Collect business model.

In view of the above, the Group is monitoring the phenomenon in order to modulate and, if necessary, supplement these support measures on the basis of specific needs and is searching for the most appropriate solution so that the difficult situation may be overcome.

Interruption of the start of the Comprehensive Assessment

In the course of 2019, the European Central Bank announced that, together with the national authorities responsible for banking supervision, it would carry out an in-depth assessment (so-called Comprehensive Assessment) under the Regulation on the Single Supervisory Mechanism (Council Regulation (EU) no. 1024 of 15 October 2013). This assessment consists mainly of the following elements:

- an Asset Quality Review (hereinafter also referred to as AQR) aimed at improving the transparency of bank exposures through an analysis of the quality of banks' assets, including the adequacy of both the valuation of assets and guarantees and the related provisions;
- a stress test to check bank financial statements in adverse scenarios.

Since 2018, the Parent Company, in agreement with its affiliated Banks, has carried out a series of preparatory activities for Comprehensive Assessment, strengthening data quality processes and implementing control tools useful for monitoring and overseeing both the Asset Quality Review process and the Stress Test of the European Banking Authority ("EBA").

The objectives of the AQR generally include:

- the assessment of the classification and adequacy of provisions for credit exposures;
- the determination of the appropriate valuation of guarantees for credit exposures;
- the analysis of the valuation of complex instruments and high risk assets in bank financial statements.

On the basis of the AQR exercise, the EBA, in close cooperation with the ECB, will conduct a stress test to assess the robustness of the regulatory capital in the event of possible stress situations, which may be due to certain restrictive conditions. Should the stress tests, also taking into account the results of the AQR, show that the Group does not meet the capitalisation parameters set by the EBA, the Supervisory Authority may request the adoption of measures to fill the capital deficits identified.

This exercise should have taken place from the second quarter of 2020, but following the health emergency caused by the spread of the Coronavirus, all activities were temporarily halted at a date to be defined.

CARIGE transaction

On 16 January 2020 the financial holding company Malacalza Investimenti S.r.l. (hereinafter also "Malacalza Investimenti") brought a civil action against Carige, the Interbank Deposit Protection Fund, the Voluntary Intervention Scheme and Cassa Centrale Banca, contesting the validity of the resolution to increase the share capital by EUR 700 million approved by the shareholders of Banca Carige at the Shareholders' Meeting held on 20 September 2019 and submitting a claim for damages of over EUR 480 million.

The reasons for the disputed invalidity of the shareholders' resolution consist essentially in the alleged illegitimate exclusion of option rights, failure to comply with the principle of accounting parity and a determination of the issue price of the new shares that does not comply with the criteria set out in the company's regulations.

Compensation for damages is claimed because of the allegedly hyperdilutive nature of the resolution (with a reduction of Malacalza Investimenti's shareholding from 27.555% to 2.016%), as the cancellation of the shareholders' resolution can no longer be requested since it was already carried out with the subscription of the capital increase (as a result of which, Cassa Centrale Banca acquired an 8.34% shareholding).

The first appearance hearing, originally scheduled for 19 May 2020, has been postponed due to the health emergency.

The same defendants, including Cassa Centrale Banca, were then sued in two further disputes by the shareholder Vittorio Malacalza and 42 other shareholders of Carige, with a claim for compensation totalling a further EUR 11.4 million, plus revaluation and interest.

The assumptions and the arguments underlying the claims for damages are essentially the same as those put forward by Malacalza Investimenti.

For these two further cases, the first hearings were set for 5 May 2020 and 6 May 2020 respectively, but they have also been postponed to a later date. As a result of the assessments carried out with the support of solicitors, Cassa Centrale Banca, considering the risk of losing the case, decided not to make provisions for risks and charges.

We also draw your attention to the fact that on 31 January 2020 the

Ordinary Shareholders' Meeting of Carige, appointed the new Board of Directors, composed of 10 members, as well as its Chairperson and Deputy Chairperson, for the three-year period 2020 - 2022, expiring at the Shareholders' Meeting called to approve the financial statements as at 31 December 2022. From the list presented by Cassa Centrale Banca, as minority shareholder and in accordance with the provisions of the TUF and Carige's Articles of Association, Leopoldo Scarpa was appointed as director.

The Shareholders' Meeting also appointed the Board of Statutory Auditors for the three-year period 2020 - 2022 with Alberto Giussani as Chairperson of the Board of Statutory Auditors and Vincenzo Miceli as Alternate Auditor elected from the minority list submitted by Cassa Centrale Banca.

All of the aforementioned Officers and Directors have declared that they meet the independence requirements set forth in Article 148, paragraph 3, of Legislative Decree no. 58/1998 and the Corporate Governance Code for Listed Companies, as well as the other requirements of the applicable regulations for assuming the position of director and statutory auditor of a bank classified by the European Central Bank as significant.

Rating

On 23 January last, the rating agency Moody's granted Cassa Centrale Banca, the Parent Company of the Cooperative Banking Group, an outlook equal to stable in the long and short term, and a rating equal to Ba1, following developments linked to the Group's operational start-up and to the new role of Parent Company of the 80 affiliated Banks.

Following the deterioration of the economic environment resulting from the spread of Covid-19, Moody's put the ratings or assessments of certain credit institutions, including Cassa Centrale Banca, under review.

Business outlook

In a global macroeconomic scenario that presents uncertain prospects also conditioned by the risks associated with geopolitical tensions, the tariff disputes initiated by the U.S. administration and the slowdown in economic activity in a number of major countries in the euro zone, the dramatic spread of the Covid-19 epidemic, starting from China, became apparent in the first quarter of 2020. The explosion of the Virus and its rapid spread, resulting in its status as a pandemic, have generated significant impacts from a health, social, economic and financial aspect, for vast areas of the world.

In order to stem its spread and contain the health emergency, the governments of the countries affected, starting with China, have implemented restrictive measures such as restricting the movement of people, closing shops and suspending production or certain production chains, causing immediate collateral damage to global supply chains, a drop in consumption and a collapse in confidence. In order to contain the effects of these dynamics, the authorities have intervened with economic stimulus plans that include expansionary fiscal and monetary policy measures and regulatory loosening. The effects of these manoeuvres have generated high uncertainty on the outlook for the global economy with a scenario for 2020 expected to be recessive.

The Virus has also spread very rapidly in Europe and the deterioration of the economic situation, also due to policies employed to contain the contagion, is pushing the economies of the area into a state of deep recession, forcing the authorities to find strong, coordinated, timely and innovative solutions to face the emergency and relaunch economic growth. In this sense, a discussion is underway among government authorities on the advisability of introducing forms of Community support for fiscal interventions aimed at sustaining families and businesses in difficulty.

Italy, one of the first countries in Europe to be affected by the development of the contagion, has adopted progressive and severe social distancing measures to contain the health emergency, both in terms of territorial extension, starting from the northern regions, and in terms of production blocks that mainly affect the tourism chain, the macro-sectors transport and logistics, distribution and in general non-essential service and manufacturing activities. The Government, within limits deriving from public finance balances and in order to mitigate a predicted severely recessionary dynamic, has intervened with measures to support the loss of household income, to prevent liquidity crises in businesses and to mitigate the reduction in consumption and investments.

As a result of this epidemic, the banking sector is also facing a complicated situation, having to manage the repercussions of the expected effects of the recessionary scenario. In this context, the measures announced by the European authorities together with the measures provided for in the so-called "Cura Italia Decree" will help to contain the recessionary effects, limit the credit contraction and, at least initially, reduce the growth of impaired exposures by containing the increase in the cost of risk.

Impaired credit reduction strategies aimed at a progressive improvement in asset quality will remain an option pursued by the banking industry, but will essentially have to take into account the changed economic environment and its impact on banks' profitability. Bank lending and borrowing interest rates are expected to remain stable, confirming a substantially flat trend in the overall banking spread. The growth of the interest margin is limited by the contraction of credit and unit margins contracted due to competition in the segments with the highest creditworthiness.

A positive contribution will come from the containment of funding costs related to the new T-LTRO auctions and the recent announcements on the monetary policy front, although the scope for reducing overall funding costs will be limited by the minimum level already achieved by deposit interest rates. The high uncertainty surrounding the duration of the pandemic, the expected worsening of the global economic situation and the tensions in financial markets will tend to accentuate demand for low-risk forms of investment in 2020. Households' greater risk aversion could slow down investment of liquidity in asset management instruments, thus resulting in a lower contribution from these instruments as a percentage of total revenues.

A lower contribution to profitability will also come from payment and liquidity management services, also due to the operating blocks of households and businesses, the increased competitive pressure, especially from non-bank operators, and the digital transformation process. Within a context of weakness in traditional banking activity, improving operating efficiency, cost reduction and new business strategies are confirmed as the main levers for the recovery of profitability in the sector.

The current health crisis situation will also have an impact on the operations of the Cassa Centrale Group, given that the activities of the affiliated Banks are mainly focused on traditional lending to households and small and medium-sized businesses in the areas where they are located. The operating plan of the Cooperative Banking Group for the year 2020 was defined and approved before the onset of the current crisis and forecast a positive development of credit volumes together with a strong growth in indirect funding.

It is clear that the sudden change in the operating environment means that the guidelines defined only a few months ago have to be considered outdated.

In this new economic and social context, the Group will focus its attention on the one hand on strongly supporting the economic fabric of the reference territories, which are facing a crisis never experienced in the past, and on the other on overseeing the overall risk profile. The dynamics of customer funding will also be affected by the contingent situation, but it is possible that the solvency standards of the Cassa Centrale Group, among the highest in the entire European banking system, may represent a safe haven for shareholders and depositing customers at a time of great uncertainty.

For this reason, there could be a further increase in direct funding, which would increase the already high liquidity ratio that the Group enjoys today. For the same reasons, it is possible that the flow of direct funding to asset management may slow down due to the uncertainty that arose on the financial markets during the first quarter. In 2020, activities related to the Group's organisational and operational structure will continue, also considering that the new context will require further investments in technology and human capital.

Given the sudden development of the external scenario, resulting from the current emergency and the possible economic repercussions, the Group is monitoring the situation in order to promptly identify potential impacts on the 2020 financial year.

Independent Auditors' Report on the Financial Statements of the Cassa Centrale Group

KPMG S.p.A.
Revisione e organizzazione contabile
Via Pancaldo, 70
37138 VERONA VR
Telefono +39 045 8115111
Email it-fmauditaly@kpmg.it
PEC kpmgspa@pec.kpmg.it

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

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

To the shareholders of
Cassa Centrale Banca - Credito Cooperativo Italiano S.p.A.

Report on the audit of the consolidated financial statements

Opinion

We have audited the first consolidated financial statements of the new Cassa Centrale Banca Credito Cooperativo Italiano Cooperative Banking Group (the "group"), which comprise the statement of financial position as at 31 December 2019, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year from 1 January 2019 (when the group was set up) to 31 December 2019 and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Cassa Centrale Banca Credito Cooperativo Italiano Cooperative Banking Group as at 31 December 2019 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 43 of Legislative decree no. 136/15.

Basis for opinion

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

Key audit matters

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

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

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

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

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

Notes to the consolidated financial statements "Part E - Information on risks and related hedging policies": paragraph 1.1 "Credit risk"

Key audit matter	Audit procedures addressing the key audit matter
Lending to customers is one of the group's core activities. Loans and receivables with customers recognised under financial assets at amortised cost, totalled €59,393 million at 31 December 2019, accounting for 81.6% of total assets. Net impairment losses on loans and receivables with customers recognised in profit or loss during the year totalled €317 million. For classification purposes, the directors make analyses that are sometimes complex in order to identify those positions that show evidence of impairment after disbursement. To this end, they consider both internal information about the performance of exposures and external information about the reference sector or the borrowers' overall exposure to banks. Measuring loans and receivables with customers is a complex activity, with a high degree of uncertainty and subjectivity, with respect to which the directors apply internal valuation models that consider many quantitative and qualitative factors, including historical collection flows, expected cash	Our audit procedures included: — gaining understanding of the parent's and group companies' processes and IT environments in relation to the disbursement, monitoring, classification and measurement of loans and receivables with customers; — assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls, especially in relation to the identification of exposures with indicators of impairment and the calculation of impairment losses; — analysing the classification criteria used for allocating loans and receivables with customers to the IFRS 9 categories (staging); — analysing the individual and collective impairment assessment policies and models used and checking the reasonableness of the main assumptions and variables included therein; we carried out these procedures with the assistance of experts of the KPMG network;

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

Classification and measurement of financial assets and liabilities at fair value

Notes to the consolidated financial statements "Part A – Accounting policies": paragraphs A.2.1 "Financial assets at fair value through profit or loss", A.2.2 "Financial assets at fair value through other comprehensive income", A.2.4 "Hedging transactions", A.2.13 "Financial liabilities held for trading", A.2.14 "Financial liabilities at fair value" and A.4 "Information on fair value"

Notes to the consolidated financial statements - "Part B - Information on the statement of financial position - Assets": sections 2 "Financial assets at fair value through profit or loss ", 3 "Financial assets at fair value through other comprehensive income " and 5 "Hedging derivatives"

Notes to the consolidated financial statements - "Part B - Information on the statement of financial position - Liabilities": sections 2 "Financial liabilities held for trading", 3 "Financial liabilities designated at fair value" and 4 "Hedging derivatives"

Notes to the consolidated financial statements "Part C - Information on the income statement": sections 4 "Net trading income (loss)", 5 "Net hedging income (loss)" and 7 "Net gains (losses) on other financial assets and liabilities at fair value through profit or loss"

Notes to the consolidated financial statements "Part E - Information on risks and related hedging policies": paragraphs 1.2 "Market risks" and 1.3 "Derivatives and hedging policies"

Key audit matter	Audit procedures addressing the key audit matter
Trading in and holding financial instruments are one of the parent's and group companies' core activities. The consolidated financial statements at 31 December 2019 include financial assets and financial liabilities at fair value totalling €8,153 million and €101 million, respectively. A portion thereof, equal to roughly €832 million and €101 million, respectively, is made up of financial assets and liabilities at fair value without a quoted price on an active market. The parent's and group companies' directors have classified them in levels 2 and 3 of the fair value hierarchy. As part of our audit, we paid particular attention to the financial instruments with fair value levels 2 and 3, as their classification and, above all, their measurement require a high level of judgement, given their special complexity.	Our audit procedures included: — gaining an understanding of the parent's and group companies' processes and IT environments in relation to the trading, classification and measurement of financial instruments; — assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls, especially in relation to the classification and measurement of financial instruments with fair value levels 2 and 3. We carried out these procedures also through discussions with experts of the KPMG network; — checking, on a sample basis, that the financial instruments had been correctly classified on the basis of their fair value level; — for a sample of financial instruments with fair value levels 2 and 3, assessing the reasonableness of the main parameters used by the directors for their measurement. We carried out this procedure also through discussions with experts of the KPMG network; — analysing the changes in the composition of the financial instrument portfolios compared to the previous year end and discussing the results with the relevant internal departments; — assessing the appropriateness of the disclosures about financial instruments and related fair value levels in the consolidated financial statements.

First-time adoption of IFRS 16

Notes to the consolidated financial statements "Part A - Accounting policies": paragraphs A.1.5 "Other matters" and A.2.6 "Property, equipment and investment property"

Notes to the consolidated financial statements "Part B - Information on the statement of financial position - Assets": section 9 "Property, equipment and investment property"

Notes to the consolidated financial statements "Part B - Information on the statement of financial position - Liabilities": section 1 "Financial liabilities at amortised cost"

Notes to the consolidated financial statements "Part M - Leases"

Key audit matter	Audit procedures addressing the key audit matter
The group adopted IFRS 16 "Leases" as of 1 January 2019. As a first-time adopter, the group opted to apply IFRS 16 using the modified retrospective approach and applied certain practical expedients provided for by the standard. As disclosed in the notes to the consolidated financial statements, following the first-time adoption of the new standard on 1 January 2019, the group recognised right-of-use assets of €140 million. The transition to IFRS 16 required complex valuations and the use of estimates which, by their very nature, are subjective, about: — the assessment of whether a contract is, or contains, a lease; — the determination of the lease term, considering the non-cancellable period and any options to extend or terminate the lease; — the initial measurement of the lease liability at the present value of lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or the incremental borrowing rate; — the determination of the useful life of the right-of-use assets for depreciation purposes and whether they need to be tested for impairment in accordance with IAS 36; — the recognition of any lease modifications that occurred during the year; — the remeasurement of the lease liability in the cases required by the standard other than lease modifications. Considering the complexity and subjectivity of the above valuations, the first-time adoption of IFRS 16 was a key audit matter.	Our audit procedures included: — assessing the appropriateness of the accounting treatments applied on the basis of the requirements of IFRS 16, including the options and practical expedients available for its first-time adoption; — understanding the internal process for the transition to the new standard and assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls; — for a sample of contracts that are or contain a lease: - assessing the appropriateness of the lease term determination; - checking the calculation of the lease payments; - analysing the reasonableness of the rate used to discount the lease payments to present value; - checking the right of use assets' useful lives applied for depreciation/amortisation purposes; - assessing management's identification of the events that require the remeasurement of the lease liabilities and, if any, recalculating them; — assessing the appropriateness of the disclosures provided in the notes about the first-time adoption of IFRS 16.

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

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

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

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

Auditors' responsibilities for the audit of the consolidated financial statements

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

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

We also:

— identify and assess the risks of material misstatement of the consolidated 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 group's internal control;

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

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

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

— obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

On 22 May 2010, the parent's shareholders appointed us to perform the statutory audit of its consolidated financial statements as at and for the years ending from 31 December 2010 to 31 December 2018. With its resolution no. 20934 of 14 May 2019, Consob (the Italian Commission for listed companies and the stock exchange) approved the parent's request for extending the term of the statutory audit engagement to the years ending 31 December 2019 and 2020. The parent's shareholders approved the extension at their meeting of 28 May 2019.

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

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

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10

The parent's directors are responsible for the preparation of the group's directors' report at 31 December 2019 and for the consistency of such report with the related consolidated financial statements and its compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report with the group's consolidated financial statements at 31 December 2019 and its compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report is consistent with the group's consolidated financial statements at 31 December 2019 and has been prepared in compliance with the applicable law.

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

Statement pursuant to article 4 of the Consob regulation implementing Legislative decree no. 254 of 30 December 2016

The directors of Cassa Centrale Banca - Credito Cooperativo Italiano S.p.A. are responsible for the preparation of a non-financial statement pursuant to Legislative decree no. 254 of 30 December 2016.

We have checked that the directors had approved such non-financial statement.

In accordance with article 3.10 of Legislative decree no. 254 of 30 December 2016, we attested the compliance of the non-financial statement separately.

Verona, 5 June 2020

KPMG S.p.A.

(signed on the original)

Bruno Verona
Director of Audit

Consolidated financial statements of the Cassa Centrale Group

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated statement of financial position

	ASSET ITEMS	31/12/2019
10.	Cash and cash equivalents	555
20.	Financial assets measured at fair value through profit or loss	602
	a) financial assets held for trading	7
	b) financial assets measured at fair value	2
	c) other financial assets obligatorily measured at fair value	593
30.	Financial assets measured at fair value through other comprehensive income	7,548
40.	Financial assets measured at amortised cost	60,932
	a) loans to banks	1,539
	b) loans to customers	59,393
50.	Hedging derivatives	3
60.	Adjustment of the financial assets subject to macro-hedging (+/-)	31
70.	Equity investments	89
90.	Tangible assets	1,272
100.	Intangible assets	81
	of which:	
	- goodwill	28
110.	Tax assets	872
	a) current	140
	b) deferred	732
120.	Non-current assets and groups of assets held for disposal	9
130.	Other assets	811
	Total assets	**72,805**

	LIABILITIES AND EQUITY ITEMS	31/12/2019
10.	Financial liabilities measured at amortised cost	64,143
	a) due to banks	7,474
	b) due to customers	50,055
	c) debt securities in issue	6,614
20.	Financial liabilities held for trading	7
30.	Financial liabilities measured at fair value	51
40.	Hedging derivatives	43
60.	Tax liabilities	80
	a) current	23
	b) deferred	57
80.	Other liabilities	1,611
90.	Provision for severance indemnity	137
100.	Provisions for risks and charges	249
	a) commitments and guarantees issued	102
	b) retirement and similar obligations	-
	c) other provisions for risks and charges	147
120.	Valuation reserves	55
140.	Equity instruments	6
150.	Reserves	5,716
160.	Share premium	75
170.	Share capital	1,276
180.	Own shares (-)	(869)
190.	Third party minority interests (+/-)	4
200.	Profit (loss) for the year (+/-)	221
	TOTAL LIABILITIES AND EQUITY	**72,805**

Consolidated income statement

	ITEMS	31/12/2019
10.	Interest income and similar revenues	1,417
	of which: interest income calculated with the effective interest method	1,324
20.	Interest expenses and similar charges paid	(238)
30.	**Interest margin**	**1,179**
40.	Commission income	737
50.	Commission expenses	(93)
60.	**Net commissions**	**644**
70.	Dividend and similar income	3
80.	Net result from trading	14
90.	Net result from hedging activities	(2)
100.	Profit (loss) from disposal/repurchase of:	146
	a) financial assets measured at amortised cost	90
	b) financial assets measured at fair value through other comprehensive income	56
	c) financial liabilities	-
110.	Net result of other financial assets and liabilities measured at fair value through profit or loss	19
	a) financial assets and liabilities measured at fair value	1
	b) other financial assets obligatorily measured at fair value	18
120.	**Net interest and other banking income**	**2,003**
130.	Net value adjustments/write-backs due to credit risk relative to:	(310)
	a) financial assets measured at amortised cost	(319)
	b) financial assets measured at fair value through other comprehensive income	9
140.	Profits/losses from contractual changes without derecognitions	(3)
150.	**Net income from financial activities**	**1,690**
180.	**Net income from financial and insurance activities**	**1,690**
190.	Administrative expenses:	(1,454)
	a) personnel costs	(849)
	b) other administrative expenses	(605)

	ITEMS	31/12/2019
200.	Net allocations to provisions for risks and charges	(20)
	a) commitments and guarantees issued	(7)
	b) other net allocations	(13)
210.	Net value adjustments/write-backs to tangible assets	(110)
220.	Net value adjustments/write-backs to intangible assets	(11)
230.	Other operating charges/income	222
240.	**Operating costs**	**(1,373)**
250.	Profits (losses) on equity investments	(4)
260.	Net result of fair value measurement of tangible and intangible assets	(1)
270.	Value adjustments to goodwill	(27)
290.	**Profit (loss) before tax from current operating activities**	**285**
300.	Income taxes for the year on current operating activities	(60)
310.	**Profit (loss) after tax from current operating activities**	**225**
330.	**Profit (loss) for the year**	**225**
340.	Profit (loss) for the year for minority interests	(4)
350.	**Profit (loss) for the parent company**	**221**

Statement of consolidated comprehensive income

	ITEMS	31/12/2019
10.	**Profit (loss) for the year**	**225**
	Other post-tax components of income without reversal to the income statement	**11**
20.	Equities measured at fair value through other comprehensive income	18
30.	Financial liabilities measured at fair value through profit or loss (changes in credit rating)	-
40.	Hedging of equities measured at fair value through other comprehensive income	-
50.	Tangible assets	-
60.	Intangible assets	-
70.	Defined benefit plans	(7)
80.	Non-current assets and groups of assets held for disposal	-
90.	Quotas of valuation reserves relative to shareholdings measured with the equity method	-
	Other post-tax components of income with reversal to the income statement	**2**
100.	Hedging of foreign investments	-
110.	Exchange rate differences	-
120.	Cash flow hedging	-
130.	Hedging instruments (non designated elements)	-
140.	Financial assets (other than equities) measured at fair value through other comprehensive income	2
150.	Non-current assets and groups of assets held for disposal	-
160.	Quotas of valuation reserves relative to shareholdings measured with the equity method	-
170.	**Total other post-tax components of income**	**13**
180.	**Comprehensive income (Item 10+170)**	**238**
190.	**Consolidated comprehensive income pertaining to minority interests**	**2**
200.	**Consolidated comprehensive income pertaining to the parent company**	**236**

Statement of changes in consolidated equity

				Allocation of result from previous year		Changes during the year										
							Equity transactions									
	Balances as at 31/12/18	Adjustment to opening balances	Balances as at 01/01/19	Reserves	Dividends and other allocations	Changes to reserves	Issue of new shares	Purchase of own shares	Distribution of extraordinary dividends	Change in equity instrument	Derivatives on own shares	Stock Options	Changes in equity investment	2019 Comprehensive income	Group equity at 31/12/19	Equity pertaining to minority interests at 31/12/19
Share capital:																
a) ordinary shares	-	X	1,263	-	X	X	-	(2)	X	X	X	X	-	X	1,261	1
b) other shares	-	X	15	-	X	X	-	-	X	X	X	X	-	X	15	-
Share premium	-	X	75	-	X	-	-	-	X	X	X	X	-	X	75	-
Reserves:																
a) of profit	-	-	5,467	253	X	(16)	-	-	-	X	X	X	-	X	5,704	(1)
b) other	-	-	11	-	X	1	-	X	-	X	-	-	-	X	12	-
Valuation reserves	-	-	40	X	X	-	X	X	X	X	X	X	-	15	55	-
Equity instruments	-	X	6	X	X	X	X	X	X	-	X	X	-	X	6	-
Own shares	-	X	(874)	X	X	X	-	5	X	X	X	X	X	X	(869)	-
Profit (loss) for the year	-	-	281	(253)	(28)	X	X	X	X	X	X	X	X	221	221	4
Group equity	**-**	**-**	**6,284**	**-**	**(28)**	**(15)**	**-**	**3**	**-**	**-**	**-**	**-**	**-**	**236**	**6,480**	**-**
Equity pertaining to minority interests	**-**	**-**	**30**	**-**	**-**	**(28)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2**	**-**	**4**

The column "Balances as at 01/01/19" includes the equity contributions for the entire scope of consolidation of the Cassa Centrale Group at the date of its incorporation.

Consolidated cash flow statement

Indirect method

	Amount 31/12/2019
A. OPERATING ACTIVITIES	
1. Operations	**755**
- income for the period (+/-)	225
- gains/losses on financial assets held for trading and other assets/liabilities measured at fair value through profit or loss (-/+)	-
- gains/losses on hedging activities (-/+)	2
- net value adjustments/write-backs due to credit risk (+/-)	328
- net value adjustments/write-backs to tangible and intangible assets (+/-)	121
- net allocations to provisions for risks and charges and other costs/revenues (+/-)	20
- uncollected net premiums (-)	-
- other uncollected insurance revenue/charges (-/+)	-
- taxes, duties and tax credits not settled (+/-)	59
- net value adjustments/write-backs from discontinued operations net of tax (-/+)	-
- other adjustments (+/-)	-
2. Cash flows generated/used by the financial assets	**281**
- financial assets held for trading	(185)
- financial assets measured at fair value	-
- other financial assets obligatorily measured at fair value	(80)
- financial assets measured at fair value through other comprehensive income	(2,285)
- financial assets measured at amortised cost	3,344
- other assets	(513)
3. Cash flows generated/used by the financial liabilities	**(334)**
- financial liabilities measured at amortised cost	796
- financial liabilities held for trading	(8)
- financial liabilities measured at fair value	(33)
- other liabilities	(1,089)
Net cash flow generated/used by operating activities	**702**
B. INVESTMENT ACTIVITIES	
1. Cash flows generated by	**20**
- sales of equity investments	3
- dividends collected on equity investments	3
- sales of tangible assets	14
- sales of intangible assets	-
- sales of business units	-
2. Cash flows used by	**(135)**
- equity investment acquisitions	(50)
- tangible asset acquisitions	(66)
- intangible asset acquisitions	(19)
- purchases of subsidiaries and business units	-
Net cash flow generated/used by investment activities	**(115)**
C. FUNDING ACTIVITIES	
- issues/purchases of own shares	-
- issues/purchases of equity instruments	(4)
- dividend distribution and other	(28)
- sale/purchase of third parties' controlling interests	-
Net cash flow generated/used by funding activities	**(32)**
NET CASH FLOW GENERATED/USED DURING THE YEAR	**555**

KEY:

(+) generated
(–) used

Reconciliation

ITEMS	Amount 31/12/2019
Cash and cash equivalents at the beginning of the year	-
Total net cash flows generated/used during the year	555
Cash and cash equivalents: impact of exchange differences	-
Cash and cash equivalents at year-end	555

Consolidated financial statements of the Cassa Centrale Group

CONSOLIDATED EXPLANATORY NOTES

Part A - Accounting policies

A.1 - General part

Section 1 - Statement of compliance with international accounting standards

Following the issuing of Italian Legislative Decree no. 38/2005, the Cassa Centrale Banca Credito Cooperativo Italiano Cooperative Banking Group (hereinafter also referred to as the "Cassa Centrale Group" or the "Group") is required to prepare the consolidated financial statements according to the international accounting standards IAS/IFRS issued by the International Accounting Standards Board (IASB), as transposed by the European Union. The Bank of Italy defines the formats and rules for the preparation of financial statements in Circular no. 262 of 22 December 2005, including subsequent updates. The sixth update is currently in force, issued on 30 November 2018.

These consolidated financial statements were prepared in compliance with the international accounting standards issued by IASB and endorsed by the European Union according to the procedure per Article 6 of Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002 and in force at the date of this document, including the interpretative documents of the International Financial Reporting Interpretations Committee (IFRIC) and Standing Interpretations Committee (SIC), limited to those applied for the drafting of the consolidated financial statements as at 31 December 2019.

In interpreting and applying the new international accounting standards, reference was also made to the Framework for the Preparation and Presentation of Financial Statements (so-called Conceptual Framework or the Framework), issued by the IASB. In terms of interpretation, also considered were the documents on the application of IAS/IFRS in Italy, prepared by the Italian Accounting Body (OIC) and the Italian Banking Association (ABI).

In the absence of a standard or an interpretation specifically applicable to a particular transaction, the Group uses the professional judgement of its departments in developing accounting recognition rules which make it possible to provide a reliable financial disclosure, necessary for guaranteeing that the financial statements give a true and fair view of the Group's equity and financial position, reflecting the economic substance of the transaction as well as the relevant related aspects.

In formulating these accounting recognition rules, reference was made, as much as possible, to the provisions contained in the international accounting standards and the associated interpretations that address similar cases.

Section 2 - General preparation criteria

The consolidated financial statements are drafted by applying the general principles set out in IAS 1, essentially revised in 2007 and endorsed by the European Commission in December 2008, and specific accounting standards approved by the European Commission, as well as in compliance with the general assumptions set forth in the aforementioned Framework prepared by the IASB for the preparation and presentation of financial statements. No derogations to the application of IAS/IFRS were applied.

The consolidated financial statements consist of the consolidated statement of financial position, the consolidated income Statement, the statement of consolidated comprehensive Income, the statement of changes in consolidated equity, the consolidated cash flow statement, the consolidated explanatory notes, and are accompanied by the Director's report on operations and the situation of the Group.

In addition, IAS 1 'Presentation of financial statements', requires the representation of a 'statement of comprehensive income' also illustrating, among the other income components, the changes in the value of the assets recorded in the period as a contra-entry to equity. In line with the information contained in the aforementioned Bank of Italy Circular no. 262 of 2005 and subsequent updates, the Group chose, as permitted by the accounting standard in question, to use two statements to provide the statement of comprehensive income: a first statement highlighting the traditional components of the income statement and the relevant result for the year, and a second statement that, based on the latter, shows the other components of the statement of consolidated comprehensive income.

In compliance with the provisions of Article 5 of Legislative Decree no. 38/2005, the consolidated financial statements are prepared using the Euro as the accounting currency.

In preparing the consolidated financial statements, the formats and rules of preparation set forth in Bank of Italy Circular no. 262 of 22 December 2005 were used, based on the latest update in force.

The requests sent on 23 December 2019 by the aforementioned Supervisory Body in relation to information on multi-originator sale transactions of credit portfolios, for which reference should be made to the specific section of Part E of these consolidated explanatory notes, have also been considered.

The consolidated statement of financial position and the consolidated income statement comprise items, sub-items and additional detailed information. Items not valued either in the current or the previous year are not reported.

In the consolidated income statement and the related section of the Explanatory Notes, revenues are recorded without sign, while the costs are indicated in brackets. In the statement of consolidated comprehensive income, the negative amounts are stated in brackets.

Furthermore, the complementary information deemed suitable to supplement the financial statements data was provided in the Consolidated Explanatory Notes, including when not specifically required by the legislation.

The consolidated statement of financial position and the consolidated income statement, as well as the statement of consolidated comprehensive income, the statement of changes in consolidated equity, the consolidated cash flow statement and the Consolidate Explanatory Notes have been prepared in millions of euros. Any differences found between the amounts in the Explanatory Notes and the Consolidated Financial Statements are attributable to rounding up.

The consolidated financial statements are drafted according to the going concern basis. In particular, the joint cooperation between the Bank of Italy, Consob and Isvap concerning the application of IAS/IFRS, with document 2 of 6 February 2009 "Information to be provided in the financial reports in relation to going concern, financial risks, the checks on the impairment of the assets and the uncertainties as to the use of estimates", as well as subsequent document 4 of 4 March 2010 "Information to be provided in financial reports in relation to the impairment test, the contractual clauses of the financial payables, debt restructuring and fair value hierarchy", required Directors to perform especially accurate valuations as regards the going concern assumption.

On this point, paragraphs 25-26 of IAS 1 establish that: *'when preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. Financial statements shall be prepared on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, those uncertainties shall be disclosed. When financial statements are not prepared on a going concern basis, that fact shall be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern'.*

The situation of the financial markets and the real economy and the still uncertain forecasts made with reference to the short/medium-term require particularly precise valuations to be performed as regards the going concern assumption, since the results history of the Group and its easy access to financial resources may not be sufficient in the current context. On this point, having examined the risks and uncertainties connected with the current macroeconomic context, it is reasonable to expect that the Group will continue its operations in the foreseeable future. These consolidated financial statements were consequently prepared in the assumption of going concern.

Furthermore, estimation processes are based on past experience and other factors considered reasonable in this case, and were adopted to estimate the carrying amount of assets and liabilities that cannot be easily inferred from other sources. In particular, estimation processes were adopted that support the carrying amount of some of the most important valuation items posted in the accounts, according to reference regulations. These processes are mainly based on estimates of future recoverability of the values in the accounts and were carried out on a going concern basis. The main cases for which subjective evaluations are required to be made by the Board of Directors include:

- the quantification of losses due to the reduction of loan values and, in general, of other financial assets;
- the determination of the fair value of financial instruments;
- the assessment of congruity in the value of goodwill and other intangible assets;
- the measurement of personnel funds and provisions for risks and charges;
- the estimates and assumptions regarding recoverability of deferred tax assets.

The information provided on the accounting policies applied for the main aggregate values of the consolidated financial statements includes the necessary details for identifying the main assumptions and subjective evaluations made in preparing the consolidated financial statements. For further details on the breakdown and relative carrying amounts of the specific statement captions affected by said estimates, see the relevant sections of the Consolidated Explanatory Notes. The processes adopted support the carrying amounts on the date of preparing the consolidated financial statements. The measurement process turned out to be particularly complex in consideration of the persisting uncertainty of the macroeconomic and market context, characterised by the considerable volatility of the financial parameters determined for the measurement as well as indicators of impairment of the credit quality that remain high. These parameters and the information used to check the mentioned values are significantly affected by these factors, which may undergo rapid and unforeseeable changes.

The consolidated financial statements also make reference to the general preparation criteria listed below, where applicable:

- principle of truth and fairness and completeness in the presentation of the statement of financial position, income statement and financial position (true and fair view);
- accrual principle;
- principle of consistent presentation and classification from one year to another (comparability);
- principle of prohibited offsetting of entries, except where expressly permitted;
- principle of prevalence of substance over form;
- principle of prudence in exercising the necessary judgement to make the estimates required in conditions of uncertainty so that the assets or revenues are not overestimated and the liabilities or costs are not underestimated, without this implying the creation of hidden reserves or excessive allocations;
- principle of neutral nature of information;
- principle of relevance/significance of the information.

Section 3 - Scope and methods of consolidation

The consolidated financial statements refer to a scope of consolidation better defined below. In this regard, the provisions of IFRS 10, 11, 12 and IFRS 3 have been taken into account, including in the scope of consolidation - as specifically provided for by IAS/IFRS - including companies operating in sectors of activity different from that of the Parent Company. Similarly, structured companies are also included if their control requirements are met, regardless of their mere shareholding.

In addition, with regard to the consolidation of cooperative banking groups, it should be pointed out that Law no. 145 of 30 December 2018 "State Budget for the 2019 financial year and multi-annual budget for the three-year period 2019-2021" (so-called 2019 Budget Law), in transposing into Italian law Article 2, paragraph 2, letter b) of Directive 86/635/EEC on the treatment of the consolidated accounts of central bodies for the purposes of the consolidated financial statements (so-called central bodies), introduced the obligation to prepare consolidated financial statements to the group consisting of the central body and its affiliates (so-called single consolidating entity). This Community provision had so far not been transposed in our country, given the absence, before the reform of cooperative credit, of central bodies in Italy, which are widespread in other European countries.

Among other things, in the explanatory report to the 2019 Budget Law it is pointed out that the effects of the regulatory change are twofold:

a. *"for the purposes of preparing the consolidated financial statements, the Parent Company and the banks belonging to the cooperative banking group constitute a single consolidating entity";*

b. *"in preparing the consolidated financial statements, the accounting items relating to the Parent Company and the affiliated Banks are recorded on a consistent basis".*

In this regard, it seems reasonable to believe that the Italian legislator, as part of the amendments introduced by the 2019 Budget Law, has taken into account the interpretation provided by the European Commission in 2006 according to which, even in the case of IAS adopters, the obligation to prepare consolidated financial statements must be assessed in accordance with the provisions of the national transposition of European directives.

In light of the interpretation of the European Commission and considering that, as a result of the transposition into Italian law of Article 2, paragraph 2, letter b) of Directive 86/635/EEC, in the case of cooperative banking groups, the entity required to prepare consolidated financial statements (so-called reporting entity) is represented by the aggregation of the central body and the affiliated Banks (so-called single consolidating entity), it is considered that the rules of IFRS 10 Consolidated Financial Statements apply only for the purposes of identifying the scope of consolidation of the reporting entity. That is, only for the purposes of assessing the existence of situations of control between the reporting entities and third parties (e.g. the subsidiaries of the Parent Company or the individual affiliated Banks).

Recognition of the reporting entity nature within the sole consolidating entity also implies that IFRS 3 would apply only to the accounting of business combinations involving the latter and third parties (e.g. in the case of acquisition of new subsidiaries).

The provision of the *Testo Unico Bancario* (Consolidated Banking Act - TUB), according to which the Cohesion Contract ensures the existence of a situation of control as defined by international accounting standards, must also be interpreted in light of the subsequent amendments made to national accounting regulations by the 2019 Budget Law.

In this context, on the one hand, the 2019 Budget Law defines the procedures with which to comply with the consolidation obligations in the case of central bodies, on the other hand, the TUB's provisions are important in order to circumscribe the central body's governance powers over its affiliates.

The aforementioned approach is consistent, among other things, with the approach already adopted in other European jurisdictions with regard to the manner in which central bodies and their affiliated entities are consolidated, as for example in France.

As a corollary of the consolidation method described above, which sees Cassa Centrale Banca and the affiliated Banks together as a single, new consolidating entity, the consolidated financial statements presented herein do not show the comparative balances for the previous year.

That being said, in line with the above, the preparation of the annual consolidated financial statements has taken place through a process of aggregation:

- financial statements of the Parent Company Cassa Centrale Banca and its subsidiaries/associates over which it exercises control on the basis of the majority of voting rights and/or the connection on the basis of significant influence;
- financial statements of the affiliated Banks and their subsidiaries/associates over which the Parent Company exercises direction and coordination on the basis of the Cohesion Contract.

This process was followed by a subsequent phase of reclassification to own shares of the same shares of Cassa Centrale Banca held by the affiliated Banks and the elimination of the asset and economic balances attributable to intra-group transactions.

Subsidiaries

Without prejudice to that stated in the previous paragraph regarding the peculiarities of the consolidation method of the Cooperative Banking Group, the scope of consolidation is determined in compliance with the provisions contained in international accounting standard IFRS 10 Consolidated Financial Statements. Based on this principle, the control requirement forms the basis of the consolidation of all types of entities, and is realised when an investor simultaneously:

- has the power to determine the relevant activities of the entity;
- is exposed to or benefits from the variable returns deriving from its involvement with the entity;
- has the ability to exercise its power to influence the amount of its returns (link between power and returns).

IFRS 10 establishes that, to have control, the investor must have the ability to direct the relevant activities of the entity, based on a legal right or mere de facto situation, and also be exposed to the variability of the results stemming from this power.

The subsidiaries are consolidated from the date on which the Group acquires control, according to the 'acquisition method' - as defined by IFRS 3, and cease to be consolidated when control is no longer held.

The existence of control is subject to a continuous valuation process if there are events and circumstances that indicate the presence of a change in one or more of the three elements forming the control requirement, presented in the following paragraph "Evaluations and assumptions for determining the scope of consolidation".

The full consolidation consists of the so-called 'line-by-line' acquisition of the aggregates of the statement of financial position and the income statement of the entities controlled, as contra-entry to the cancellation of the investment held by the Group in the entity and the recognition, in the appropriate items, of the shares held by minority interests.

The differences emerging from this offsetting were subject to the provisions of IFRS 3; if they were allocated to the appropriate items, they are subject to the accounting treatment of the reference standard; if they were not specifically allocated, they are booked to goodwill under intangible assets and subject to impairment testing. Negative differences (so-called bargain purchase or badwill) are recognised in the consolidated income statement.

In addition, for entities controlled through an investment relationship, the share of equity pertaining to minority interests, the result for the year and comprehensive income is represented separately in the consolidated financial statements (under consolidated statement of financial position liability item 190. Third party minority interests, 340. Profit (loss) for the year of minority interests in the consolidated income statement and 190. Consolidated comprehensive income pertaining to minority interests in the statement of consolidated comprehensive income.

Costs and revenues relating to the controlled entity are included in the consolidated financial statements from the date of acquisition of control. The costs and revenues of the subsidiary transferred are included in the consolidated income statement until the transfer date; the difference between the consideration of the transfer and the carrying amount of the net assets of the same is recognised in the consolidated income statement item 280. Profit (Loss) from disposal of investments. In the presence of a partial disposal of the controlled entity which does not determine the loss of control, the difference between the consideration of the transfer and the associated carrying amount is booked as a contra-entry to equity.

Controlling interests held for sale are consolidated on a line-by-line basis and stated separately in the financial statements as a group held for disposal valued as at the reporting date at the lower of the carrying amount and the fair value less disposal costs.

Controlling shareholdings with total assets of less than EUR 10 million are accounted for using the equity method, as line-by-line consolidation would require a considerable effort in terms of production, collection and consolidation of data, against negligible benefits in relation to financial reporting. This option, however, is expressly provided for in Article 19 of Regulation (EU) no. 575/2013 (CRR) on consolidation methods for the purposes of prudential supervision.

In special purpose vehicles, the circumstances that need to be examined for the purposes of any existence of a situation of control pursuant to IFRS 10 are:

- the involvement/role of Group companies in the structuring of the transaction (originator/investor/servicer/facility provider);
- the subscription of a large portion of Asset Backed Securities (ABS) issued by the special purpose vehicle on the part of Group companies;
- the scope/objective of the transaction.

The special purpose vehicle for the securitisation consolidated for accounting purposes is Claris Lease 2015 S.r.l., whose transaction was originated by the company Claris Leasing S.p.A. (hereinafter also referred to as "Claris Leasing" or "Claris") in April 2015.

The objective of this securitisation transaction was to ensure greater correlation of maturities between funding and lending, as well as diversification of sources of financing. Therefore, in respect of a portfolio of securitised loans of EUR 473 million, senior notes of EUR 342 million, mezzanine notes for EUR 45 million and junior notes for EUR 86 million were issued. The entire junior and mezzanine issue was subscribed by Claris Leasing. This circumstance determined the non-derecognition of the portfolio loans by Claris and the de facto consolidation of the assets and liabilities of the vehicle already in the separate financial statements of Claris Leasing. It is worth noting that, aside from the subscription of the securities in question, Claris Leasing acts as servicer.

Following the establishment of the Group, the following business combinations between subsidiaries took place:

- Cassa Rurale Val Rendena Banca di Credito Cooperativo on 1 July 2019: merger by incorporation into Cassa Rurale Adamello Banca di Credito Cooperativo - Cooperative Company;
- Cassa Rurale Pinzolo on 1 July 2019: merger by incorporation into Cassa Rurale Adamello - Brenta Banca di Credito Cooperativo - Cooperative Company;
- Cassa Rurale di Lizzana on 1 July 2019: merger by incorporation into Cassa Rurale Alta Vallagarina di Besenello - Calliano - Nomi - Volano Banca di Credito Cooperativo;
- Banca S. Biagio del Veneto Orientale di Cesarolo, Fossalta di Portogruaro e Pertegada Banca di Credito Cooperativo - Cooperative Company on 1 July 2019: merger by incorporation into Banca di Credito Cooperativo delle Prealpi - Cooperative Company;
- departure of Assicura Group S.r.l. as a result of the merger of the company into Assicura Agenzia S.r.l., the incorporating company wholly owned by the incorporated company and therefore a reverse merger.

The full scope of the subsidiaries that are part of the Cassa Centrale Group as at 31 December 2019 is shown below:

COMPANY NAME	Operating headquarters	Registered office	Relationship type*	Investment relationship		Votes available %
				Investing company	% Share	
A. ENTITIES CONSOLIDATED ON A LINE-BY-LINE BASIS						
A.1 ENTITIES CONSOLIDATED ON A LINE-BY-LINE BASIS - COHESION CONTRACT						
CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.P.A.	Trento	Trento	4			
BANCA DI CREDITO COOPERATIVO DEL CIRCEO E PRIVERNATE - COOPERATIVE COMPANY	Sabaudia (LT)	Sabaudia (LT)	4			
BANCA DI CREDITO COOPERATIVO DI MONOPOLI - COOPERATIVE COMPANY	Monopoli (BA)	Monopoli (BA)	4			
BANCA DELL'ALTA MURGIA CREDITO COOPERATIVO - COOPERATIVE COMPANY	Altamura (BA)	Altamura (BA)	4			
BANCA DI CREDITO COOPERATIVO DEI CASTELLI E DEGLI IBLEI - COOPERATIVE COMPANY	Mazzarino (CL)	Mazzarino (CL)	4			
CREDITO ETNEO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	Catania	Catania	4			
BANCA MALATESTIANA - CREDITO COOPERATIVO - COOPERATIVE COMPANY	Rimini	Rimini	4			
BANCA DI CREDITO COOPERATIVO DEI CASTELLI ROMANI E DEL TUSCOLO - COOPERATIVE COMPANY	Castel Gandolfo (Rome)	Rocca Priora (Rome)	4			
BANCA DEL GRAN SASSO D'ITALIA, BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	Pineto (TE)	Pineto (TE)	4			
CASSA RURALE VALLAGARINA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	Ala (TN)	Ala (TN)	4			
CASSA RURALE ALTO GARDA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	Arco (TN)	Arco (TN)	4			
CASSA RURALE ADAMELLO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	Tione di Trento (TN)	Pinzolo (TN)	4			
CASSA RURALE DI LEDRO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	Ledro (TN)	Ledro (TN)	4			
CASSA RURALE GIUDICARIE VALSABBIA PAGANELLA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	Storo (TN)	Storo (TN)	4			
CASSA RURALE VALSUGANA E TESINO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	Borgo Valsugana (TN)	Borgo Valsugana (TN)	4			

COMPANY NAME	Operating headquarters	Registered office	Relationship type*	Investment relationship		Votes available %
				Investing company	% Share	
CASSA RURALE LAVIS - MEZZOCORONA - VALLE DI CEMBRA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	Lavis (TN)	Lavis (TN)	4			
CASSA RURALE ROTALIANA E GIOVO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	Mezzolombardo (TN)	Mezzolombardo (TN)	4			
CASSA RURALE DOLOMITI DI FASSA PRIMIERO E BELLUNO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	Moena (TN)	Moena (TN)	4			
CASSA RURALE VAL DI SOLE - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	Malè (TN)	Malè (TN)	4			
CASSA RURALE ALTA VALSUGANA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	Pergine Valsugana (TN)	Pergine Valsugana (TN)	4			
CASSA RURALE VAL DI FIEMME - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	Cavalese (TN)	Cavalese (TN)	4			
CASSA RURALE RENON - COOPERATIVE COMPANY	Collalbo RENON (BZ)	Collalbo RENON (BZ)	4			
CASSA RURALE NOVELLA E ALTA ANAUNIA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	Fondo (TN)	Revò (TN)	4			
CASSA RURALE DI ROVERETO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	Rovereto (TN)	Rovereto (TN)	4			
CASSA RAIFFEISEN DI SAN MARTINO IN PASSIRIA - COOPERATIVE COMPANY	S. Martino in Passiria (BZ)	S. Martino in Passiria (BZ)	4			
CREDITO COOPERATIVO CENTRO CALABRIA - COOPERATIVE COMPANY	Cropani Marina (CZ)	Cropani Marina (CZ)	4			
CASSA RURALE VAL DI NON - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	Cles (TN)	Cles (TN)	4			
CASSA RURALE DI TRENTO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	Trento	Trento	4			
CASSA RURALE ALTA VALLAGARINA E LIZZANA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	Volano (TN)	Volano (TN)	4			
BANCA DI CREDITO COOPERATIVO DI ALBEROBELLO E SAMMICHELE DI BARI - COOPERATIVE COMPANY	Alberobello (BA)	Alberobello (BA)	4			

COMPANY NAME	Operating headquarters	Registered office	Relationship type*	Investment relationship		Votes available %
				Investing company	% Share	
CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	Leno (BS)	Leno (BS)	4			
BANCA DI CREDITO COOPERATIVO DI AQUARA - COOPERATIVE COMPANY	Aquara (SA)	Aquara (SA)	4			
BANCA DI CREDITO COOPERATIVO DI ANAGNI - COOPERATIVE COMPANY	Anagni (FR)	Anagni (FR)	4			
BANCA DI CREDITO COOPERATIVO DELL'ALTO TIRRENO DELLA CALABRIA VERBICARO - COOPERATIVE COMPANY	Verbicaro (CS)	Verbicaro (CS)	4			
BANCA DI CREDITO COOPERATIVO DI BARLASSINA - COOPERATIVE COMPANY	Barlassina (MB)	Barlassina (MB)	4			
BENE BANCA CREDITO COOPERATIVO DI BENE VAGIENNA (CUNEO) - COOPERATIVE COMPANY	Bene vagienna (CN)	Bene vagienna (CN)	4			
CASSA RURALE ED ARTIGIANA DI BORGO SAN GIACOMO (BRESCIA) - CREDITO COOPERATIVO - COOPERATIVE COMPANY	Borgo San Giacomo (BS)	Borgo San Giacomo (BS)	4			
CASSA RURALE ED ARTIGIANA DI BOVES - BANCA DI CREDITO COOPERATIVO (BOVES-CUNEO) - COOPERATIVE COMPANY	Boves (CN)	Boves (CN)	4			
BANCA DI CARAGLIO, DEL CUNEESE E DELLA RIVIERA DEI FIORI - CREDITO COOPERATIVO - COOPERATIVE COMPANY	Caraglio (CN)	Caraglio (CN)	4			
BANCA DI CREDITO COOPERATIVO DI CASSANO DELLE MURGE E TOLVE - COOPERATIVE COMPANY	Cassano delle Murge (BA)	Cassano delle Murge (BA)	4			
BANCA DI CREDITO COOPERATIVO DI CASTAGNETO CARDUCCI - COOPERATIVE COMPANY	Donoratico (LI)	Castagneto Carducci (LI)	4			
BANCA DI CREDITO COOPERATIVO DELLA ROMAGNA OCCIDENTALE - COOPERATIVE COMPANY	Castel Bolognese (RA)	Castel Bolognese (RA)	4			
BCC FELSINEA - BANCA DI CREDITO COOPERATIVO DAL 1902 - COOPERATIVE COMPANY	San Lazzaro di Savena (BO)	San Lazzaro di Savena (BO)	4			
BANCA DI CREDITO COOPERATIVO DI CHERASCO - COOPERATIVE COMPANY	Rovereto di Cherasco (CN)	Rovereto di Cherasco (CN)	4			
BANCO MARCHIGIANO CREDITO COOPERATIVO	Civitanova Marche (MC)	Civitanova Marche (MC)	4			
BANCA DI CREDITO COOPERATIVO DI CONVERSANO - COOPERATIVE COMPANY	Conversano (BA)	Conversano (BA)	4			

COMPANY NAME	Operating headquarters	Registered office	Relationship type*	Investment relationship		Votes available %
				Investing company	% Share	
BANCA CENTRO EMILIA - CREDITO COOPERATIVO - COOPERATIVE COMPANY	Corporeno (FE)	Corporeno (FE)	4			
CASSA RURALE ED ARTIGIANA DI CORTINA D'AMPEZZO E DELLE DOLOMITI - CREDITO COOPERATIVO - COOPERATIVE COMPANY	Cortina d'Ampezzo (BL)	Cortina d'Ampezzo (BL)	4			
BANCA DI CREDITO COOPERATIVO DI FLUMERI - COOPERATIVE COMPANY	Flumeri (AV)	Flumeri (AV)	4			
BANCA DI CREDITO COOPERATIVO VALDOSTANA - COOPERATIVE DE CREDIT VALDOTAINE - COOPERATIVE COMPANY	Aosta	Gressan (AO)	4			
CENTROVENETO BASSANO BANCA - CREDITO COOPERATIVO - COOPERATIVE COMPANY	Longare (VI)	Longare (VI)	4			
BANCA DI CREDITO COOPERATIVO DI LOCOROTONDO CASSA RURALE E ARTIGIANA - COOPERATIVE COMPANY	Locorotondo (BA)	Locorotondo (BA)	4			
CREDITO COOPERATIVO - CASSA RURALE ED ARTIGIANA DEL FRIULI VENEZIA GIULIA - COOPERATIVE COMPANY	Gorizia (GO)	Gorizia (GO)	4			
BANCATER CREDITO COOPERATIVO FVG - COOPERATIVE COMPANY	Udine	Udine	4			
PRIMACASSA - CREDITO COOPERATIVO FVG - COOPERATIVE COMPANY	Martignacco (UD)	Martignacco (UD)	4			
BANCA ALTO VICENTINO - CREDITO COOPERATIVO DI SCHIO, PEDEMONTE E ROANA - COOPERATIVE COMPANY	Schio (VI)	Schio (VI)	4			
BANCA DI CREDITO COOPERATIVO DI BRESCIA - COOPERATIVE COMPANY	Nave (BS)	Brescia	4			
BANCA CENTRO LAZIO CREDITO COOPERATIVO - COOPERATIVE COMPANY	Palestrina (Rome)	Palestrina (Rome)	4			
BANCA DEL TERRITORIO LOMBARDO CREDITO COOPERATIVO - COOPERATIVE COMPANY	Brescia	Brescia	4			
BANCA DI CREDITO COOPERATIVO DEL VELINO - COOPERATIVE COMPANY	Rieti	Posta (RI)	4			
BANCA DI CREDITO COOPERATIVO DI PIANFEI E ROCCA DE' BALDI - COOPERATIVE COMPANY	Pianfei (CN)	Pianfei (CN)	4			
BANCA MONTE PRUNO - CREDITO COOPERATIVO DI FISCIANO, ROSCIGNO E LAURINO - COOPERATIVE COMPANY	Roscigno (SA)	Roscigno (SA)	4			

COMPANY NAME	Operating headquarters	Registered office	Relationship type*	Investment relationship		Votes available %
				Investing company	% Share	
BANCA DI CREDITO COOPERATIVO LAUDENSE - LODI - COOPERATIVE COMPANY	Lodi	Lodi	4			
FRIULOVEST BANCA - CREDITO COOPERATIVO - COOPERATIVE COMPANY	San Giorgio della Richinvelda (PN)	San Giorgio della Richinvelda (PN)	4			
BANCA DI CREDITO COOPERATIVO DI SAN GIOVANNI ROTONDO - COOPERATIVE COMPANY	San Giovanni Rotondo (FG)	San Giovanni Rotondo (FG)	4			
BANCA DI CREDITO COOPERATIVO DI SAN MARZANO DI SAN GIUSEPPE - TARANTO - COOPERATIVE COMPANY	San Marzano di San Giuseppe (TA)	San Marzano di San Giuseppe (TA)	4			
BANCA DI CREDITO COOPERATIVO DI CASALGRASSO E SANT'ALBANO STURA - COOPERATIVE COMPANY	Carmagnola (TO)	Sant'Albano Stura (CN)	4			
BANCA DI CREDITO COOPERATIVO DI SARSINA - COOPERATIVE COMPANY	Sarsina (FC)	Sarsina (FC)	4			
ROMAGNABANCA CREDITO COOPERATIVO ROMAGNA EST E SALA DI CESENATICO - COOPERATIVE COMPANY	Bellaria-Igea Marina (RN)	Rubicone (FC)	4			
BANCA DI CREDITO COOPERATIVO DI SPELLO E BETTONA - COOPERATIVE COMPANY	Spello (PG)	Spello (PG)	4			
BANCA DI BOLOGNA CREDITO COOPERATIVO - COOPERATIVE COMPANY	Bologna	Bologna	4			
BANCA DI CREDITO COOPERATIVO DI TURRIACO - COOPERATIVE COMPANY	Turriaco (GO)	Turriaco (GO)	4			
BANCA PREALPI SAN BIAGIO CREDITO COOPERATIVO - COOPERATIVE COMPANY	Tarzo (TV)	Tarzo (TV)	4			
CASSA RURALE ED ARTIGIANA DI VESTENANOVA - CREDITO COOPERATIVO - COOPERATIVE COMPANY	Vestenanova (VR)	Vestenanova (VR)	4			
ZKB CREDITO COOPERATIVO DI TRIESTE E GORIZIA - COOPERATIVE COMPANY	Opicina (TS)	Opicina (TS)	4			
BANCA LAZIO NORD CREDITO COOPERATIVO - COOPERATIVE COMPANY	Viterbo	Viterbo	4			
BANCA DI CREDITO COOPERATIVO LA RISCOSSA DI REGALBUTO - COOPERATIVE COMPANY	Regalbuto (EN)	Regalbuto (EN)	4			
BANCA DI CREDITO COOPERATIVO SANGRO TEATINA DI ATESSA	Atessa (CH)	Atessa (CH)	4			
BANCA ADRIA COLLI EUGANEI - CREDITO COOPERATIVO - COOPERATIVE COMPANY	Adria (RO)	Adria (RO)	4			

COMPANY NAME	Operating headquarters	Registered office	Relationship type*	Investment relationship		Votes available %
				Investing company	% Share	
BANCA SICANA - CREDITO COOPERATIVO DI SOMMATINO, SERRADIFALCO E SAMBUCA DI SICILIA - COOPERATIVE COMPANY	Caltanissetta	Caltanissetta	4			
ROVIGOBANCA CREDITO COOPERATIVO - COOPERATIVE COMPANY	Rovigo	Rovigo	4			
A.2 ENTITIES CONSOLIDATED ON A LINE-BY-LINE BASIS OTHER THAN COHESION CONTRACT						
AZIENDA AGRICOLA ANTONIANA S.r.l.	Leno (BS)	Leno (BS)	1	CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	100.00	100.00
BENACO GESTIONI IMMOBILIARI S.r.l.	Leno (BS)	Leno (BS)	1	CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	100.00	100.00
NORD EST ASSET MANAGEMENT SA	Luxembourg	Luxembourg	1	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.P.A.	100.00	100.00
PHOENIX INFORMATICA BANCARIA S.p.A.	Trento	Trento	1	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.P.A.	89.57	89.57
				CESVE S.p.A. CONSORTILE	10.02	10.02
				OTHER MINORITY INTERESTS	0.03	0.03
					99.62	99.62
INFORMATICA BANCARIA TRENTINA S.r.l.	Trento	Trento	1	INFORMATICA BANCARIA FINANZIARIA S.P.A.-I.B.FIN. S.p.A.	100.00	100.00
CESVE S.p.A. CONSORTILE	Padua	Padua	1	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.P.A.	71.43	71.43
				PHOENIX INFORMATICA BANCARIA S.p.A.	25.07	25.07
				OTHER MINORITY INTERESTS	1.81	1.81
					98.31	98.31
INFORMATICA BANCARIA FINANZIARIA S.p.A.	Trento	Trento	1	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.P.A.	69.76	69.76
				SERVIZI BANCARI ASSOCIATI S.p.A.	15.00	15.00
					84.76	84.76

COMPANY NAME	Operating headquarters	Registered office	Relationship type*	Investment relationship		Votes available %
				Investing company	% Share	
SERVIZI BANCARI ASSOCIATI S.p.A.	Cuneo	Cuneo	1	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.P.A.	67.34	67.34
				BANCA DI CARAGLIO, DEL CUNEESE E DELLA RIVIERA DEI FIORI - CREDITO COOPERATIVO - COOPERATIVE COMPANY	6.79	6.79
				BANCA DI CREDITO COOPERATIVO VALDOSTANA - COOPERATIVE DE CREDIT VALDOTAINE - COOPERATIVE COMPANY	4.53	4.53
				BANCA DI CREDITO COOPERATIVO DI CASALGRASSO E SANT'ALBANO STURA - COOPERATIVE COMPANY	4.45	4.45
				BENE BANCA CREDITO COOPERATIVO DI BENE VAGIENNA (CUNEO) - COOPERATIVE COMPANY	4.33	4.33
				BANCA DI CREDITO COOPERATIVO DI CHERASCO - COOPERATIVE COMPANY	3.58	3.58
				BANCA DI CREDITO COOPERATIVO DI PIANFEI E ROCCA DE' BALDI - COOPERATIVE COMPANY	3.04	3.04
				CASSA RURALE ED ARTIGIANA DI BOVES - BANCA DI CREDITO COOPERATIVO (BOVES-CUNEO) - COOPERATIVE COMPANY	2.55	2.55
				OTHER MINORITY INTERESTS	0.73	0.73
					97.34	97.34
ASSICURA AGENZIA S.r.l.	Udine	Udine	1	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.P.A.	100.00	100.00
ASSICURA BROKER S.r.l.	Trento	Trento	1	ASSICURA AGENZIA S.r.l.	100.00	100.00
CENTRALE CREDIT SOLUTIONS S.r.l.	Trento	Trento	1	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.P.A.	100.00	100.00
CLARIS LEASING S.p.A.	Treviso	Treviso	1	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.P.A.	100.00	100.00
CENTRALE SOLUZIONI IMMOBILIARI S.r.l.	Trento	Trento	1	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.P.A.	100.00	100.00
BANCA DI BOLOGNA REAL ESTATE S.p.A.	Bologna	Bologna	1	BANCA DI BOLOGNA CREDITO COOPERATIVO - COOPERATIVE COMPANY	100.00	100.00
IMMOBILIARE VILLA SECCAMANI S.r.l.	Leno (BS)	Leno (BS)	1	CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	100.00	100.00

COMPANY NAME	Operating headquarters	Registered office	Relationship type*	Investment relationship		Votes available %
				Investing company	% Share	
A.3 ENTITIES CONTROLLED BUT CONSOLIDATED AT EQUITY FOR MATERIALITY LIMITS						
CA' DEL LUPO	Leno (BS)	Leno (BS)	1	CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	100.00	100.00
AGORA' S.r.l.	Leno (BS)	Narbolia (OR)	1	CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	100.00	100.00
TAVERNOLE IDROELETTRICA S.r.l.	Tavernole sul Mella (BS)	Tavernole sul Mella (BS)	1	CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	55.00	55.00
DOMINATO LEONENSE	Leno (BS)	Leno (BS)	1	CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	50.00	50.00
IS ARENAS CAMPING VILLAGE S.r.l.	Leno (BS)	Narbolia (OR)	1	CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	90.00	90.00
BOLOGNA SERVIZI BANCARI S.r.l.	Bologna	Bologna	1	PHOENIX INFORMATICA BANCARIA S.p.A.	57.14	57.14
BTV GESTIONI S.r.l.	Brescia	Brescia	1	BANCA DEL TERRITORIO LOMBARDO CREDITO COOPERATIVO - COOPERATIVE COMPANY	100.00	100.00
CENTRALE CASA S.r.l.	Trento	Trento	1	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.P.A.	100.00	100.00
CENTRO SISTEMI DIREZIONALI S.r.l.	Palazzolo sull'Oglio (BS)	Palazzolo sull'Oglio (BS)	1	PHOENIX INFORMATICA BANCARIA S.p.A.	60.00	60.00
				BANCA DI CREDITO COOPERATIVO DI BARLASSINA - COOPERATIVE COMPANY	10.00	10.00
				CESVE S.p.A. CONSORTILE	10.34	10.34
				CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.P.A.	5.33	5.33
				OTHER MINORITY INTERESTS	12.00	12.00
					97.67	97.67
IMMOBILIARE BCC DI BRESCIA S.r.l.	Nave (BS)	Nave (BS)	1	BANCA DI CREDITO COOPERATIVO DI BRESCIA - COOPERATIVE COMPANY	100.00	100.00
LOB SOFTWARE S.r.l.	Leno (BS)	Leno (BS)	1	CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	100.00	100.00
RAIFFEISEN IMMOBILIEN S.r.l.	Renon (BZ)	Renon (BZ)	1	CASSA RURALE RENON - COOPERATIVE COMPANY	100.00	100.00

COMPANY NAME	Operating headquarters	Registered office	Relationship type*	Investment relationship		Votes available %
				Investing company	% Share	
SERVIZI INFORMATICI BANCARI TRENTINI S.r.l. ABBREVIATED TO S.I.B.T. S.r.l.	Trento	Trento	1	INFORMATICA BANCARIA TRENTINA S.r.l.	60.00	60.00
				CASSA RURALE DI TRENTO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	12.01	12.01
				CASSA RURALE VAL DI SOLE - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	11.92	11.92
				CASSA RURALE VAL DI NON - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	11.00	11.00
				OTHER MINORITY INTERESTS	5.00	5.00
					99.93	99.93
VERDEBLU IMMOBILIARE	Cherasco (CN)	Cherasco (CN)	1	BANCA DI CREDITO COOPERATIVO DI CHERASCO - COOPERATIVE COMPANY	100.00	100.00
CASSA RURALE ALTA VALSUGANA SOLUZIONI IMMOBILIARI S.r.l.	Pergine Valsugana (TN)	Pergine Valsugana (TN)	1	CASSA RURALE ALTA VALSUGANA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	100.00	100.00
QUADRIFOGLIO 2018 S.r.l.	Castenaso (BO)	Castenaso (BO)	1	BCC FELSINEA - BANCA DI CREDITO COOPERATIVO DAL 1902 - COOPERATIVE COMPANY	100.00	100.00
SOCIETA' AGRICOLA TERRE DELLA ROCCA S.r.l.	Bologna	Bologna	1	BANCA DI BOLOGNA REAL ESTATE	100.00	100.00
ASSICURA S.r.l.	Udine	Udine	1	BANCATER CREDITO COOPERATIVO FVG - COOPERATIVE COMPANY	22.80	22.80
				PRIMACASSA - CREDITO COOPERATIVO FVG - COOPERATIVE COMPANY	19.68	19.68
				CREDITO COOPERATIVO - CASSA RURALE ED ARTIGIANA DEL FRIULI VENEZIA GIULIA - COOPERATIVE COMPANY	12.34	12.34
				ZKB CREDITO COOPERATIVO DI TRIESTE E GORIZIA - COOPERATIVE COMPANY	11.35	11.35
				OTHER MINORITY INTERESTS	11.46	11.46
					77.63	77.63
TEMA S.r.l.	Bologna	Bologna	1	BANCA DI BOLOGNA REAL ESTATE	71.43	71.43
PRESTIPAY S.p.A.	Udine	Udine	1	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.P.A.	60.00	60.00
ANTICA VALLE DEL PO S.r.l.	Motta Baluffi (CR)	Motta Baluffi (CR)	1	CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	100.00	100.00

COMPANY NAME	Operating headquarters	Registered office	Relationship type*	Investment relationship		Votes available %
				Investing company	% Share	
CLARIS RENT S.p.A.	Treviso	Treviso	1	CLARIS LEASING	100.00	100.00
DOMINATO LEONENSE S.r.l.	Milan	Milan	4	CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	0.00	0.00
FONDO LEONIDA	Verona	Verona	4	BANCA DEL TERRITORIO LOMBARDO CREDITO COOPERATIVO - COOPERATIVE COMPANY	0.00	0.00

* Relationship type:
1 = majority of voting rights in the ordinary shareholders' meeting
2 = dominant influence in the ordinary shareholders' meeting
3 = agreements with other shareholders
4 = other forms of control
5 = unitary management pursuant to Article 39, paragraph 1, of "Legislative Decree 136/2015"
6 = unitary management pursuant to Article 39, paragraph 2, of "Legislative Decree 136/2015"

Structured entities

In accordance with IFRS 12 paragraph B21, there are defined entities structured so that voting or similar rights are not the predominant factor in determining who controls the entity.

Structured entities have all or some of the following characteristics:

- limited activities;
- a limited and well-defined social purpose;
- insufficient equity to allow the structured entity to finance its activities without subordinated financial support;
- loans by investors that create concentrations of credit risk or other risks (tranches).

Structured entities subject to consolidation are those over which the Cassa Centrale Group has the power over the entity's relevant activities and is exposed to the variability of their returns, by virtue of the financial instruments underwritten.

As at the reporting date, the Cassa Centrale Group consolidated the Fondo Leonida (closed-end alternative real estate investment fund) using the equity method because it is below the aforementioned materiality limit, by virtue of the financial instruments subscribed (fund units), financial support to the fund and exposure to the variability of returns on the fund's relevant activities.

Associates

An associate is a company in which the investing company has significant influence and which is not a subsidiary or part of a joint venture. Significant influence is presumed when the investing company holds, directly or indirectly, at least 20% of the capital of another company. Further indicators of significant influence are as follows:

- representation on the company's governance body;
- participation in the process of defining policies, including therein participation in decisions relating to dividends or other profit distributions;
- the existence of significant transactions between the investor and the investee company;
- the exchange of managerial personnel;
- provision of essential technical information.

Equity investments in associates are consolidated according to the equity method. The equity method provides for the initial recognition of the investment at cost and its subsequent value adjustment based on the share of the investee company's equity. The equity investment in associates includes goodwill (net of any impairment) paid for the acquisition. Participation in the post-acquisition profits and losses of associates is booked to the consolidated income statement under item 250. Profits (losses) on equity investments.

Any distribution of dividends is used to reduce the carrying amount of the equity investment.

If the interest in the losses of an associate is equal to or exceeds the carrying amount of the investee, no further losses are recognised, unless specific obligations have been undertaken in favour of the associate or payments have been made to said entity.

The valuation reserves of the associates are shown separately in the statement of consolidated comprehensive income.

The full scope of the investments in associates belonging to the Cassa Centrale Group as at 31 December 2019 is shown below.

NAME	Registered office	Operating headquarters	Relationship type*	Investment relationship		Votes available %
				Investing company	% Share	
B. COMPANIES SUBJECT TO A SIGNIFICANT INFLUENCE						
LE CUPOLE	Manerbio (BS)	Manerbio (BS)	4	CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	22.00	22.00
FINANZIARIA DELLE BANCHE DI CREDITO COOPERATIVO DEL FRIULI VENEZIA GIULIA PER LO SVILUPPO DEL TERRITORIO S.r.l. IN ABBREVIATED FORM - BCC SVILUPPO TERRITORIO FVG	FRONTE PARCO IMMOBILIARE S.r.l.	Udine	4	BANCATER CREDITO COOPERATIVO FVG - COOPERATIVE COMPANY	17.16	17.16
				PRIMACASSA - CREDITO COOPERATIVO FVG - COOPERATIVE COMPANY	8.77	8.77
				ZKB CREDITO COOPERATIVO DI TRIESTE E GORIZIA - COOPERATIVE COMPANY	8.77	8.77
				CREDITO COOPERATIVO - CASSA RURALE ED ARTIGIANA DEL FRIULI VENEZIA GIULIA - COOPERATIVE COMPANY	7.26	7.26
				FRIULOVEST BANCA - CREDITO COOPERATIVO - COOPERATIVE COMPANY	7.26	7.26
				BANCA DI CREDITO COOPERATIVO DI TURRIACO - COOPERATIVE COMPANY	0.99	0.99
					50.21	50.21
FINANZIARIA TRENTINA DELLA COOPERAZIONE	Trento	Trento	4	CASSA RURALE ALTA VALSUGANA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	7.19	7.19
				CASSA RURALE ALTO GARDA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	6.53	6.53
				CASSA RURALE DI TRENTO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	5.22	5.22
				CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.P.A.	4.08	4.08
				CASSA RURALE LAVIS - MEZZOCORONA - VALLE DI CEMBRA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	3.26	3.26
				CASSA RURALE DOLOMITI DI FASSA PRIMIERO E BELLUNO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	3.26	3.26
				CASSA RURALE VAL DI FIEMME - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	3.12	3.12

NAME	Registered office	Operating headquarters	Relationship type*	Investment relationship		Votes available %
				Investing company	% Share	
				CASSA RURALE VAL DI NON - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	2.96	2.96
				CASSA RURALE VALSUGANA E TESINO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	2.88	2.88
				CASSA RURALE ADAMELLO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	2.45	2.45
				OTHER MINORITY INTERESTS	6.56	6.56
					47.51	47.51
PARTECIPAZIONI COOPERATIVE S.r.l.	Trento	Trento	4	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.P.A.	13.92	13.92
				CASSA RURALE ALTA VALSUGANA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	5.1	5.1
				CASSA RURALE DI TRENTO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	4.64	4.64
				CASSA RURALE VAL DI NON - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	3.71	3.71
				CASSA RURALE ALTO GARDA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	3.48	3.48
				CASSA RURALE DOLOMITI DI FASSA PRIMIERO E BELLUNO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	2.32	2.32
				CASSA RURALE DI ROVERETO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	2.32	2.32
				CASSA RURALE LAVIS - MEZZOCORONA - VALLE DI CEMBRA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	2.32	2.32
				CASSA RURALE VAL DI FIEMME - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	2.32	2.32
				CASSA RURALE VALLAGARINA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	2.09	2.09
				OTHER MINORITY INTERESTS	6.27	6.27
					48.49	48.49

NAME	Registered office	Operating headquarters	Relationship type*	Investment relationship		Votes available %
				Investing company	% Share	
CENTRALE TRADING	Trento	Trento	4	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.P.A.	32.5	32.5
				PHOENIX INFORMATICA BANCARIA S.p.A.	10	10
					42.5	42.5
CONSORZIO SERVIZI BANCARI CO.SE.BA. S.C.P.A.	Bari	Bari	4	BANCA DI CREDITO COOPERATIVO DI CONVERSANO - COOPERATIVE COMPANY	7.98	7.98
				BANCA DI CREDITO COOPERATIVO DI ALBEROBELLO E SAMMICHELE DI BARI - COOPERATIVE COMPANY	7.21	7.21
				BANCA DI CREDITO COOPERATIVO DI SAN GIOVANNI ROTONDO - COOPERATIVE COMPANY	6.64	6.64
				BANCA DI CREDITO COOPERATIVO DI CASSANO DELLE MURGE E TOLVE - COOPERATIVE COMPANY	6.54	6.54
				BANCA DI CREDITO COOPERATIVO DI LOCOROTONDO CASSA RURALE E ARTIGIANA - COOPERATIVE COMPANY	4.84	4.84
				CREDITO COOPERATIVO CENTRO CALABRIA - COOPERATIVE COMPANY	3.93	3.93
				BANCA DI CREDITO COOPERATIVO DI SAN MARZANO DI SAN GIUSEPPE - TARANTO - COOPERATIVE COMPANY	2.05	2.05
				OTHER MINORITY INTERESTS	1.83	1.83
					41.02	41.02
SCOUTING S.p.A.	Bellaria - Igea Marina (RN)	Bellaria - Igea Marina (RN)	4	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.P.A.	8.26	8.26
				ROMAGNABANCA CREDITO COOPERATIVO ROMAGNA EST E SALA DI CESENATICO - COOPERATIVE COMPANY	6	6
				CASSA RURALE ALTA VALSUGANA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	6.29	6.29
				BANCA MALATESTIANA - CREDITO COOPERATIVO - COOPERATIVE COMPANY	4.65	4.65
		SCOUTING S.p.A.		BANCA PREALPI SAN BIAGIO CREDITO COOPERATIVO - COOPERATIVE COMPANY	4.65	4.65
					29.85	29.85

NAME	Registered office	Operating headquarters	Relationship type*	Investment relationship		Votes available %
				Investing company	% Share	
FORMAZIONE LAVORO SOCIETA' CONSORTILE PER AZIONI	Trento	Trento	4	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.P.A.	22.21	22.21
				CASSA RURALE ALTA VALSUGANA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	1.64	1.64
				CASSA RURALE VAL DI NON - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	1.52	1.52
				CASSA RURALE ALTO GARDA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	1.27	1.27
				CASSA RURALE VALLAGARINA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	1.23	1.23
				OTHER MINORITY INTERESTS	7.58	7.58
					35.45	35.45
CABEL HOLDING S.p.A.	Empoli (FI)	Empoli (FI)	4	BANCA DI CREDITO COOPERATIVO DI CASTAGNETO CARDUCCI - COOPERATIVE COMPANY	19.5	19.5
				CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.P.A.	7.66	7.66
				BANCA LAZIO NORD CREDITO COOPERATIVO - COOPERATIVE COMPANY	2.01	2.01
					29.17	29.17
SERENA S.r.l.	Manzano (UD)	Manzano (UD)	4	BANCATER CREDITO COOPERATIVO FVG - COOPERATIVE COMPANY	29.06	29.06
RITTNERHORN SEILBAHNEN AG	Renon (BZ)	Renon (BZ)	4	CASSA RURALE RENON - COOPERATIVE COMPANY	26.51	26.51
SENIO ENERGIA S.r.l.	Faenza (RA)	Faenza (RA)	4	BANCA DI CREDITO COOPERATIVO DELLA ROMAGNA OCCIDENTALE - COOPERATIVE COMPANY	22.22	22.22

NAME	Registered office	Operating headquarters	Relationship type*	Investment relationship		Votes available %
				Investing company	% Share	
RENDENA GOLF S.p.A.	Bocenago (TN)	Bocenago (TN)	4	CASSA RURALE ADAMELLO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	24.76	24.76
SERVIZI E FINANZA FVG S.r.l.	Udine	Udine	4	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.P.A.	24.51	24.51

* Relationship type:
1 - majority of voting rights in the ordinary shareholders' meeting
2 - dominant influence in the ordinary shareholders' meeting
3 - agreements with other shareholders
4 - company subject to a significant influence
5 - unitary management pursuant to Article 26, paragraph 1, of "Legislative Decree 87/92"
6 - unitary management pursuant to Article 26, paragraph 2, of "Legislative Decree 87/92"
7 - joint ventures
8 - other type of relationship.

Jointly controlled companies

A joint arrangement is a contractual agreement in which two or more counterparties have joint control.

Joint control is the sharing, on a contractual basis, of control of an agreement, which exists solely when the unanimous consent of all parties that share control is required for decisions relating to significant assets. According to IFRS 11, joint arrangements must be classified as joint operations or joint ventures based on the contractual rights and obligations held by the Group.

A joint operation is a joint arrangement in which the parties have rights over the assets and obligations with respect to the liabilities of the agreement. A joint venture is a joint arrangement in which the parties have rights over the net assets of the agreement.

The full scope of the investments in jointly controlled companies forming part of the Cassa Centrale Group as at 31 December 2019 is shown below.

NAME	Registered office	Operating headquarters	Relationship type*	Investment relationship		Votes available %
				Investing company	% Share	
A. JOINTLY CONTROLLED COMPANIES						
CASSE RURALI RAIFFEISEN FINANZIARIA S.p.A.	Bolzano	Bolzano	7	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.P.A.	50.00	50.00
FRONTE PARCO IMMOBILIARE S.r.l.	Bologna	Bologna	7	BANCA DI BOLOGNA CREDITO COOPERATIVO - COOPERATIVE COMPANY	50.00	50.00

* Relationship type:
1 - majority of voting rights in the ordinary shareholders' meeting
2 - dominant influence in the ordinary shareholders' meeting
3 - agreements with other shareholders
4 - company subject to a significant influence
5 - unitary management pursuant to Article 26, paragraph 1, of "Legislative Decree 87/92"
6 - unitary management pursuant to Article 26, paragraph 2, of "Legislative Decree 87/92"
7 - joint ventures
8 - other type of relationship.

Significant valuations and assumptions for determining the scope of consolidation

The scope of consolidation is determined in compliance with the provisions contained in international accounting standard IFRS 10 Consolidated Financial Statements, which came into force in 2014. Based on this principle, the control requirement forms the basis of the consolidation of all types of entities, including structured entities when the conditions are met, and is realised when an investor simultaneously has:

- the power to determine the relevant activities of the entity;
- is exposed to or benefits from the variable returns deriving from its involvement with the entity;
- the ability to exercise its power to influence the amount of its returns (link between power and returns).

IFRS 10 establishes that, to have control, the investor must have the ability to direct the relevant activities of the entity, based on a legal right or mere de facto situation, and also be exposed to the variability of the results stemming from this power.

Therefore, the Cassa Centrale Group consolidates all types of entities when all three aspects of control are present.

Generally, when an entity is directed through voting rights, control derives from holding more than half of the voting rights.

In other cases, determination of the scope of consolidation calls for consideration of all factors and circumstances that give the investor the practical ability to unilaterally manage the relevant activities of the entity (de facto control). To this end, it is necessary to consider a collection of factors, such as, merely by way of an example:

- the scope and design of the entity;
- the identification of the relevant activities and how they are managed;

- any right held through contractual agreements which confer the power to govern the relevant activities, such as the power to determine the financial and operating policies of the entity, the power to exercise the majority of voting rights in the decision-making body or the power to appoint or remove the majority of the body with decision-making functions;
- any potential voting rights exercisable and considered substantial;
- involvement in the entity in the role of agent or principal;
- the nature and the dispersion of any rights held by other investors.

With reference to the Group's situation at the date of these consolidated financial statements, all companies in which the majority of voting rights in the ordinary shareholders' meeting are held are considered wholly-owned subsidiaries, given that no evidence has been highlighted that the other investors have the practical ability to direct the relevant activities.

For companies in which half or less of voting rights are held, at the date of these consolidated financial statements, no agreements, statutory clauses or situations able to attribute the Cassa Centrale Group the practical capacity to unilaterally govern the relevant activities were identified.

Equity investments in wholly-owned subsidiaries with significant third-party interests

At the date of these consolidated financial statements, there are no subsidiaries through an equity relationship with significant third-party interests.

Significant restrictions

At the date of these consolidated financial statements, there are no legal or substantive obligations or restrictions able to obstruct the rapid transfer of capital resources within the Group. The only restrictions are those attributable to regulatory provisions which may require a minimum amount of regulatory capital to be retained, or to the provisions of the Italian Civil Code on distributable profits and reserves.

It should be noted that there are no protective rights held by minorities able to limit the Group's capacity to access or transfer assets between Group companies or settle the Group's liabilities, including in relation to the fact that, as at 31 December 2019, there are no subsidiaries with significant third-party interests, as stated in the previous paragraph.

Other information

The accounting positions forming the basis of the line-by-line consolidation process are those relating to 31 December 2019, as approved by the competent bodies of the consolidated companies adjusted, where necessary, to bring them into line with the homogeneous accounting standards of the Group.

For the consolidation of companies subject to joint control and investments in associates, the most recent financial statements (annual or interim) approved by the companies have been used. In cases where the companies do not apply IAS/IFRS, it is verified that any application of IAS/IFRS would not have had a significant impact on the consolidated financial statements of the Cassa Centrale Group.

Section 4 - Subsequent events

In the period between the date of the consolidated financial statements and their approval by the Board of Directors, no events occurred which result in an amendment of the figures approved.

The accounting estimates as at 31 December 2019 were made on the basis of a series of macroeconomic and financial indicators expected at that date.

Particular mention should be made of the situation regarding the events and developments of the COVID-19 pandemic which initially affected China and then took on a global dimension, affecting, among others, the United States of America, Europe and Italy in particular.

This pandemic represents an unprecedented systemic event with repercussions on public health and the economies of the countries most affected.

In view of the impact that the COVID-19 pandemic is having on European economies and in particular on the Italian economy, leading financial analysts have significantly revised the GDP growth estimates for 2020 downwards, whilst forecasting a recovery in 2021 thanks to the economic support measures that are being implemented and that will be implemented in the affected countries. In this context, among other things, there was a significant increase in the BTP-BUND spread and more generally in the volatility of the financial markets.

At this stage, the banks have a crucial role to play in keeping the system going as they are called upon to provide the necessary liquidity to the real economy. On the other hand, the monetary and banking supervisory authorities have put in place unconventional measures in terms of monetary policy and prudence.

On the monetary policy front, the ECB's extraordinary measures are particularly important, including: the Pandemic Emergency Purchase Programme, the extension of the Corporate Sector Purchase Programme, the extension of the scope of the additional credit schemes, the increase in the maximum amount that can be requested under TLTRO-III from 30% to 50% of the amount of eligible loans as at 28 February 2020 and an additional long-term auction programme (TLTRO).

On the regulatory front, the following measures are particularly important: the postponement of the stress tests envisaged in 2020, flexibility to operate below the capital level defined by Pillar II (P2R and P2G), the potential to operate below the capital conservation buffer and the LCR buffer, flexibility in the partial use of equity instruments that do not qualify as CET 1 to meet Pillar II requirements and to fill capital needs.

Furthermore, with regard to the classification and valuation of loans, the ECB has introduced flexibility measures with regard to the unlikely to pay classification criteria for publicly guaranteed exposures as part of the measures implemented by euro area governments and, among other aspects, recommended banks to take better account of more stable long-term macroeconomic scenarios in their expected loss estimates (IFRS 9).

Finally, the EBA has issued specific guidelines on accounting and prudence issues related to both public and private moratoria granted by banks in relation to the pandemic crisis. In particular, the EBA has specified that such moratoria should not automatically be classified as forbearance measures, without prejudice to banks' obligation to assess the creditworthiness of debtors benefiting from such moratoria.

In the face of the pandemic, several legislative measures were implemented in Italy containing, first and foremost, measures to contain the epidemic (Law Decree no. 6 on "Urgent measures for the containment and management of the COVID-19 epidemiological emergency"), which led to the suspension of several important economic activities and, subsequently, support for the national economy (Law Decree no. 18 of 17 March 2020, also known as the "Cura Italia Decree"). Among the measures issued by the Italian government, of particular note are: measures to support liquidity through the banking system and the possibility of transforming deferred tax assets (DTA) into tax credits under certain conditions.

With reference to the issue of moratoriums for the COVID-19 emergency, the Cassa Centrale Banca Group has promptly implemented all actions to encourage the granting of benefits to its customers. These benefits include the following interventions:

- measures made available at the Group's discretion as early as the beginning of March 2020;
- unitary adhesion of the Group to the Addendum to the 2019 Credit Agreement promoted by ABI;
- Law Decree no. 18 of 17 March 2020.

The above benefits mainly consist in the suspension of the loan for a variable duration, depending on the type of intervention, the principal or interest or both, the postponement of the maturity of the loan and the non-revocability of certain exposures.

In response to circumstances of an exceptional macroeconomic nature and volatility in the financial markets, the Cassa Centrale Banca Group promptly and proactively updated its portfolio management strategy for the Group's financial instruments in order to support its contribution to the interest margin, through greater use of TLTRO-III auctions, greater diversification of its debt securities portfolio and an increase in the proportion of financial assets allocated to the Hold to Collect business model.

In view of the above, despite the significant impact that the COVID-19 pandemic may have on the Group's profitability levels in 2020, linked, among other things, to a probable increase in the cost of credit, it is believed that the multiple measures outlined above will enable the Group to maintain an overall high profile of capital strength and liquidity.

The Group considers this epidemic to be an event occurring after the reporting date that does not involve adjustments to the values of the same as at 31 December 2019.

In view of the above, the Group is monitoring the phenomenon in order to promptly identify potential impacts on the current 2020 financial year.

Section 5 - Other matters

a) Newly applied accounting standards in 2019

During 2019, the following standards and interpretations entered into effect:

- IFRS 16 Leasing (Regulation (EU) no. 1986/2017) which replaced IAS 17 and IFRIC 4;
- Amendments to IFRS 9: prepayment elements with negative compensation (Regulation (EU) no. 498/2018). With the aforementioned amendment, IFRS 9 allows instruments that contain prepayment clauses that provide for the possibility or obligation to repay the debt early at a variable amount even lower than the residual debt and accrued interest (thus configuring a negative compensation) to be considered compliant with the Solely Payment of Principal and Interest test (hereinafter also "SPPI test");
- IFRIC Interpretation 23: uncertainty of income tax treatment (Regulation (EU) no. 1595/2018). The interpretation clarifies the treatment of current and deferred tax assets and liabilities in cases of uncertainty about income tax treatment;
- Amendments to IAS 28: investments in associates and joint ventures (Regulation (EU) no. 237/2019). The amendment clarifies that an entity also applies IFRS 9 to other financial instruments in associates or joint ventures to which the equity method is not applied. Such instruments include long-term interests (e.g. a loan) that, in substance, represent the entity's additional net investment in the associate or joint venture;
- Amendments to IAS 19: plan amendment, curtailment or settlement (Regulation (EU) no. 402/2019). The amendments are designed to clarify that, after the adjustment, curtailment or settlement of a defined benefit plan, an entity applies the updated assumptions from the restatement of its net defined benefit liability (asset) for the remainder of the reporting period;
- Annual Cycle of Improvements to IFRS 2015-2017 (Regulation (EU) no. 412/2019) involving amendments to IAS 12 Income Taxes, IAS 23 Borrowing Costs, IFRS 3 Business Combinations and IFRS 11 Joint Arrangements.

Transition to IFRS 16

Regulatory provisions

On 31 October 2017, Regulation EU no. 1986/2017 was issued, which acknowledged the new accounting standard "IFRS 16 - Leases" at EU level. IFRS 16 replaces IAS 17 and the relevant interpretations IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases - Incentives' and SIC 27 'Evaluating the substance of transactions involving the legal form of a lease', with reference to the accounting of long-term leases and rental contracts.

The new accounting standard has standardised the accounting treatment of operating and finance leases for the lessee. In fact, IFRS 16 requires the lessee to recognise:

- in the statement of financial position: i) a financial liability, which represents the present value of future payments that the company undertakes to make in relation to the lease, and ii) an activity that represents the 'right of use' of the asset involved in the lease;
- in the income statement: i) the financial charges connected with the aforementioned financial liability and ii) the amortisation related to the above-mentioned 'right of use'.

The lessee recognises in the income statement the interest deriving from the lease liability and the amortisation of the right of use. The right of use is amortised over the effective duration of the underlying contract.

This principle is applicable for financial years starting on or after 1 January 2019.

The Group has applied the new standard using the modified retrospective method and excluding short-term contracts, i.e. contracts with a duration of less than 12 months and low-value contracts, i.e. contracts involving a low-value asset, from the scope of application using the practical expedients provided for in paragraph 6 of IFRS 16. The Group has also applied IFRS 16 to embedded leases, i.e. contracts other than hire/lease/rental contracts that substantially contain long-term rental, lease or hire.

The effects of a lessee's application of IFRS 16 consist of the following:

- an increase in assets due to the registration of rights of use;
- an increase in liabilities resulting from the recognition of the financial liability for lease payments;
- a reduction in operating costs, relating to rents;
- an increase in financial charges attributable to interest on the lease liability and the increase in amortisation and depreciation relating to the right of use.

It is therefore clarified that, with reference to the income statement, the application of IFRS 16 does not have any impact with respect to the previous IAS 17 on the entire duration of contracts, but a spread of the effects over time.

For details on the effects on the Group's statement of financial position and income statement of the first-time adoption of IFRS 16, please refer to the following paragraph, "The effects of the first-time adoption of IFRS 16".

Choices applied by the Group

The Group has adopted IFRS 16 as from 1 January 2019 using the simplified prospective approach, which provides for the recognition of a lease liability equal to the present value of future lease payments and a right of use for the same amount. This approach does not therefore have an impact on equity.

The Group has decided to adopt the practical expedient described in paragraph 6 of IFRS 16 and has therefore excluded from the scope of application (i) contracts with a residual useful life at the date of first application of less than 12 months and (ii) contracts involving assets with a value of less than EUR 5,000. With reference to these two scenarios, rental fees have been recorded under operating costs in the income statement.

The main choices made by the Group in relation to the first-time adoption of IFRS 16 are summarised below.

Discount rate

The Group, in application of IFRS 16, uses the weighted average rate of funding at maturity.

Contract duration

The duration of the contract corresponds to the non-cancellable period during which the individual company is subject to an obligation to the lessor and has the right to use the leased property. The following form part of the duration of the contract:

- the periods covered by the option to extend the lease, if the lessee is reasonably certain to exercise the option;
- the periods covered by the option to terminate the lease, if the lessee is reasonably certain not to exercise the option.

Periods covered by an option to terminate the bilateral contract are not part of the duration of the contract. In such cases the duration of the contract is limited to the notification period for the exercise of the option.

At the date of first application of the standard and for each contract entered into after 1 January 2019, the Group determined the duration of the contract on the basis of the information available at that date.

Lease and non-lease components

The Group has considered separating the service and lease components. Only the lease components participate in the definition of the lease liability, while the service components maintain the same accounting treatment as other operating costs.

The effects of the first-time adoption of IFRS 16

The first-time adoption of IFRS 16 resulted in the recognition of financial lease liabilities amounting to approximately EUR 120 million and the recognition of assets for rights of use amounting to approximately EUR 120 million.

The Group availed itself of the practical expedient offered by the standard that allows it to maintain the valuation made on contracts previously identified as leases in application of the previous IAS 17 standard.

It should be noted that, with reference to the contracts to which IFRS 16 applies as at 1 January 2019, the differences between the Group's commitments as at 31 December 2018 in respect of these contracts and the corresponding financial lease liability as at 1 January 2019 are mainly due to the effect of discounting, as well as the different treatment of renewal options in relation to the definition of the contract duration.

The weighted average of the lessee's marginal lending rate applied for the purposes of defining the lease liability is 1.32%.

With regard to information on assets by right of use, please refer to Section 9 of Part B - Information on the statement of financial position, assets.

With regard to information on financial payables for leases, please refer to Section 1 of Part B - Information on the statement of financial position, liabilities.

With regard to information on interest expense on payables for leases and other charges related to rights of use acquired through lease, profits and losses deriving from sale and leaseback transactions and income deriving from sub-lease transactions, please refer to Part C - Information on the income statement.

b) Approved accounting standards that will come into force on 1 January 2020

On 15 January 2020, Regulation (EU) no. 34/2020 was approved, which is mandatory from 1 January 2020. The Regulation incorporates certain amendments to IFRS 9, IAS 39 and IFRS 7 on hedge accounting with a view to regulating the effects of the Interest Rate Benchmark reform on existing hedges and the designation of new hedging relationships.

c) Accounting standards still not endorsed which will enter into force in the next few years

On the other hand, the following amended accounting standards have not yet been endorsed by the European Commission:

- IFRS 14 Regulatory deferral accounts (January 2014);
- IFRS 17 Insurance contracts (May 2017);
- Modification of the references to the Conceptual Framework in the IFRS standards (March 2018);
- Amendment to IFRS 3: definition of business (October 2018);
- Amendments to IAS 1 and IAS 8: definition of material (October 2018).

d) Audit of the annual accounts

The consolidated financial statements are audited by the Independent Auditors KPMG S.p.A. (or "External Auditors") by Consob resolution no. 20934, the request for an extension of two years (2019-2020) for the responsibility of auditing the separate and consolidated financial statements of Cassa Centrale Banca, pursuant to Article 17, paragraph 6, of Regulation (EU) no. 537/2014, was accepted.

e) Information pursuant to Annex A of First Part, Title III, Chapter 2 of Bank of Italy Circular no. 285 of 17 December 2013

Government Grants Received

In this regard, it should be noted, also in accordance with the provisions of so-called Annual market and competition law (Law no. 124/2017), that, in 2019, the Group received the grants from the public administrations amounting to approximately EUR 2 million and mainly related to training activities. It should also be noted that, in compliance with the provisions envisaged for the compilation of the disclosure in question, transactions with Central Banks for financial stability purposes or transactions whose objective is to facilitate the monetary policy transmission mechanism are excluded.

A.2 – Part relating to the main items in the accounts

The accounting standards adopted for the preparation of these consolidated financial statements are shown below.

1 - Financial assets measured at fair value through profit or loss

Classification criteria

Financial assets measured at fair value through profit or loss include:

- financial assets which, according to the business model of the Group, are held for trading purposes, i.e. debt and equities and the positive value of derivative contracts held for trading purposes. These assets are included under consolidated asset item 20. Financial assets measured at fair value through profit or loss, sub-item "a) financial assets held for trading";
- the financial assets measured at fair value at the moment of initial recognition where the conditions are satisfied (that happens if, and only if, on designation at fair value an accounting asymmetry is eliminated or significantly reduced). These assets are included under consolidated asset item 20. Financial assets measured at fair value through profit or loss, sub-item "b) financial assets measured at fair value";
- the financial assets do not pass the so-called SPPI test (financial assets whose contractual terms do not make exclusive provision for the repayments of principal and interest payments on the amount of principal to be repaid) or that in any case, are measured at fair value as per mandatory requirements. These assets are included under consolidated asset item 20. Financial assets measured at fair value through profit or loss, sub-item "c) other financial assets obligatorily measured at fair value".

Therefore, the Group recognises the following in this item:

- debt securities and loans included in an Other business model (not attributable to Hold to Collect or Hold to Collect and Sell business models) or that do not pass the SPPI test (including therein UCITS units);
- equity instruments, excluded from those addressed by IFRS 10 and IAS 27 (controlling interests, associates or joint ventures), not measured at fair value through other comprehensive income. In fact, IFRS 9 provides for the possibility of exercising, at the time of initial recognition, the irreversible option (so-called OCI option) to recognise an equity security at fair value through other comprehensive income.

This item also includes derivative contracts held for trading that have a positive fair value. The offsetting between the positive and negative present values deriving from transactions with the same counterparty is only possible if there is a legal right to offset the amounts recognised in the accounts and if there is an intention to settle on a net basis the items subject to offsetting.

The reclassification of a financial asset to a different accounting category is permitted only in the event of a change in the business model. Exceptions to this rule are equities for which no reclassification is permitted. More specifically, changes in business model - which in any case should very rarely happen - must be decided by senior management as a result of external or internal changes, must be relevant to the Group's operations and must be demonstrable to external parties. A change in business model could, for example, occur in the case of the acquisition, termination or divestment of a business line or branch of business. In the rare cases of changes to the business model, financial assets measured at fair value through profit or loss may be reclassified to financial assets measured at amortised cost or to financial assets measured at fair value through other comprehensive income.

The reclassification is applied prospectively from the date of reclassification which, in fact, coincides with the first day of the first financial year following that in which the change to the business model was approved.

In the event of reclassification from this category to the amortised cost category, the fair value at the date of reclassification represents the new gross carrying amount on the basis of which the effective interest rate is determined.

If, on the other hand, the category in question is reclassified to the category of financial assets measured at fair value through other comprehensive income, the fair value at the date of reclassification is the new gross carrying amount and the effective interest rate is determined on the basis of this value at the date of reclassification. In addition, for the purposes of applying the provisions on write-downs from the date of reclassification, the latter is considered to be the date of initial recognition.

Recognition criteria

The initial recognition of financial assets takes place at the settlement date if settled with the time intervals set by market practices (regular way), otherwise at the trade date. In the case of recognising the financial assets at the settlement date, the profits and losses recorded between the trade date and the settlement date are recognised in the income statement. Upon initial recognition the financial assets held for trading are recorded at the fair value; unless otherwise indicated, this is represented by the amount paid or by the amount disbursed for executing the transaction, without considering the costs or income referring to it and attributable to the same instrument, which are recorded directly in the income statement.

Measurement criteria

Following initial recognition, the financial assets measured at fair value through profit or loss are valued at fair value with recognition of the related changes in the income statement. If the fair value of a financial asset becomes negative, this entry is booked as a financial liability. The change in the fair value of derivative contracts with "customers" counterparties takes their credit risk into account.

To calculate the fair value of the financial instruments listed in an active market, the market listings are used. In the absence of an active market, commonly adopted estimation methodologies are used to factor in all relevant risk factors related to the instruments.

For further details on how fair value is determined, please refer to paragraph "A.4 - Information on fair value" of this part A.

Derecognition criteria

The financial assets measured at fair value through profit or loss are derecognised when the contractual rights on the cash flows deriving from the same expire or when the financial asset is sold substantially transferring all the associated risks and rewards.

When it is not possible to ascertain the substantial transfer of the risks and rewards, the financial assets are derecognised from the financial statements unless control of said assets has been maintained. Conversely, if control is not maintained, even only partial, it is necessary to retain the assets in the financial statements to the extent of the continuing involvement, measured by the exposure to changes in value of the assets transferred and the changes in their cash flows.

The securities delivered as part of a transaction which contractually envisages their repurchase are not derecognised from the financial statements.

Criteria for the recognition of the income components

The positive income components represented by the interest income on securities and relating similar income, as well as the differentials and margins accrued until the date of the financial statements relating to the derivative contracts classified to the item, but managerially connected to the assets or liabilities measured at fair value (so-called fair value option), are entered in the income statement items relating to interest on an accrual basis. The profits and losses from the disposal or repayment and the profits and losses not realised deriving from the changes in the fair value of the trading book are classified in the consolidated income statement under item 80. Net result from trading for instruments held for trading and in item 110. Net result of other financial assets and liabilities measured at fair value through profit or loss for instruments mandatorily measured at fair value and for instruments measured at fair value.

2 - Financial assets measured at fair value through other comprehensive income

Classification criteria

The financial assets recorded under this item include:

- debt securities, loans and receivables for which:
  - the business model associated to financial assets aims at collecting both the cash flows envisaged contractually and the flows deriving from sale (Hold to Collect and Sell business model);
  - the SPPI Test is passed as the contractual terms only provide for repayments of principal and interest payments on the amount of principal to be repaid.
- equities for which the so-called OCI option has been exercised as an irrevocable choice to present subsequent changes in the fair value of these instruments in other comprehensive income. In this respect, it should be noted that the exercise of the so-called OCI option:
  - shall be made at the time of initial recognition of the instrument;
  - must be carried out at the level of the individual financial instrument;
  - is irrevocable;
  - is not applicable to instruments that are held for trading or represent contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies.

The reclassification of a financial asset to a different accounting category is permitted only in the event of a change in the business model. Exceptions to this rule are equities for which no reclassification is permitted. More specifically, changes in business model - which in any case should very rarely happen - must be decided by senior management as a result of external or internal changes, must be relevant to the Group's operations and must be demonstrable to external parties. A change in business model could, for example, occur in the case of the acquisition, termination or divestment of a business line or branch of business. In the rare cases of changes to the business model, financial assets measured at fair value through other comprehensive income may be reclassified to financial assets measured at amortised cost or to financial assets measured at fair value through profit or loss.

The reclassification is applied prospectively from the date of reclassification which, in fact, coincides with the first day of the first financial year following that in which the change to the business model was approved.

In the event of reclassification from this category to the amortised cost category, the fair value at the date of reclassification becomes the new gross value for the purposes of amortised cost. The cumulated profits and losses recorded in the OCI reserve are eliminated from equity and adjusted for the fair value of the financial assets at the date of reclassification. Consequently, the financial asset is valued at the date of reclassification as if it had always been valued at amortised cost. The effective interest rate and the valuation of expected losses are not restated following the reclassification.

If, on the other hand, this category is reclassified to the category of financial assets measured at fair value through profit or loss, the fair value at the date of reclassification becomes the new gross carrying amount. The cumulated profits and losses recognised in the OCI reserve are reclassified to the income statement at the date of reclassification.

Recognition criteria

The initial recognition of financial assets takes place at the settlement date if settled with the time intervals set by market practices (regular way), otherwise at the trade date. In the event of recognising financial assets at the settlement date, the profits and losses recorded between the trade date and the settlement date are recognised in the equity. Upon initial recognition, the financial assets are recognised at fair value; it is represented, unless otherwise indicated, by the amount paid for executing the transaction, including the transaction costs or income directly attributable to the same instrument.

Measurement criteria

Following initial recognition, the debt securities, loans and receivables classified in this item continue to be measured at fair value. For the aforementioned financial assets, the following are recognised:

- in the income statement, the interest calculated with the effective

- interest rate method, which considers the depreciation of both the transaction costs and the differential between the cost and the repayment value;
- in equity, in a specific reserve, changes in fair value (net of tax) until the asset is derecognised. When the instrument is fully or partially disposed, the cumulated profit or loss in the OCI reserve are booked to the income statement (so-called recycling).

Equities classified under this item also continue to be measured at fair value after initial recognition. In this case, however, unlike in the case of debt securities, loans and receivables, the cumulated profit or loss included in the OCI reserve must never be reversed to the income statement (in this case there will be no recycling). In fact, in case of transfer, the OCI reserve may be transferred to a specific available equity reserve. For these equities, only the component relating to dividends received is recorded in the income statement.

With reference to the methods used to determine the fair value of financial assets, please refer to paragraph "A.4 - Information on fair value" of this Part A.

It should also be noted that financial assets measured at fair value through other comprehensive income, both in the form of debt securities loans and receivables, are subject to impairment in accordance with IFRS 9 in the same way as financial assets measured at amortised cost. Therefore, for the aforementioned instruments, a value adjustment to cover expected losses will be recognised in the income statement. The estimate of the expected loss using the expected credit loss (hereinafter also referred to as "ECL") method is based on the allocation of each position to the three reference stages as explained in more detail in the paragraph "Impairment of financial assets".

The equity instruments are not subject to the impairment process.

Derecognition criteria

The financial assets measured at fair value through other comprehensive income are derecognised when the contractual rights on the cash flows deriving from the same expire or when the financial asset is sold substantially transferring all the associated risks and rewards.

When it is not possible to ascertain the substantial transfer of the risks and rewards, the financial assets are derecognised from the financial statements unless control of said assets has been maintained. Conversely, if control is not maintained, even only partial, it is necessary to retain the assets in the financial statements to the extent of the continuing involvement, measured by the exposure to changes in value of the assets transferred and the changes in their cash flows.

The securities delivered as part of a transaction which contractually envisages their repurchase are not derecognised from the financial statements.

Criteria for the recognition of the income components

Interest income on debt securities, loans and receivables - calculated on the basis of the effective interest rate - is recognised in the income statement on an accruals basis. For these instruments, the effects of impairment and any changes in exchange rates are also recognised in the income statement, while other gains or losses deriving from changes in fair value are recognised in a specific equity reserve. At the moment of full or partial disposal, the cumulated profit or loss in the valuation reserve are reversed, wholly or partly to the income statement (recycling).

With reference to equity instruments, the only component that is recognised in the income statement is dividends. The latter are recognised in the income statement only when (para. 5.7.1A of IFRS 9):

- the right of the entity to receive the dividend payment arises;
- it is likely that the economic benefits from the dividend will flow to the entity;
- the amount of the dividend may be reliably estimated.

Normally the aforementioned conditions occur at the time of collection of the dividend following the shareholders' resolution approving the financial statements and distribution of the result for the year by the investee company.

In the case of equities, changes in fair value are recognised as a contra-entry to equity and must not be subsequently transferred to the income statement even if they are realised (no recycling).

3 - Financial assets measured at amortised cost

Classification criteria

Financial assets measured at amortised cost include debt securities, loans and receivables that jointly meet the following conditions:

- the business model associated to financial assets aims at collecting the cash flows envisaged contractually (Hold to Collect business model);
- the SPPI Test is passed as the contractual terms only provide for repayments of principal and interest payments on the amount of principal to be repaid.

Therefore, in the presence of the aforementioned conditions, the Group recognises in this item:

- loans to banks (current accounts, security deposits, debt securities, etc.). This includes operating receivables related to the provision of financial activities and services as defined by the TUB and the TUF (e.g. distribution of financial products). Also included are loans to Central Banks (e.g. compulsory reserve), other than deposits on demand included in the consolidated statement of financial position item 10. Cash and cash equivalents;
- loans to customers (mortgages, finance lease transactions, factoring transactions, debt securities, etc.). Also included are loans to post offices and the Cassa Depositi e Prestiti, variation margins with compensation bodies for transactions on derivative contracts and operating receivables related to the provision of financial activities and services as defined by the TUB and the TUF (e.g. servicing activities).

The reclassification of a financial asset to a different accounting category is permitted only in the event of a change in the business model. Exceptions to this rule are equities for which no reclassification is permitted. More specifically, changes in business model - which in any case should very rarely happen - must be decided by senior management as a result of external or internal changes, must be relevant to the Group's operations and must be demonstrable to external parties. A change in business model could, for example, occur in the case of the acquisition, termination or divestment of a business line or branch of business. In the rare cases of changes to the business model, financial assets measured at amortised cost may be reclassified to financial assets measured at fair value through other comprehensive income or to financial assets measured at fair value through profit or loss.

The reclassification is applied prospectively from the date of reclassification which, in fact, coincides with the first day of the first financial year following that in which the change to the business model was approved.

In the event of reclassification from this category to the fair value category through other comprehensive income, any differences between the previous amortised cost and the fair value at the date of reclassification are recognised in the OCI reserve. The effective interest rate and the valuation of expected losses are not restated following the reclassification.

If, on the other hand, the category in question is reclassified to the category of financial assets measured at fair value through profit or loss, any difference between the previous amortised cost and the fair value at the date of reclassification is recognised in the income statement.

Recognition criteria

Financial assets are first recognised on the disbursement date (in the case of loans or receivables) or on the settlement date (in the case of debt securities) based on the fair value of the financial instrument. The fair value is normally equal to the amount disbursed or the subscription price, including income and charges directly attributable to the individual instrument and determinable from the origin of the transaction, even when liquidated at a subsequent time. Excluded are the costs that, though having the above mentioned characteristics, are subject to repayment by the debtor counterparty or can be classified among the normal internal costs of an administrative nature.

In the case of assets for which the net amount of the loan disbursed or the price paid on subscription of the security does not correspond to the fair value of the asset, for example due to the application of an interest rate significantly lower than the market rate, initial recognition is made on the basis of the fair value determined using valuation techniques (e.g. discounting future cash flows at an appropriate market rate).

In some cases, the financial asset is considered impaired upon initial recognition (so-called impaired financial assets acquired or originated), for example because the credit risk is very high and, in the case of acquired, it is acquired with large discounts. In such cases, at the time of initial recognition, an adjusted effective interest rate is calculated for the receivable which includes, in the cash flow estimates, the expected losses calculated over the life of the receivable. The above rate will be used for the application of the amortised cost criterion and the related calculation of interest to be recognised in the income statement.

Measurement criteria

After initial recognition, financial assets are measured at amortised cost using the effective interest rate method. Amortised cost is the amount at which the financial asset is measured on initial recognition less repayments of principal, plus or minus the cumulated amortisation, according to the effective interest criterion, of any difference between that initial amount and the amount at maturity and, for financial assets, adjusted for any provision to cover losses. The effective interest rate is identified by calculating the rate that equals the current value of the future flows of the asset, for principal and interest, to the disbursed amount including the costs/income attributable to said financial asset.

The exceptions to the application of the amortised cost method concern short-term assets, assets that do not have a defined maturity date and receivables subject to revocation. For the above cases, the application of the amortised cost criterion is considered not significant and the valuation is maintained at cost.

It should also be noted that financial assets measured at amortised cost, both in the form of debt securities and loans and receivables, are subject to impairment in accordance with IFRS 9. Therefore, for the aforementioned instruments, a value adjustment to cover expected losses will be recognised in the income statement. The estimate of the expected loss using the ECL method is based on the allocation of each position to the three reference stages as explained in more detail in the paragraph "Impairment of financial assets".

In such cases, for the purpose of calculating amortised cost, the entity is required to include in its cash flow estimates, the expected losses on initial receivables when calculating the credit-adjusted effective interest rate for financial assets that are considered impaired financial assets acquired or originated on initial recognition (IFRS 9 para. B5.4.7).

Derecognition criteria

The financial assets measured at amortised cost are derecognised when the contractual rights on the cash flows deriving from the same expire or when the financial asset is sold by substantially transferring all the risks and rewards connected to it.

When it is not possible to ascertain the substantial transfer of the risks and rewards, the financial assets are derecognised from the financial statements unless control of said assets has been maintained. Conversely, if control is not maintained, even only partial, it is necessary to retain the assets in the financial statements to the extent of the continuing involvement, measured by the exposure to changes in value of the assets transferred and the changes in their cash flows.

The securities delivered as part of a transaction which contractually envisages their repurchase are not derecognised from the financial statements.

If the contractual cash flows of a financial asset are subject to renegotiation or, in any case, to an amendment, in accordance with IFRS 9, it is necessary to assess whether or not these amendments have the characteristics to determine the derecognition of the financial asset. More specifically, contractual changes lead to the derecognition of the financial asset and the recognition of a new one when they are considered substantial. In order to assess the substantiality of the change, a qualitative analysis of the reasons why the changes were made is necessary. Distinguishments can be made between:

- renegotiations made for commercial purposes with performing customers for reasons other than the economic and financial difficulties of the debtor. These refer to renegotiations which are granted at market conditions, in order to avoid losing customers in cases where they require the cost of the loan to be adjusted to the conditions applied by other banking institutions. These types of contractual changes are considered substantial as they are aimed at avoiding a decrease in future revenues that would occur if the customer decides to turn to another operator. They result in the recognition in the income statement of any differences between the carrying amount of the derecognised financial asset and the carrying amount of the new asset;
- renegotiations due to financial difficulties of the counterparty: this scenario includes concessions made to counterparties in financial difficulty (forbearance measures) that aim to maximise the repayment of the original loan by the customer and thus avoid or contain any future losses, by granting contractual conditions that are potentially more favourable to the counterparty. In these cases, as a rule, the change is closely related to the debtor's inability to repay the cash flows originally established and, therefore, in the absence of other factors, this indicates that there was in substance no extinction of the original cash flows such as to lead to the derecognition of the asset. As a result, the aforementioned renegotiations or contractual amendments qualify as non-substantial. Therefore, they do not generate derecognition of the financial asset and, according to para. 5.4.3 of IFRS 9, involve the recognition in the income statement of the difference between the pre-amendment carrying amount and the value of the financial asset recalculated by discounting the renegotiated or modified cash flows at the original effective interest rate.

In order to assess the substantiality of the contractual amendment, in addition to understanding the reasons underlying the amendment itself, it is necessary to assess the possible presence of elements that alter the original nature of the contract because they introduce new elements of risk or have a significant impact on the original contractual flows of the asset so as to lead to its derecognition and the consequent recognition of a new financial asset. This includes, for example, the introduction of new contractual clauses which change the reference currency of the contract, which allow the credit to be converted/replaced into equity instruments of the debtor or which lead to the failure of the SPPI test.

Criteria for the recognition of the income components

Interest on loans to banks and customers is classified under consolidated income statement item 10. Interest income and similar revenues and are recorded on an accruals basis, based on the effective interest rate, i.e. applying the latter to the gross carrying amount of the financial asset, except for:

a. impaired financial assets acquired or originated. As noted above, for these financial assets, the effective interest rate adjusted for the receivable at the amortised cost of the financial asset from initial recognition is applied;

b. financial assets that are performing financial assets acquired or originated but have become impaired financial assets in a second phase. For these financial assets, the effective interest rate is applied to the amortised cost of the financial asset in subsequent years.

If there is an improvement in the credit risk of the financial instrument, as a result of which the financial asset is no longer impaired, and the improvement can be objectively linked to an event occurring after the application of the requirements in letter b) above, interest income shall be calculated in subsequent years by applying the effective interest rate to the gross carrying amount.

It should be noted that the Group applies the criterion referred to in letter b) above only to impaired assets measured using a specific analytical method. Therefore, stage 3 financial assets valued on a flat-rate analytical basis, for which interest is calculated on the gross value of the exposure, are excluded.

Adjustments and write-backs are recorded at each reporting date in the consolidated income statement under item 130. Net value adjustments/write-backs due to credit risk. Profits and losses resulting from the sale of receivables are recorded in the consolidated income statement under item 100. Profit (loss) from disposal/repurchase.

The positive income components represented by the interest income and similar revenues relating to securities are entered on an accrual basis, based on the effective interest rate, in the income statement items relating to interest.

Profits and losses relating to securities are recognised in the consolidated income statement under item 100. Profit (loss) from disposal/repurchase at the time the assets are sold.

Any impairment of securities is recognised in the consolidated income statement under item 130. Net value adjustments/write-backs due to credit risk. If the reasons that led to the evidence of the decline in value are removed, the write-back is included with recognition in the income statement in the same item.

4 - Hedging transactions

With regard to hedging transactions, the Group avails itself of the option, provided by the introduction of IFRS 9, to continue to apply IAS 39 in full with regard to both specific hedges and macro hedges.

Classification criteria

This item includes derivative contracts designated as effective hedging instruments. In this regard, hedging transactions are designed to neutralise any losses, that may be incurred on a specific item or group of items, linked to a specific risk should the aforementioned risk actually occur.

The types of hedging provided for by IAS 39 are:

- fair value hedge, aimed at hedging against the exposure to the change in fair value of a statement of financial position entry (asset or liability) attributable to a particular risk. The objective of macro fair value hedges is to reduce fluctuations in fair value, attributable to interest rate risk, by a monetary amount arising from a portfolio of financial assets or liabilities;
- cash flow hedge, aimed at hedging against the exposure to the change in future cash flows attributable to a particular risk associated to a highly probable present or future statement of financial position entry;
- hedging instruments of a net investment in a foreign company for which the assets were or are managed in a non-euro country or currency.

Only instruments involving a counterparty outside the Cassa Centrale Group may be designated as hedging instruments.

Recognition criteria

The hedging derivative financial instruments are initially entered at fair value and classified in the statement of financial position asset or liability item, depending on whether, as at the reporting date, they show a positive or negative fair value.

The hedge is attributable to a predefined strategy set by risk management and must be consistent with the risk management policies adopted; it is designated as a hedge if there is formal documentation of the relationship between the hedged instrument and the hedging instrument, including the high initial and prospective effectiveness during its entire life cycle.

The effectiveness of the hedge depends on the extent to which the changes in fair value of the hedged instrument or the related expected cash flows are offset by those of the hedging instrument. Thus the effectiveness is measured by comparison between these changes.

The hedging is assumed as highly effective when the expected and effective changes in fair value or the cash flows of the hedging financial instrument neutralise almost completely the changes in the hedged element, within the limits set by the interval 80%-125%.

The assessment of the effectiveness is performed at each year-end and interim period using:

- perspective tests, which justify the application of the hedge accounting, since they show its expected effectiveness;
- retrospective tests, which show the level of effectiveness of the hedging reached in the period they refer to.

If the checks do not confirm that the hedging is highly effective, the accounting of the hedging transactions, according to the above, is interrupted and the hedging derivative contract is reclassified among the trading instruments, while the financial instrument subject to hedging goes back to being measured according to the criterion of the original pertinence class and, in case of cash flow hedge, any reserve is reclassified in the income statement along the residual duration of the instrument.

The hedging links also cease when the derivative expires or is sold or exercised and the hedged element is sold or expires or is repaid.

Measurement criteria

After initial recognition, hedging derivatives are measured at fair value. The calculation of the fair value of the derivatives is based on the prices inferred from regulated markets or supplied by operators, on option measurement models or future cash flow discounting models.

For further details on how fair value is determined, please refer to paragraph "A.4 - Information on fair value" of this part A.

Derecognition criteria

The hedging derivatives are cancelled when the right to receive the cash flows from the asset/liability has expired, or where the derivative is sold, or when the conditions for continuing to book the financial instrument under the hedging derivatives no longer apply.

Criteria for the recognition of the income components

Fair value hedge

In the case of a fair value hedge, the change in the fair value of the hedged item is offset by the change in the fair value of the hedging instrument. This offsetting actually takes place through the recognition in the income statement of changes in value, referring both to the hedged item and the hedging instrument. Any difference represents the ineffectiveness of the hedge and is reflected in the income statement in terms of net effect. In the case of macro fair value hedges, changes in fair value with reference to the hedged risk of the hedged assets and liabilities are recognised in the statement of financial position, respectively, in the consolidated financial statements item 60. Adjustment of the financial assets subject to macro-hedging or item 50. Adjustment of the financial liabilities subject to macro-hedging.

If the hedging relationship no longer satisfies the conditions for the application of hedge accounting and the hedging relationship is revoked, the difference between the carrying amount of the hedged element at the time when the hedge ceases and that which would have been its carrying amount if the hedge had never existed, is amortised in the income statement along the residual lifespan of the hedged element based on the effective rate of return in case of instruments entered at amortised cost. In the event that it is excessively costly to recalculate the internal rate of return, it is considered acceptable to amortise the delta fair value relating to the hedged risk over the residual life of the instrument in a linear manner or in relation to the residual portions of capital.

If this difference refers to non-interest bearing financial instruments, it is recorded immediately in the income statement. If the hedged element is sold or repaid, the portion of fair value not yet amortised is recognised immediately in the income statement.

Cash flow hedges and hedging instruments of a net investment in a foreign company

In the case of cash flow hedges, changes in the fair value of the derivative are recognised, limited to the effective portion of the hedge, in an equity reserve. The above changes are recognised in the income statement only when, with reference to the hedged item, there is a change in the cash flows to be offset or if the hedge is ineffective.

When the hedging relationship no longer meets the conditions for the application of hedge accounting, the relationship is terminated and all losses and gains recognised in the equity reserve up to that date remain suspended within it and reversed to the income statement when the flows relating to the risk originally hedged occur.

5 - Equity investments

Classification criteria

This item includes interests held in associates and jointly controlled companies.

The following definitions in particular apply:

- associate: equity investments in companies for which, despite the conditions of control not being satisfied, the Group, directly or indirectly, is able to exercise a significant influence as it has the power to participate in determining the financial and management policies of the investing company. Such influence is presumed (relative presumption) to exist for companies in which the Group owns at least 20% of the voting rights of the investee company;
- jointly controlled companies (joint venture): an equity interest in a company that is achieved through a contractual agreement that collectively grants all parties or a group of parties control of the agreement.

Recognition criteria

Equity investments are initially entered at cost, including the directly attributable ancillary charges.

Measurement criteria

Investments in associates and investments in jointly controlled companies are valued using the equity method. This means that, after initial recognition, the carrying amount is subsequently increased or decreased to record the Group's share of the profits and losses of the investee companies realised after the acquisition date, as a contra-entry to consolidated income statement item 250. Profits (losses) on equity investments.

The dividends received from an investee are deducted from the carrying amount of the equity investment.

If there is objective evidence of impairment, an estimate is made of the recoverable value of the same investment, considering the current value of the future cash flows the same may generate, including the final disposal value of the investment. If the recoverable value of the asset is lower than its carrying amount, the impairment loss is recognised in the income statement under item 250. Profits (losses) on equity investments in the consolidated financial statements.

Derecognition criteria

Equity investments are derecognised when the right to receive the cash flow from the asset has expired, or where the equity investment is sold by substantially transferring all the risks and benefits connected to it.

Criteria for the recognition of the income components

Dividends from investee companies are recorded under the consolidated statement of financial position item 70. Dividend and similar income. The latter are recognised in the income statement only when (para. 5.7.1A of IFRS 9):

- the right of the entity to receive the dividend payment arises;
- it is likely that the economic benefits from the dividend will flow to the entity;
- the amount of the dividend may be reliably estimated.

Normally the aforementioned conditions occur at the time of collection of the dividend following the shareholders' resolution approving the financial statements and distribution of the result for the year by the investee company.

In the consolidated financial statements, dividends received are deducted from the carrying amount of the investee company.

Any value adjustments/write-backs connected to the valuation of the equity investments as well as profits or losses deriving from the disposal are recognised under item 250. Profits (losses) on equity investments in the consolidated financial statements.

6 - Tangible assets

Classification criteria

This item mainly includes land, properties for business use (IAS 16) and properties held for investment purposes (IAS 40), the plants, vehicles, furniture, furnishings and equipment of any type for long-lasting use.

Property for business use is defined as those tangible fixed assets that are functional to the pursuit of the corporate purpose (including those held for use in the provision of services or for administrative purposes). On the other hand, property held for investment purposes includes property held for the purpose of receiving rental fees and/or for the appreciation of the invested capital.

The item also includes tangible assets classified under IAS 2 Inventories, which refer both to assets arising from the enforcement of guarantees or the purchase at auction that the company intends to sell in the near future, without carrying out major renovation work, and which do not qualify for classification in the previous categories, and to the real estate portfolio including buildable areas of land, properties under construction, completed properties for sale and real estate development initiatives, held with a view to disposal.

Included are rights of use acquired through lease and relating to the use of a tangible asset (for lessees), assets under operating leases (for lessors), and improvements and incremental expenses incurred on third party assets, provided they relate to identifiable and separable tangible assets.

Recognition criteria

The tangible assets are initially entered at purchase or construction cost, including any ancillary charges directly attributable to the purchase and commissioning of the asset.

The unscheduled maintenance expenses and the costs of an increasing nature that imply increased benefits being generated by the asset, if these can be identified and separated, are attributed to the assets they refer to and depreciated in relation to the residual possibility of using the same. If these improvements cannot be identified and separated, they are recorded in the consolidated financial statements under 'Other Assets' and subsequently depreciated based on the length of the contracts they refer to for the third-party assets, or along the residual life of the asset, if owned.

The expenses for repairs, maintenance or other actions to ensure the ordinary operation of the assets are instead recognised in the income statement of the year when they are incurred.

According to IFRS 16, leases are accounted for on the basis of the right of use model for which, at the initial date, the lessee has a financial obligation to make payments due to the lessor to offset its right to use the underlying asset during the lease term. When the asset is made available to the lessee for use (start date), the lessee recognises both the liability and the asset consisting of the right of use.

Measurement criteria

After initial recognition, the tangible assets, including non-instrumental properties, notwithstanding the specifications below, are entered in the accounts at cost, net of accumulated depreciation and any write-downs for the long-lasting reductions in value, in compliance with the 'cost model'.

Tangible assets are systematically depreciated each year based on their useful life by adopting the straight line method as the depreciation criterion. The following are not subject to depreciation:

- land, whether purchased individually or incorporated in the value of the buildings, since considered to have an undefined useful life. If their value is incorporated in the value of the building, assets which are separate from the building are only the 'free-standing' property assets; the subdivision between the value of the land and a value of the building is based on the appraisal of independent appraisers;
- works of art, the useful life of which may not be estimated, also since their value normally increases over time;
- real estate investments measured at fair value in compliance with accounting standard IAS 40;
- inventories of tangible assets, in accordance with IAS 2;
- tangible assets classified as held for disposal in accordance with IFRS 5.

The depreciation process starts when the asset is available for use. For the assets acquired during the year, the depreciation is calculated on a daily basis starting from the date of using the asset.

A write-down for value impairment is recorded for an amount corresponding to the excess in the carrying amount compared to the recoverable value. The recoverable value of an asset is equal to the higher of the fair value, net of any sales costs, and the related value of using the asset, meant as the current value of the future flows originating from the asset. Any adjustments are recognised in the income statement.

If the reasons leading to recording the loss cease to apply, a write-back is accounted for, which may not exceed the value that the asset would have had, net of depreciation calculated in the absence of previous impairment losses.

Tangible assets recognised in accordance with IAS 2 are valued at the lower of cost and net realisable value, it being understood that the carrying amount of the asset is compared with its recoverable value if there is any indication that the asset may have suffered an impairment. Any adjustments are recognised in the income statement.

With reference to the asset consisting of the right of use, accounted for in accordance with IFRS 16, it is measured using the cost model in accordance with IAS 16 Property, plant and equipment; in this case the asset is subsequently depreciated and subject to impairment testing if indicators of impairment emerge.

Derecognition criteria

Tangible assets are eliminated from the statement of financial position at the time of disposal or when they are permanently withdrawn from use and, as a consequence, no future economic benefits are expected which derive from their sale or use.

Capital gains and losses deriving from the release or disposal of the tangible assets are determined as the difference between the net sale payment and the carrying amount of the asset; they are recorded in the income statement at the same date when they are eliminated from the accounts.

Criteria for the recognition of the income components

Depreciation, value adjustments and write-backs of tangible assets are recorded in the income statement, in consolidated financial statements item 210. Net value adjustments/write-backs to tangible assets.

In the first year the depreciation is recorded proportionally to the effective period of using the asset.

The assets subject to depreciation are adjusted for possible impairment losses each time events or changes in situations indicate that the carrying amount might not be recoverable. These impairment losses are recognised in the income statement, as are any reversals to be recognised if the reasons for the impairment no longer apply.

In the consolidated income statement item 280. Profit (Loss) from disposal of investments, the positive or negative balance between the profits and losses on investments is recognised.

7 - Intangible assets

Classification criteria

Accounting standard IAS 38 defines intangible assets as non-monetary assets without physical substance owned for use in a multi-year or undefined period, which meet the following characteristics:

- identifiability;
- the company holds the control;
- it is probable that the expected future economic benefits attributable to the asset will flow into the company;
- the cost of the asset may be reliably measured.

In the absence of one of these characteristics, the expense to acquire or generate the same internally is recorded as a cost in the year when it was incurred.

Intangible assets include, in particular, the application software with multi-year use and the other identifiable intangible assets that originate from legal or contractual rights.

Intangible assets also include goodwill, which represents the positive difference between the purchase cost and the fair value of the assets and liabilities of the acquired company.

Recognition criteria

Intangible assets are entered at cost, adjusted for any ancillary costs incurred to arrange the use of the asset, only if it is probable that the future economic benefits attributable to the asset will be realised and if the cost of the same asset may be determined reliably. Otherwise the cost of the tangible asset is recorded in the income statement in the year when it was incurred.

Measurement criteria

After initial recognition, intangible assets with finite useful life are recognised at cost, net of the accumulated amortisation and impairment losses.

The amortisation process starts when the asset is available for use, or when it is in the place and conditions suitable to be able to work in the set manner.

Amortisation is carried out with the straight line method, in a way to reflect the multi-year use of the assets based on the estimated useful life. In the first year the amortisation is recorded proportionally to the effective period of using the asset. Amortisation ends from the date when the asset is eliminated from the accounts.

At each year-end, given the presence of evidence of impairment losses, an estimate is made of the recoverable value of the asset. The amount of the impairment, recorded in the income statement, is equal to the difference between the carrying amount of the asset and its recoverable value.

Derecognition criteria

Intangible assets are eliminated from the statement of financial position at the time of their disposal or when future economic benefits are not expected. Capital gains and losses from the release or disposal of an intangible asset are calculated as the difference between the net sale payment and the carrying amount of the asset and entered in the income statement.

Criteria for the recognition of the income components

In the first year the amortisation is recorded proportionally to the effective period of using the asset.

In the consolidated income statement item 220. Net value adjustments/write-backs to intangible assets, the positive or negative balance between the value adjustments, amortisation and write-backs relating to the intangible assets is indicated. In the item 280. Profit (loss) from disposal of investments, in the consolidated income statement, the balance, positive or negative between the profits and losses on disposal of investments is recognised.

8 - Non-current assets and groups of assets held for disposal

Classification criteria

This item includes the non-current assets held for sale and the associated groups of assets and liabilities held for disposal, according to the provisions of IFRS 5.

More specifically, assets and groups of assets are classified in this item whose carrying amount will be mainly recovered with a sale rather than their continuous use.

For the recovery of a non-current asset or a group held for disposal through a sale to materialise, two conditions must be met:

- the asset must be available for immediate sale in its current condition, subject to conditions, which are usual and customary, for the sale of such assets (or groups held for disposal);
- the sale of the non-current asset (or group held for disposal) must be highly probable.

Since the sale is highly probable, Management at a suitable level must be committed to an asset disposal programme, and activities must be started to identify a buyer and complete the programme. In addition, the asset must be actively exchanged in the market and put up for sale, at a reasonable price compared to its current fair value. The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Non-current assets and groups held for disposal and discontinued operations and related liabilities are shown under specific items of consolidated assets (120. Non-current assets and groups of assets held for disposal) and consolidated liabilities (70. Liabilities associated to assets held for disposal).

Recognition criteria

The non-current assets and groups of assets held for disposal are initially recognised at the lower between the carrying amount and the fair value net of costs to sell. With the exception of certain types of assets (e.g. financial assets falling within the scope of IFRS 9), IFRS 5 specifically provides that the measurement criteria of the relevant accounting standard must be applied.

Measurement criteria

In the measurements subsequent to initial recognition, non-current assets and groups of non-current assets held for disposal continue to be valued at the lower of their carrying amount and their fair value net of costs to sell, with the exception of certain types of assets (e.g. financial assets falling within the scope of IFRS 9) for which IFRS 5 specifically provides that the measurement criteria of the relevant accounting standard must be applied.

In cases where assets held for disposal are depreciable, the depreciation process is interrupted from the time when classification as non-current assets held for disposal takes place.

Derecognition criteria

The non-current assets and groups of assets held for disposal are eliminated from the statement of financial position at the time of disposal.

If an asset (or group held for disposal) classified as held for sale loses the criteria for inclusion in accordance with accounting standard IFRS 5, the asset (or group held for disposal) must no longer be classified as held for sale.

It is necessary to assess a non-current asset that ceases to be classified as held for sale (or ceases to be part of a group held for disposal and classified as held for sale) at the lower between:

- the accounting value before the asset (or group held for disposal) was classified as held for sale, adjusted for all the amortisation, write-downs or write-backs that would have otherwise been recorded if the asset (or group held for disposal) had not been classified as held for sale;
- its recoverable value at the date of the subsequent decision to not sell.

The items include the current and deferred tax assets and current and deferred tax liabilities recognised in application of IAS 12.

The income taxes, calculated in compliance with current taxation regulations, are recorded in the income statement on an accrual basis, in line with the recognition in the accounts of the costs and revenues that generated them, except for those relating to the entries charged or credited directly in the equity, for which the recognition of the related taxation takes place in the equity.

Criteria for the recognition of the income components

Income and expenses, valuation results and profits/losses on sale (net of the tax effect) attributable to groups of assets held for disposal or recognised as such during the year are shown in the relevant consolidated income statement item 320. Profit (loss) after tax from discontinued operations.

9 - Current and deferred taxes

Current taxes

Current tax assets and liabilities are recorded at the value due or recoverable against the tax profit (loss) by applying the rates and the current taxation regulations. Current taxes that are entirely or partially unpaid at the reference date are posted under 'Current tax liabilities' of the consolidated statement of financial position.

In the event of overpayment, which gave rise to a recoverable receivable, this is accounted for among the 'Current tax assets' of the consolidated statement of financial position.

In accordance with IAS 12, the Group compensates current tax assets and liabilities if, and only if, it:

- has an enforceable right to offset the amounts recognised;
- intends to settle for the net residual, or realise the asset and simultaneously settle the liability.

Deferred taxes

Deferred tax assets and liabilities are booked by using the so-called balance sheet liability method, taking into account the temporary differences between the carrying amount of an asset or a liability and its value recognised for tax purposes. They are calculated using the applicable tax rates according to current laws, in the year when the deferred tax asset will be realised or the deferred tax liability will be settled.

Tax assets are recorded only if it is deemed probable that in the future a taxable income will be realised, against which this asset may be used.

In particular, tax regulations may lead to differences between taxable income and statutory income that, if temporary, only cause a temporal mismatch that implies the advance or deferment of the time of taxation compared to the period of accrual, thus determining a difference between the carrying amount of an asset or a liability in the statement of financial position and its value recognised for tax purposes. These differences are distinguished between 'deductible temporary differences' and 'taxable temporary differences'.

Deferred tax assets

Deductible temporary differences indicate a future reduction in taxation, against a prepayment of tax compared to the economic-statutory accrual. They generate deferred tax assets since they will determine a lower tax burden in the future, on the condition that in the following years, taxable profits are realised in a sufficient measure to cover the realisation of the taxes paid in advance.

Deferred tax assets are recorded for all the deductible temporary differences if it is probable that a taxable income will be realised against which the deductible temporary differences may be used. However, the probability of recovering advance taxes relative to goodwill, other intangible assets and adjustments to receivables is to be considered automatically fulfilled pursuant to the provisions of the law that provide for their transformation into a tax credit in the event of a statutory and/or tax loss.

The transformation enters into effect from the date of the approval of the shareholders' meeting of the separate financial statements in which the loss is recognised.

The origin of the difference between the higher fiscal income and the statutory one is mainly due to negative income components fiscally deductible in years that are subsequent to those of recognition in the financial statements.

Deferred tax liabilities

Taxable temporary differences indicate a future increase in taxation and consequently generate deferred tax liabilities, since these differences give rise to taxable amounts in the following years to those when they are attributed to the statutory income statement, determining a deferment of the taxation compared to the economic-statutory accrual.

Deferred tax liabilities are recorded for all the taxable temporary differences with the exception of the deferred tax reserves since transactions that determine the taxation are not envisaged.

The origin of the difference between the lower fiscal income and the statutory one is due to:

- positive income components taxable in years after those when they were entered in the accounts;
- deductible negative income components in years prior to the one when they will be entered in the accounts according to statutory criteria.

Assets and liabilities entered for advance and deferred taxes are systematically measured to take into account any amendments taking place in the regulations or in the rates.

Advance taxes and deferred taxes are accounted for at capital level with open balances and without offsetting and are booked in consolidated statement of financial position item 110. Tax assets, sub-item "b) deferred " and 60. Tax liabilities, sub-item "b) deferred".

If the deferred tax assets and liabilities refer to components which concerned the income statement, the contra-entry is represented by income tax. In case the advance and deferred taxes concern transactions which directly regard the equity without influencing the income statement (such as the valuation of financial instruments measured at fair value through other comprehensive income), they are recorded as a contra-entry to equity, affecting the specific reserve when applicable.

10 - Provisions for risks and charges

Classification criteria

In compliance with the provisions of IAS 37, the provisions for risks and charges include the provisions relating to current (legal or implicit) obligations originating from a past event, for which the use of economic resources is probable to fulfil the same obligation, as long as a reliable estimate of the related amount can be made.

Recognition criteria

Therefore, this item includes the following:

- provision for credit risk relative to commitments and financial guarantees issued: the value of the total provisions for credit risk is recognised in respect of the commitments to disburse funds and financial guarantees issued which are subject to the impairment rules of IFRS 9 (see paragraph 2.1, letter e); paragraph 5.5; appendix

A), including therein the financial guarantees issued and the commitments to disburse funds which are measured at the first-time recognition value, net of the total revenues booked in compliance with IFRS 15;

- provision for other commitments and guarantees issued: the value of the total provisions in respect of other commitments and other guarantees issued which are not subject to the impairment rules of IFRS 9 is recognised (see IFRS 9, paragraph 2.1, letters e) and g));
- provisions for retirement and similar obligations includes the provisions in respect of benefits provided to the employee after terminating the employment relationship in the form of defined contribution plans or defined benefit plans;
- other provisions for risks and charges: these includes other provisions for risks and charges established in compliance with the provisions of the international accounting standards (e.g. personnel expenses, tax disputes).

Measurement criteria

The amount recorded as allocation represents the best estimate possible of the charge requested to fulfil the existing obligation at the reference date.

Where the time element is significant, the provisions are discounted by using current market rates.

The allocated funds are periodically reviewed and adjusted, if necessary, to reflect the best current estimate. If, following the review, the charge becomes unlikely to be incurred, the provision is cancelled. With regard to provisions for employee benefits, please refer to paragraph "15.2 - Provision for severance indemnity and seniority bonuses" below.

Derecognition criteria

If it is unlikely that the use of resources to produce economic benefits to fulfil the obligation will be necessary, the provision must be cancelled. A provision must be used only for those expenses for which it was originally entered.

Criteria for the recognition of the income components

The provision is recognised in the income statement, in consolidated financial statements item 200. Net allocations to provisions for risks and charges.

The item includes the positive or negative balance between the allocations and any re-attributions to the income statement of funds deemed redundant.

The net allocations also include the decreases in funds for the discounting effect as well as the corresponding increases due to the passing of time (accrual of the interest implicit in discounting).

11 - Financial liabilities measured at amortised cost

Classification criteria

Financial liabilities measured at amortised cost include amounts due to banks and customers, whatever their technical form (deposits, current accounts, loans, leases), other than Financial liabilities held for trading and Financial liabilities measured at fair value.

This item also includes securities issued for funding purposes (e.g. certificates of deposit, bonds) valued at amortised cost. Securities that, at the reference date, are expired but still not repaid are included.

Recognition criteria

The initial recognition of these financial liabilities takes place upon receiving the sums collected or issuing the debt securities. The value at which they are entered corresponds to the related fair value, normally equal to the amount collected or the issue price, increased by any additional costs/income directly attributable to the individual funding or issue transaction and not repaid by the creditor counterparty. Internal costs of an administrative nature are excluded.

The fair value of the financial liabilities, possibly issued at different conditions from market conditions, is subject to a suitable estimate and the difference compared to the amount collected is, where appropriate, directly recognised in the income statement.

Measurement criteria

Following initial recognition, carried out at fair value, on the date of signing of the contract, the financial liabilities are measured at the amortised cost, using the effective interest rate method.

Excluded are the short-term liabilities, where the time factor is negligible, which remain recorded at their collected value, and whose costs and income directly attributable to the transaction are entered in the relevant items of the income statement.

Derecognition criteria

The financial liabilities are derecognised from the financial statements when settled or expired, or when securities issued by the Group are reacquired, with a consequent redefinition of the debt entered for debt securities in issue.

Criteria for the recognition of the income components

The negative income components represented by the interest expense are entered on an accrual basis in the items in the income statement relating to interest.

Any difference between the value of repurchasing own securities and the corresponding carrying amount of the liability is entered in the income statement, under the consolidated financial statements item 100. Profit (loss) from disposal/repurchase of: c) Financial liabilities.

12 – Financial liabilities held for trading

Classification criteria

Subject to recognition in this item are the financial liabilities, whatever their technical form (debt securities, loans, etc.) classified in the trading book.

The item includes, where present, the negative value of the trading derivative contracts. Derivatives connected to the fair value option are also included in this category (as defined in IAS 9, paragraph 4.2.2) which are operationally related to the assets and liabilities measured at fair value which on the statement of financial position date have a negative fair value, except for derivatives which are designated as effective hedging instruments and recognised in a separate liability item in the statement of financial position; if the fair value of a derivative subsequently becomes positive, it shall be recognised among financial assets measured at fair value through profit or loss.

Recognition criteria

The derivative financial instruments are entered at the subscription date and measured at fair value through profit or loss.

Measurement criteria

Subsequently to the initial recognition, the financial liabilities are measured at fair value through profit or loss.

For further details on how fair value is determined, please refer to paragraph "A.4 - Information on fair value" of this part A.

Derecognition criteria

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

Criteria for the recognition of the income components

Profits and losses deriving from changes in fair value and/or from the disposal of financial liabilities held for trading are recognised in the income statement under consolidated financial statements item 80. Net result from trading.

13 - Financial liabilities measured at fair value

Classification criteria

Classified in this item are those financial liabilities measured at fair value with valuation results entered in the income statement as a result of the exercise of the fair value option provided by IFRS 9, i.e. when:

- an inconsistency in the valuation or recognition is eliminated or significantly reduced (sometimes defined as an accounting mismatch), which would otherwise result from the measurement of assets or liabilities or the recognition of the associated profits and losses on a different basis;
- there is an implicit derivative;
- a group of financial liabilities or financial assets and liabilities is managed and its return is measured at fair value according to a documented risk management or investment strategy and the information relating to the group is provided internally on said basis to executives with strategic responsibilities.

Recognition criteria

Financial liabilities measured at fair value are initially recognised at fair value on the issue date, which normally corresponds to the amount collected without considering the transaction costs or income directly attributable to the same instrument, which are instead attributed to the income statement.

Measurement criteria

Liabilities are measured at fair value. The income components are reported according to the provisions of IFRS 9, as below:

- changes in fair value attributable to the change of its creditworthiness are stated in the appropriate equity reserve ('Statement of consolidated comprehensive income');
- the remaining changes in fair value are recognised in the income statement, under consolidated financial statements item 110. Net result of other financial assets and liabilities measured at fair value through profit or loss.

For further details on how fair value is determined, please refer to paragraph "A.4 - Information on fair value" of this part A.

Derecognition criteria

The financial liabilities measured at fair value are derecognised from the financial statements when they have expired or are extinct.

Derecognition also takes place in case of repurchasing previously issued securities. The difference between the carrying amount of the liability and the amount paid to purchase is recorded in the income statement.

The re-placement on the market of own shares after their repurchase is considered as a new issue with entry at the new placement price, without any effect on the income statement.

Criteria for the recognition of the income components

The cost for interest on debt instruments is classified among the interest expense and similar charges of the consolidated income statement.

The income components relating to this financial statements item are reported according to the provisions of IFRS 9, as below:

- changes in fair value attributable to the change of its creditworthiness are stated in the appropriate equity reserve ('Statement of consolidated comprehensive income');
- the remaining changes in fair value are recognised in the income statement, under consolidated financial statements item 110. Net result of other financial assets and liabilities measured at fair value through profit or loss.

14 - Foreign exchange transactions

Classification criteria

Among the assets and liabilities in foreign currencies, in addition to those explicitly expressed in a currency other than the Euro, are also those to which financial indexing clauses apply, connected to the Euro exchange rate with a certain currency or a given basket of currencies.

For the purpose of the conversion method to be used, the assets and liabilities in foreign currencies are subdivided into monetary items (classified among the current items) and non-monetary items (classified among the non-current items).

The monetary elements consist of cash at hand and in the assets and liabilities to be received or paid, in cash amounts that are fixed or to be determined. In non-monetary elements, the right to receive or the obligation to deliver a cash amount that is fixed or to be determined is absent.

Recognition criteria

Transactions in foreign currencies are recorded, at the time of initial recognition, in a currency account, by applying the exchange rate in force at the transaction date to the amount in a foreign currency.

Measurement criteria

At the time of closing the financial statements or the interim period, the elements originally denominated in foreign currencies are valued as follows:

- the monetary items are converted at the exchange rate at year-end;
- the non-monetary items valued at the historical cost are converted at the exchange rate in force at the transaction date;
- the non-monetary items carried at fair value are converted at the spot exchange rate at year-end.

Criteria for the recognition of the income components

The exchange rate differences found between the transaction date and the related payment date, on the monetary elements, are booked in the income statement in the year when they arise, together with those which derive from the conversion of monetary elements at different rates from the initial conversion rates or the conversion at the previous year-end.

When a profit or loss relating to a non-monetary element is recorded in the Equity, the exchange rate difference relating to this element is also recorded in the Equity.

When a profit or loss is recorded in the income statement, the related exchange rate difference is also recorded in the income statement.

15 - Other information

15.1 SALES AND REPURCHASE CONTRACTS (REPOS)

Securities sold and subject to a repurchase agreement are classified as committed financial instruments when the purchaser has the right to resell or re-commit the underlying asset by contract or agreement; the liability of the counterparty is included in the liabilities to other banks, other deposits or customer deposits.

The securities purchased in relation to a resale contract are accounted for as loans or down payments to other banks or customers.

The difference between the sales price and the purchase price is booked as interest and recorded on an accrual basis along the lifespan of the transaction.

15.2 PROVISION FOR SEVERANCE INDEMNITY AND SENIORITY BONUSES

Provision for severance indemnity (TFR) is similar to a post-employment benefit of the defined benefit plan type the value of which IAS 19 requires to be determined using actuarial methodologies.

Consequently, the valuation at the end of the year is made on the basis of the benefits accrued using the projected unit credit method.

This method provides for a projection of future outflows based on historical, statistical and probability analysis as well as by virtue of adopting the appropriate basic demographic techniques.

It makes it possible to calculate the TFR accrued on a certain day in actuarial terms, distributing the expense for all the years of expected residual permanence of the existing employees and no longer as an expense to be settled in the event that the company ceases its operations on the reference date.

The valuation of the employee TFR is carried out by an independent actuary pursuant to the method indicated above.

Following the entry into effect of the supplementary pension reform, pursuant to Italian Legislative Decree no. 252/2005, the portions of the provision for severance indemnity (T.F.R.) accrued to 31 December 2006 will remain in the company, while the portions that accrue from 1 January 2007 have been, based on the employee's choice, applied to supplementary pension plans or the INPS fund.

The latter were therefore recognised in the income statement based on the contributions due in each year; the obligation to the supplementary fund or INPS has not been discounted, due to a maturity of less than 12 months.

Based on IAS 19, the TFR paid to the Pension Fund Treasury (INPS) is considered as a defined contribution plan, as is the amount paid into the supplementary fund.

The portions accrued and paid into the supplementary pension funds are recognised in the consolidated income statement sub-item 190. a) personnel costs.

These cases are configured as a defined contribution plan since the obligation of the company towards the employee ends with the payment of the accrued amounts. Therefore, for these cases, only the portion of the debt can be recorded under the liabilities (among 'Other liabilities') for payments still to be made to the INPS or the supplementary funds, on the reference date.

IAS 19 requires all actuarial gains and losses accrued on the reference date to be immediately recognised in the "Statement of consolidated comprehensive income".

The 'other long-term benefits' described by IAS 19 include the seniority bonuses to employees. These benefits must be valued, in compliance with IAS 19, with the same methodology used to determine the provision for severance indemnity, as these are compatible.

The liability for the seniority bonus is recorded under the provisions for risks and charges of the statement of financial position.

The allocation, as the reattribution to the income statement of any excesses of the specific fund (due for example to changes to the actuarial assumptions) are recognised in the income statement among the "personnel costs".

15.3 RECOGNITION OF REVENUES AND COSTS

Revenues are recognised when control of the goods or services is transferred to the customer at an amount that represents the amount of the consideration to which the customer is deemed to be entitled.

Revenues are recorded through a process of analysis that involves the following steps:

- identification of the contract, defined as an agreement in which the parties have undertaken to fulfil their respective obligations;
- identification of the individual performance obligations contained in the contract;
- determination of the transaction price, i.e. the expected consideration for the transfer of the goods or services to the customer;
- allocation of the transaction price to each performance obligation, based on the sales prices of the individual obligation;
- recognition of revenues when (or as) the obligation to do is fulfilled by transferring the promised good or service to the customer.

That said, the recognition of revenues may occur:

a. at a given time, when the entity meets its obligation to do so by transferring the promised good or service to the customer; or

b. over a period of time, as the entity meets its obligation to do by transferring the promised good or service to the customer.

With reference to point b) above, a 'performance obligation' is satisfied over a period of time if at least one of the following conditions is met:

- the customer controls the asset involved in the contract at the moment in which it is created or enhanced;
- the customer simultaneously receives or consumes the benefits provided by the entity's performance as the entity performs;
- the company's performance creates a personalised asset for the customer and the company has a payment right for the services completed at the date of transfer of the asset.

If none of the above criteria are met, then the revenue is recognised at a given moment.

The indicators of the transfer of control are:

- the obligation to pay;
- the legal title of the right to the consideration accrued;
- the physical possession of the asset;
- the transfer of risks and benefits related to ownership;
- the acceptance of the asset.

With regards to revenues realised over a period of time, the Group adopts a time-based accounting method. In relation to the above, the main approaches adopted by the Group are summarised below:

- the interest is recognised on a temporal basis, based on the contractual interest rate or the effective rate in the case of applying the amortised cost;
- the overdue interest, possibly set contractually, is booked in the income statement only at the time of its actual collection;
- the dividends are recorded in the income statement in the period in which their distribution is resolved, which coincides with the period when they are collected;
- the commissions for revenues from services are entered, based on the existence of contractual agreements, in the period when the same services were rendered.

The revenues from the sale of non-financial assets are recorded at the time of finalising the sale, unless most of the risks and benefits associated with the asset have been maintained.

The costs are booked to the income statement according to the accrual principles; the costs relating to the obtainment and fulfilment of the contracts with the customer are recognised in the income statement in the periods in which the associated revenues are recognised.

15.4 IMPROVEMENTS TO THIRD-PARTY ASSETS

The restoration costs on third party properties are capitalised in consideration of the fact that, throughout the duration of the lease, the using company has the control of the goods and may gain future economic benefits from them. The aforementioned costs are classified among the 'Other assets' and are amortised for a period not exceeding the duration of the lease.

15.5 METHODS OF RECOGNITION OF IMPAIRMENT LOSSES

Impairment of financial assets

Financial assets other than those measured at fair value through profit or loss, in accordance with IFRS 9, are subject to an assessment - to be carried out at each reporting date - to verify whether there are any indicators that these assets may be impaired (so-called impairment indicators).

If the above indicators exist, the financial assets in question are considered impaired (stage 3) and value adjustments equal to the expected losses over their entire residual life must be recorded against them.

For financial assets for which there are no impairment indicators (stage 1 and stage 2), it is necessary to verify whether there are indicators such that the credit risk of the individual transaction is significantly increased compared to the time of initial recognition and apply, consequently, the criteria underlying the IFRS 9 impairment model.

The IFRS 9 impairment model

The scope of application of the IFRS 9 impairment model adopted by the Group, on which the requirements for the calculation of allocations are based, includes financial instruments such as debt securities, loans, trade receivables, assets deriving from contracts and receivables originating from lease transactions, measured at amortised cost or fair value through other comprehensive income, as well as off-balance sheet exposures (financial guarantees and commitments to disburse funds).

The aforementioned impairment model is characterised by a forward looking approach and in given circumstances, may require the immediate recognition of all expected losses over the life of a loan. This estimate will also need to be continuously adjusted to take account of the credit risk of the counterparty. In order to prepare this estimate, the impairment model must not only consider past and present data, but also information relating to future events.

For credit exposures falling within the scope of application of the impairment model, the accounting standard provides for the allocation of the individual positions in one of the 3 stages listed below:

- in stage 1, positions that do not present, at the valuation date, a significant increase in credit risk or which can be identified as 'low credit risk';
- in stage 2, positions that, at the reference date, present a significant increase of the credit risk or that do not present the characteristics to be identified as 'low credit risk';
- in stage 3, non-performing positions.

More specifically, the Group made provision for the allocation of the individual credit, cash and off-balance sheet positions, in one of the three stages listed below, based on the following criteria:

- in stage 1, positions with generation date of less than three months from the measurement date or that do not present any of the characteristics described in the previous point;
- in stage 2, the positions, which at the reference date, showed a significant increase in credit risk:
    - positions which, at the valuation date, are classified to 'watch list', i.e. 'performing under observation';
    - positions which, at the valuation date, present an increase of 200% in the 'PD' with respect to that at origination;
    - presence of a 'forborne performing' attribute;
    - presence of past due amounts and/or overrun by more than 30 days;
    - positions (without 'lifetime PD' at the disbursement date) that, at the measurement date, do not present the characteristics to be identified as 'low credit risk' (as described below);
- in stage 3, non-performing loans. These concern individual positions relating to counterparties classified in one of the impaired loan categories set forth by Bank of Italy Circular no. 272/2008 and subsequent updates. Falling into this category are impaired past due and/or overrun, 'unlikely to pay' and non-performing exposures.

Performing positions that possess the following characteristics at the measurement date are considered 'low credit risk':

- absence of 'PD lifetime' at the disbursement date;
- rating class of less than or equal to 4.

Positions are allocated automatically to the stages set out in IFRS 9 according to the criteria defined above.

The estimate of expected loss using the ECL methodology, for the classes defined above, takes place on the basis of the allocation of each position into the three reference stages, as detailed below:

- stage 1, expected loss is calculated on a time horizon of one year;
- stage 2, the expected loss is calculated by considering all the losses that it is presumed will be incurred during the entire life of the financial asset (lifetime expected loss);
- stage 3, expected loss must be calculated from a lifetime perspective, but unlike the positions in stage 2, the calculation of lifetime expected loss will be analytical. In addition, where appropriate, forward looking elements will be introduced to the measurement of the aforementioned positions represented, in particular, by the inclusion of different scenarios (e.g. sale), weighted for the relevant probability of occurrence. More specifically, as part of the estimate of the recovery value of the positions (in particular those classified as non-performing), the inclusion of a transfer scenario, as an alternative to the internal management scenario, normally involves the recognition of greater value adjustments connected with the application of weighted sale prices for the relative probability of occurrence of the transfer scenario.

With specific reference to loans to banks, the Group has adopted a model for determining the significant increase in credit risk that differs slightly from that applied to loans to customers, although the stage allocation logic adopted for loans to banks has been defined as consistently as possible with those implemented for loans to customers.

More specifically, with reference to loans to banks, the low credit risk ratios are performing ratios which at the valuation date have the following characteristics:

- absence of 'PD lifetime' at the disbursement date;
- PD Point in Time lower than 0.3%.

Interbank positions are allocated automatically to the stages set out in IFRS 9 according to the criteria defined above. Now, therefore, for loans to banks, the Group adopts the IFRS 9 impairment model developed on an ad hoc basis for the specific counterparty type and, therefore, different from the model used for loans to customers.

Also for loans to banks, the estimate of expected loss using the ECL methodology, for the classes defined above, takes place on the basis of the allocation of each position into the three reference stages, as detailed below:

- stage 1: expected loss is calculated on a time horizon of 12 months;
- stage 2: expected loss is calculated on a time horizon that incorporates the entire duration of the position until maturity (so-called lifetime expected loss or LEL);
- stage 3, expected loss must be calculated from a lifetime perspective, but unlike the positions in stage 2, the calculation of lifetime expected loss is analytical.

The probability of default and exposure at default (hereinafter also "PD" and "EAD") risk parameters are calculated by the impairment model.

The loss given default (hereinafter also "LGD") parameter is prudentially set at the regulatory level of 45% valid in the IRB Foundation model, for portfolios composed of risk assets other than subordinated and guaranteed instruments.

With reference to the portfolio of securities, the use of the approach for loans is confirmed, i.e. allocation of securities into one of the three stages set forth by IFRS 9, which correspond to the three different expected loss calculation methodologies.

In stage 1, expected loss is measured within a time horizon of one year, therefore with a probability of default at 12 months.

In the first stage of creditworthiness, securities were placed:

- at the moment of purchase, regardless of their risk;
- which, at the measurement date, have not experienced a significant increase in credit risk with respect to the moment of purchase;
- which have experienced a significant decrease in credit risk.

In the second stage, the ECL is calculated by using the probability of lifetime default. This stage will include those securities that possess the following characteristics:

- at the measurement date, the instrument presents an increase in credit risk with respect to the purchase date as such to request the recognition of an expected loss until maturity;
- instruments that fall under stage 3 on the basis of a significant decrease in risk.

The third and final stage includes exposures for which the ECL is calculated using a probability of default of 100%.

The decision to place instruments in stage 1 or in stage 2 is connected with the quantification of the thresholds that identify a significant increase in the credit risk of the individual tranche subject to valuation. These thresholds are calculated from the characteristics of the portfolio. As regards stage 3, an analysis is conducted as to whether the increase in risk was high enough, from the moment of initial recognition, to consider the assets 'impaired', i.e. whether events were verified as such to negatively impact future cash flows. As outlined previously, an incremental loss must be recognised from stage 1 to stage 3. More specifically:

- the 12-month ECL represents the expected value of the loss estimated on an annual basis;
- the lifetime ECL is the estimate of expected loss until maturity of the security;
- the ECL estimation parameters are PD, LGD and EAD of the individual tranche.

Analytical impairment of receivables in stage 3

With reference to the analytical valuation of loans, the model used by the Group to determine allocations for impaired loans (stage 3) measured at amortised cost or at fair value through other comprehensive income requires, depending on their characteristics, the use of a specific analytical valuation or a flat-rate analytical valuation.

The specific analytical valuation method is designed to determine the correct quantification of the allocations for each position, considering both the characteristics of the individual position being valued and the characteristics of the counterparty to which the same is registered.

The purpose of the flat-rate analytical valuation is to determine the correct quantification of allocations for each position and is carried out by estimating risk parameters defined by a statistical model, in line with the provisions for the collective assessment of performing exposures with reference to stage 2 credit exposures.

The flat-rate analytical valuation shall apply to credit exposures with the following characteristics:

- impaired past due and/or overrun exposures;
- impaired off-balance sheet exposures (e.g. endorsement exposures, available margins on credit);
- cash exposures classified as unlikely to pay that do not exceed an amount threshold defined at the individual debtor level (so-called size threshold);
- cash exposures classified as non-performing that do not exceed the size threshold.

The specific analytical valuation applies to credit exposures that have the following characteristics:

- cash exposures classified as unlikely to pay that exceed the size threshold;
- cash exposures classified as non-performing that exceed the size threshold.

For the purposes of applying the size threshold, the overall credit exposure is taken as a reference at the level of the individual debtor, thus determining, alternatively, a flat-rate or specific analytical valuation for all cash relationships in the name of the same debtor. The size threshold for counterparties classified as unlikely to pay and non-performing is EUR 200,000.

The assessment of expected losses, in particular with regard to non-performing exposures, shall be carried out taking into account the probability that different credit realisation scenarios will occur, such as the assignment of the exposure or, conversely, internal management.

With regard to the specific analytical valuation of recoverable value (valuation component), the Group adopts two alternative approaches that reflect the characteristics and riskiness of individual credit exposures:

- going concern approach, which applies only to business counterparties, operating in sectors other than real estate, that have objective prospects of going concern that are assumed when:
  - the debtor's future operating cash flows are pertinent and can be reliably estimated from documentable sources, such as:
    - updated, complete and regular official financial statements;
    - the business plan, the use of which for estimating cash flows is subject to (i) verification of the reliability and feasibility of the assumptions underlying the plan and (ii) full compliance with the plan, if it is already in progress;
    - the plan provided for in relation to agreements pursuant to the Bankruptcy Law such as, for example, pursuant to Article 67 letter d), Article 182-bis and septies, Article 186 bis, Article 160 *et seq.*, it being understood that as long as the plans have only been submitted and not sworn in by the external professional appointed, the participating banks must carry out the same checks as those provided for with reference to the business plans;
  - the debtor's future operating cash flows are adequate to repay the financial debt to all creditors;
- gone concern approach, which applies mandatorily to credit exposures in the name of individuals and for companies with a view to business cessation or where it is not possible to estimate operating cash flows.

The discounting of the recoverable value (financial component), applied for non-performing loans and unlikely to pay, is based on the determination of the discount rate and the recovery time.

Impairment of equity investments

At each reporting date, investments in associates or jointly controlled companies are subject to an impairment test to verify whether there is objective evidence that the carrying amount of the assets in question is not fully recoverable.

The presence of impairment indicators (such as the presence of lower than expected economic performance of the investee company, significant changes in the environment or in the market where the company operates or in market interest rates, etc.) leads to the recognition of an impairment loss to the extent that the recoverable value of the investment is lower than its carrying amount.

The recoverable value is represented by the higher of the fair value, net of costs to sell and the value in use of the equity investment. As a consequence, the need to estimate both values does not apply if one of them has been valued above the carrying amount.

For the valuation methods used to determine fair value, reference should be made to paragraph "A.4 - Information on fair value" in this part A.

The value in use of the investment is the present value of the expected cash flows from the asset. This quantity responds to a general logic according to which the value of an asset is a direct expression of the cash flows it is able to generate over the period of its use. The determination of value in use therefore presupposes the estimate of the cash flows expected from the use of the assets or their final disposal expressed in terms of present value through the use of appropriate discount rates.

When an equity investment does not generate cash flows that are largely independent from other assets, it is subject to an impairment test not independently, but at the level of the cash generating unit (hereinafter also referred to as "CGU"). Therefore, when assets attributable to a subsidiary are included in a CGU larger than the investment itself, the impairment test can only be carried out at the latter level and not at the level of the individual investee company for which a value in use cannot be correctly estimated.

If the outcome of the impairment test shows that the recoverable value is higher than the carrying amount of the equity investment, no impairment loss is recognised; otherwise, an impairment loss is recognised in consolidated income statement item 250. Profits (losses) on equity investments.

Should the recoverable value subsequently be higher than the new carrying amount because it can be demonstrated that the elements that led to the write-down are no longer present, a write-back is permitted up to the amount of the previously recorded adjustment.

Impairment of other fixed assets

Tangible assets

IAS 36 establishes that, at least once a year, the company must verify whether the tangible assets held show one or more indicators of impairment. If such indicators are found, the enterprise must carry out a valuation in order to detect any impairment loss (so-called impairment test).

The impairment test does not apply to the tangible assets that constitute:

- real estate investments measured at fair value (IAS 40);
- inventories (IAS 2);
- assets within the scope of IFRS 5.

The impairment indicators to be considered are those defined by para. 12 of IAS 36. In this regard, impairment indicators specific to tangible assets may occur, for example, in the presence of obsolescence that prevents normal use of the same such as fire, collapse, unusability and other structural defects.

Although IAS 36 is applicable to individual assets, it is often very difficult or, in some cases, impossible to calculate the value in use of an individual tangible asset. For example, it is not always possible to attribute specific incoming or outgoing cash flows to a property that houses the Management (so-called corporate asset) or to a plant or machinery. In these cases, IAS 36 states that the CGU, i.e. the smallest grouping of assets that generates independent cash flows, must be identified and tested at this higher level (rather than on the individual asset). This is precisely because it is often a group of assets - and not a single asset - that generates cash flow and for this reason it is not possible to calculate the value in use of the individual asset.

Without prejudice to the above, the impairment test involves the need to compare the recoverable value (which in turn is the higher of value in use and fair value net of costs to sell) of the tangible asset or the CGU with the relative carrying amount.

If and only if the recoverable value of an asset or of the CGU is lower than its carrying amount, the latter must be reduced to the recoverable value, configuring an impairment loss.

Intangible assets

Pursuant to IAS 36, the Group is required to perform an impairment test at least once a year, irrespective of the presence of impairment indicators, on the following assets:

- intangible assets with an indefinite useful life (including goodwill);
- intangible assets not yet available for use (including those in progress);

Other intangible assets (e.g. those with a defined useful life such as core deposits acquired in a business combination) must be subject to an impairment test only if there is an indicator of impairment.

In this regard, the impairment indicators to be considered for intangible assets are those defined by para. 12 of IAS 36. Specific impairment indicators for intangible assets (and in particular for goodwill) may occur, for example, in the event of actual results significantly below budget forecasts (which suggests a downward revision of the projections used for the test) or in the event of an increase in the discount rate or a reduction in the long-term growth rate.

Intangible assets with a definite life, such as any value of the asset management portfolio acquired as part of business combinations, in the presence of impairment indicators are subject to a new assessment process to verify the recoverability of the values recorded in the financial statements. The recoverable value is determined on the basis of the value in use, i.e. the present value, estimated using a rate representative of the time value of money and the risks specific to the asset, the profit margins generated by the relationships existing at the date of the valuation over a time horizon expressing the expected residual duration of the same.

Intangible assets with an indefinite life, represented mainly by goodwill, as mentioned above, are tested annually for impairment. As there are no independent cash flows, the impairment test is carried out for the above mentioned assets with reference to the CGU to which the values have been attributed.

The CGU represents the smallest identifiable group of assets generating cash inflows (revenues) that are largely independent of the flows generated by other assets or groups of assets. It identifies the lowest possible level of aggregation of assets provided that it is, at that level, possible to identify cash inflows that are objectively independent and autonomous from other assets.

Once the CGUs have been identified, it is necessary to determine their recoverable value, which will be compared with their carrying amount in order to quantify any impairment. The recoverable value is defined as the greater of:

- value in use;
- fair value less costs to sell.

IAS 36 para. 19 states that if one of the two values (value in use or fair value less costs to sell) is higher than the carrying amount of the CGU, it is not necessary to estimate the other.

Value in use represents the present value of future cash flows expected to arise from a CGU. The value in use, therefore, responds to a general logic according to which the value of an asset is a direct expression of the cash flows it is able to generate over the period of its use. The determination of value in use requires an estimate of the expected cash inflows and outflows from the CGU and the appropriate discount rate depending on the level of risk of these flows.

Fair value is the amount obtainable from the sale of an asset or cash generating unit in a free transaction between knowledgeable and independent counterparties. Costs to sell include those directly associated with the potential sale (e.g. legal fees).

A CGU is written down when its carrying amount is higher than its recoverable value. In substance, it is necessary to write down the asset or the CGU because it suffers an impairment loss either because the cash flows deriving from the use of the asset are not sufficient to recover the carrying amount of the asset, or because the asset would be sold at a value lower than its carrying amount.

15.6 BUSINESS COMBINATIONS

A business combination consists of the bringing together of companies or company activities into a single entity required to prepare financial statements.

A business combination may give rise to an investment link between the parent company (acquiror) and subsidiary (acquiree). A business combination may also make provision for the purchase of the net assets of another company, including any goodwill, or the acquisition of the capital of another company (mergers and contributions).

Based on the provisions of IFRS 3, business combinations must be accounted for by applying the purchase method which envisages the following phases:

- identification of the purchaser;
- determination of the cost of the business combination;
- allocation, at the acquisition date, of the cost of the business combination to the assets acquired and liabilities assumed, including therein any contingent liabilities.

In particular, the cost of a business combination is determined as the sum of the fair value, at the date of the exchange, of the assets transferred, the liabilities incurred or assumed and the equity instruments issued, in exchange for control of the acquiree. augmented by any cost directly attributable to the business combination.

The acquisition date is the date on which control of the business acquired is effectively obtained. When the acquisition is carried out via a single exchange, the exchange date coincides with the acquisition date.

When the business combination is achieved through several exchange transactions:

- the cost of the combination is the total cost of the individual transactions;
- the exchange date is the date of each exchange transaction (i.e. the date on which each investment is recognised in the financial statements of the acquiring company), while the acquisition date is the date on which control of the business acquired is obtained.

The cost of a business combination is allocated by recognising the identifiable assets, liabilities and contingent liabilities of the acquiree at the associated fair values at the acquisition date.

The identifiable assets, liabilities and contingent liabilities of the acquiree are recognised separately at the acquisition date only if, at said date, they satisfy the following criteria:

- in the event of an asset other than an intangible asset, it is likely that any future related economic benefits flow to the acquiror and it is possible to reliably measure its fair value;
- in the event of a liability other than a contingent liability, it is likely that, to extinguish the obligation, the use of resources aimed at generating economic benefits will be necessary and it is possible to reliably measure its fair value;
- in the event of an intangible asset or a contingent liability, the relevant fair value can be reliably measured.

The positive difference between the cost of the business aggregation and the acquiror's interest at the net fair value of the identifiable assets, liabilities and contingent liabilities must be accounted for as goodwill.

Following initial recognition, the goodwill acquired in a business combination is measured at the relevant cost, and is subject to an impairment test at least annually. In the event of a negative difference, a new measurement is performed. This negative difference, if confirmed, is booked immediately as revenue in the income statement.

15.7 ACCRUALS AND DEFERRALS

Accruals and deferrals that include expenses and income pertaining to the period accrued on assets and liabilities are booked to the financial statements as an adjustment to the assets and liabilities to which they refer.

15.8 OWN SHARES

Any own shares held are deducted from equity. Similarly, the original cost of the same and the profits or losses arising from their subsequent sale are recognised as movements in equity. Similarly, shares issued by the Parent Company and subscribed by the affiliated Banks as part of the sole consolidating entity are also deducted from Group's equity.

15.9 SHARE BASED PAYMENTS

This case does not apply to the Group, as it does not have a so-called 'stock option plan' in place on Group-issued shares.

A.3 - Information on transfers between portfolios of financial assets

The Group has not performed any transfer between the portfolios of the financial instruments during the current year. Thus the compilation of the envisaged tables is omitted.

A.4 - Information on fair value

The accounting standard IFRS 13 defines fair value as "the price that would be received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."

The fair value policy of the Cassa Centrale Group has defined the principles and methods for determining the fair value of financial instruments and the criteria for determining the fair value hierarchy.

A fair value measurement assumes that the sale of the asset or the transfer of the liability takes place:

- in the main market for the asset or liability;
- in the absence of a main market, in the most advantageous market for the asset or liability.

In the absence of a main market, all reasonably available information is taken into consideration in order to identify an active market among the available markets where the fair value of an asset/liability can be measured: in general, a market is active in relation to the number of contributors and the type of the same (dealer, market maker), the frequency of price updating and deviation, the presence of an acceptable bid-offer spread. These prices are immediately executable and binding and express the actual and regular levels of exchange on the valuation date.

In order to identify these markets, the Group has equipped itself with tools to identify and monitor whether or not a market can be considered active, in particular with regard to bonds, shares and funds.

In this respect, in general, a financial instrument is considered to be quoted on an active market if prices are readily and regularly available, are immediately executable and binding and represent actual market transactions that occur regularly in normal trading on a regulated market or Multilateral Trading Facilities (MTF).

The presence of official prices in an active market is the best evidence of fair value; these prices therefore represent the prices to be used in priority for fair value measurements.

In the absence of an active market, fair value is determined using prices recorded on non-active markets, valuations provided by info providers or techniques based on valuation models.

When using such models, the use of relevant observable inputs shall be maximised where possible and the use of non-observable inputs shall be minimised. Observable inputs refer to prices formed within a market and used by market participants in determining the exchange price of the financial instrument being valued. This includes prices of the same asset/liability in a non-active market, parameters supported and confirmed by market data and valuation estimates based on daily observable inputs.

The non-observable inputs, on the other hand, are those not available on the market, processed on the basis of assumptions that the operators/assessors would use in determining the fair value for the same instrument or similar instruments of the same type.

IFRS 13 defines a fair value hierarchy that classifies the inputs of the valuation techniques adopted to measure fair value into three distinct levels. In particular, there are three levels of fair value:

a) Level 1: fair value is determined on the basis of quoted prices observed on active markets. The Group has equipped itself with tools to identify and monitor whether or not a market can be considered active with regard to bonds, shares and funds. The prices that are recorded on these markets to which the Group has access are considered level 1 prices. For example, the following are classified at this level of fair value:

- bonds listed on Bloomberg MTF and valued with composite prices or, limited to Italian government securities, with MOT reference price;
- shares and ETFs listed on markets where in the last five sessions the volumes traded are not zero and the prices recorded are not identical;
- UCITS mutual funds.

b) Level 2: fair value is determined on the basis of valuation techniques that envisage:

- reference to market values that do not reflect the stringent active market requirements envisaged for Level 1;
- valuation models using inputs observable on active markets.

More specifically, with regard to financial instruments for which it is not possible to identify a fair value in active markets, the Group refers to prices in markets where the stringent requirements of the active market are not met or to valuation models - also developed by info providers - aimed at estimating the price at which a regular sale or transfer of a liability between market operators would take place on the valuation date. These models for determining fair value (e.g. discounting cash flow model, option pricing models) include the representative risk factors that condition the valuation of a financial instrument (cost of money, credit risk, volatility, exchange rates, etc.) and that are observed in active markets such as:

- the prices of similar financial assets/liabilities;
- interest rates and yield curves observable at commonly quoted intervals;
- implied volatility;
- credit spread;
- inputs corroborated by the market based on observable market data.

The fair value thus determined is assigned a level of 2. Some examples of securities classified at this level are:

- non-governmental bonds for which a price is available on a non-active market;
- securities for which the valuation is provided by a third party provider using inputs observable on active markets;
- securities for which valuation is provided using internal models based on inputs observable on active markets (e.g. bonds measured at fair value option);
- shares that are not listed on an active market;
- OTC (Over the counter) financial derivatives concluded with institutional counterparties measured mainly through observable market data.

c) Level 3: the estimate of fair value is carried out using valuation techniques that make significant use of inputs that are not observable on the market and assumptions made by operators using historical evidence or statistical assumptions. Where present, as examples, the following are classified at this level:

- unlisted minority equity investments;
- insurance investment products;
- unlisted non-UCITS funds;
- junior securitisation securities;
- unlisted Additional Tier 1 bonds.

The classification of fair value is a figure that may vary over the life of a financial instrument. Consequently, it is necessary to verify on an ongoing basis the significance and observability of market data in order to proceed with any change in the level of fair value attributed to an instrument.

Information of a qualitative nature

A.4.1 FAIR VALUE LEVELS 2 AND 3: VALUATION TECHNIQUES AND INPUTS USED

As noted above, in the absence of an active market, fair value is determined using valuation techniques appropriate to the circumstances. Below is an illustration of the main valuation techniques adopted for each type of financial instrument, where an internal model is used to determine fair value.

The valuation models are reviewed periodically to ensure their full and constant reliability and are updated to the most up-to-date techniques used on the market.

Unlisted bonds not contributed by info providers

The procedure for estimating the fair value of bonds is based on a discounted cash flow model.

The yield curve used in the discounting is constructed from liquid bonds, with the same seniority and currency of the instrument being valued, issued by companies belonging to the same sector and with a similar rating class.

As part of the fair value measurement of bonds issued by the issuer, the estimate of fair value takes into account changes in the issuer's creditworthiness. In particular, for securities issued by affiliated Banks or other cooperative credit banks, the rating class is determined on the basis of the creditworthiness of the parent company. Changes in the rating may also lead to changes in the fair value calculated according to the characteristics of the security and the discount curve used.

Given the predominant use of observable inputs, the fair value thus determined is classified at level 2.

Derivatives

The fair value of OTC derivatives, for which there is no price quoted on regulated markets, is determined using different quantitative models depending on the type of instrument. In detail, for non-optional instruments the valuation techniques adopted belong to the discount cash flow model category (e.g. interest rate swaps, FX swaps). For instruments of an optional rate nature, the Black and Scholes model commonly known as a market benchmark is used.

The models are supplied using market-observable inputs such as rate curves, exchange rates and volatility.

With regards to the determination of the fair value of OTC derivatives in statement of financial position assets, IFRS 13 confirmed the rule of applying the credit valuation adjustment - CVA. With regard to financial liabilities involving OTC derivatives, IFRS 13 introduces the debt valuation adjustment (DVA), i.e. an adjustment to fair value which aims to reflect its own default risk on those instruments.

The Group therefore considered it reasonable not to recognise a correction in the fair value of derivatives for CVA and DVA in the cases in which agreements had been made and remained operative for collateralisation of the positions and derivatives with the following characteristics:

- a bilateral exchange of guarantees with a high frequency (daily or at the most weekly);
- the type of guarantee provided in cash or highly liquid government securities with a high credit rating, subject to an appropriate spread;
- absence of a threshold of the fair value of the derivative under which an exchange of guarantees is not required or setting the level to such a threshold which is adequate to allow for effective and significant mitigation of the counterparty risk;
- MTA - minimum transfer amount (that is the difference between the fair value of the contract and the value of the guarantee) under which there is no adjustment of the collateralisation of the positions, identified contractually at a level that allows for essential mitigation of the counterparty risk.

Unlisted minority equity investments

The main valuation methods adopted by the Group, in accordance with the provisions of IFRS 13, in the valuation of unlisted minority equity investments are set out below:

- market methodologies (market approach): these are based on the idea of comparability with other market participants assuming that the value of an asset can be determined by comparing it to similar assets for which market prices are available. In particular, in practice, two reference sources of market prices are taken into account: stock market prices in active markets and observable information from merger transactions, acquisition or sale of share packages (direct transaction method, transaction multiples, market multiples);
- income approach: these are based on the assumption that future cash flows (e.g. cash flows or dividends) are convertible into a single (discounted) current value. In particular, the main methodologies that fall into this category include i) discounted cash flow (DCF); ii) dividend discount model (DDM); iii) appraisal value;
- adjusted net asset value or ANAV: this method is based on the principle of expressing, at current values, the individual elements of the assets (represented, essentially, by equity investments, whether controlling or not) and liabilities with the emergence also of any items not recorded in the financial statements. This method is normally used to determine the economic value of holding companies and investment companies whose value is closely related to the portfolio of equity investments held.

In accordance with the provisions of IFRS 13, the Group verifies, depending on the specific case, whether it is necessary to apply certain adjustments to the economic value resulting from the application of the aforementioned valuation methods to determine the fair value of the investment under analysis (e.g. liquidity discount, control premium, minority discount).

The choice of valuation approach is left to the judgement of the valuer as long as it favours, compatibly with the available information, methodologies that maximise the use of observable inputs on the market and minimise the use of non-observable inputs.

Lastly, it should be noted that the Group uses the net asset value or cost method (as a proxy for fair value) for minority interests below certain materiality thresholds for which no fair value measurement based on the aforementioned methods is available, based on specific parameters defined within the Fair Value Policy approved by the Board of Directors.

Unlisted mutual investment funds

Mutual investment funds such as unlisted real estate funds, private equity funds and alternative investment funds (hereinafter also referred to as 'AIFs') are characterised by a portfolio of assets generally valued with subjective inputs and provide for the redemption of the subscribed portion only at a certain maturity.

For this reason, the net asset value (NAV) used as a fair value estimation technique is considered to be level 3.

Insurance investment products

The valuation of these assets provides for the discounting of expected future cash flows from the investment. In this regard, the estimate of cash flows is based on the use of risk-free financial scenarios in which a Monte-Carlo simulative approach is used for the projection of future returns from the separate holding. The input data of the functional model for the estimation of flows consist of:

- historical information on the performance of the separate holdings involved;
- risk-free rates;
- the average asset allocation of the Italian separate holdings taken from market data (source: ANIA) at the last available survey compared to the valuation date.

Cash flow projections are made using a financial-actuarial model that incorporates the data of the policyholder, the financial structure of the insurance investment product (minimum guaranteed rates, management fees), demographic assumptions and financial data in order to consider the value of the financial options included in the insurance investment product. These cash flows are finally discounted using the same risk-free curve specific to the individual scenario.

Loans and receivables

The fair value measurement of loans mainly takes place in cases where the relationship fails the SPPI test or in cases of hedge accounting or application of the fair value option.

The valuation method consists of discounting the contractual cash flows net of the expected loss calculated in accordance with the IFRS 9 model used to estimate value adjustments.

Unlisted Additional Tier 1 (AT1) subordinated bank securities issued by affiliated Banks

The procedure for estimating the fair value of Additional Tier 1 securities is based on a discounted cash flow model. The yield curve used in discounting is constructed from liquid bonds, taking into account the seniority of the instrument, the sector and the rating class of the issuer. Taking into account the presence, within the model, of assumptions on the evolution of future cash flows, the fair value thus determined is classified at level 3.

A.4.2 PROCESSES AND SENSITIVITIES OF THE VALUATIONS

The Group generally carries out a sensitivity analysis of non-observable inputs, through a stress test on non-observable inputs that are significant for the evaluation of the different types of financial instruments belonging to level 3 of the fair value hierarchy.

On the basis of this analysis, potential changes in fair value are determined, by type of instrument, attributable to plausible changes in non-observable inputs. The sensitivity analysis was developed for the financial instruments for which the valuation techniques adopted made it possible to carry out this exercise.

That said, financial instruments with a fair value level 3 represent a residual portion (approximately 8%) of the total portfolio of financial assets. They consist mainly of unlisted minority equity investments and insurance investment products (typically life insurance policies).

With reference to the unlisted minority equity investments, the investment in Iccrea Banca S.p.A. (hereinafter also "Iccrea") is notable in terms of significance, amounting to approximately EUR 142 million as at the reporting date. This was not subject to sensitivity analysis considering that the fair value was determined on the basis of the price defined in the agreement signed in October 2019 between the Parent Company and Iccrea regarding the definition of reciprocal participation arrangements. Given that the value of the equity investment will be realised at the price already established in the agreement, which cannot therefore be subject to change, it was considered that the sensitivity analysis has no significant informative value.

With reference to insurance investment products, as highlighted above, these are valued on the basis of a calculation model that provides for the discounting of future cash flows expected from the same investment, taking into account financial, demographic and contractual assumptions.

For the above instruments, considering that the financial and demographic assumptions are derived from observable market data (e.g. Italian risk-free interest rate maturity structure with volatility adjustment, ISTAT mortality table, etc.), the sensitivity analysis was carried out with reference to the non-observable inputs underlying the contractual assumptions (relatively less relevant for valuation purposes).

In particular, the sensitivity analysis concerned the spread (obtained by weighting the historical yields of the reference separate holding) added to the Euroswap rate in order to determine the functional capitalisation rate to calculate, starting from the last insured capital communicated by the insurance companies, the insured capital at the valuation date. The above analysis was carried out on a sample of instruments of this type and showed little significant effects on the fair value of the insurance investments resulting from the change in the non-observable inputs under examination, also due to the aforementioned circumstance that the non-observable inputs underlying the contractual assumptions are in relative terms less relevant for valuation purposes.

With reference to the other fair value level 3 instruments, the sensitivity analysis is not produced because the effects deriving from the change in the non-observable inputs are considered not relevant.

With reference to the equity investment in Banca Carige S.p.A. - Cassa di Risparmio di Genova e Imperia (hereinafter also referred to as "Carige"), given the valuation model adopted, no analysis of sensitivity to non-observable inputs was considered relevant.

A.4.3 FAIR VALUE HIERARCHY

For a description of the fair value hierarchy levels envisaged by the Group, please refer to paragraph "A.4 - Information on fair value" above.

With reference to assets and liabilities measured at fair value, classification at the correct level is carried out with reference to the rules and methods set out in internal regulations.

Any transfers to a different level of hierarchy are identified on a monthly basis. The transition from level 3 to level 2 occurs when the relevant parameters used as input to the valuation technique are, at the reference date, observable on the market. The transition from level 2 to level 1 takes place when the presence of an active market, as defined by IFRS 13, has been successfully verified. The transition from level 2 to level 3 occurs when, at the reference date, several of the significant parameters in determining fair value are not directly observable on the market.

A.4.4 OTHER INFORMATION

The Group does not hold groups of financial assets and liabilities based on its net exposure to market risks or credit risk.

The Group, with reference to derivatives concluded with financial counterparties with which it stipulated framework offsetting agreements, availed itself of the possibility to measure the fair value at overall portfolio exposure level in order to take account of the offsetting of counterparty risk. The CVA/DVA calculated at portfolio level is allocated to the individual derivative contracts based on the fair value of the said individual contracts forming the object of the offsetting agreements.

Information of a quantitative nature

A.4.5 FAIR VALUE HIERARCHY

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

	31/12/2019		
FINANCIAL ASSETS/LIABILITIES MEASURED AT FAIR VALUE	**L1**	**L2**	**L3**
1. Financial assets measured at fair value through profit or loss	160	54	388
a) financial assets held for trading	-	7	-
b) financial assets measured at fair value	-	-	2
c) other financial assets obligatorily measured at fair value	160	47	386
2. Financial assets measured at fair value through other comprehensive income	7,161	105	282
3. Hedging derivatives	-	3	-
4. Tangible assets	-	-	18
5. Intangible assets	-	-	-
Total	**7,321**	**162**	**688**
1. Financial liabilities held for trading	-	7	-
2. Financial liabilities measured at fair value	-	51	-
3. Hedging derivatives	-	43	-
Total	**-**	**101**	**-**

KEY:

L1 = Level 1

L2 = Level 2

L3 = Level 3

During the year, there were no significant transfers of assets and liabilities between level 1 and level 2 as defined by IFRS 13 para. 93, letter c).

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

	Financial assets measured at fair value through profit or loss				Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Tangible assets	Intangible assets
	Total	of which: a) financial assets held for trading	of which: b) financial assets measured at fair value	of which: c) other financial assets obligatorily measured at fair value				
1. OPENING BALANCES	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2. INCREASES	**511**	**3**	**2**	**506**	**447**	**-**	**20**	**-**
2.1. Purchases	60	-	-	60	99	-	-	-
2.2. Profit attributed to:	12	-	-	12	6	-	-	-
2.2.1. Income Statement	12	-	-	12	2	-	-	-
- of which capital gains	5	-	-	5	1	-	-	-
2.2.2. Equity	-	X	X	X	4	-	-	-
2.3. Transfers from other levels	-	-	-	-	22	-	-	-
2.4. Other increases	439	3	2	434	320	-	20	-
3. DECREASES	**123**	**3**	**-**	**120**	**165**	**-**	**2**	**-**
3.1. Sales	15	3	-	12	137	-	1	-
3.2. Repayments	100	-	-	100	1	-	-	-
3.3. Losses attributed to:	5	-	-	5	4	-	1	-
3.3.1. Income Statement	5	-	-	5	2	-	1	-
- of which capital losses	4	-	-	4	2	-	1	-
3.3.2. Equity	-	X	X	X	2	-	-	-
3.4. Transfers to other levels	-	-	-	-	1	-	-	-
3.5. Other decreases	3	-	-	3	22	-	-	-
4. CLOSING BALANCES	**388**	**-**	**2**	**386**	**282**	**-**	**18**	**-**

The item "2.4 Other increases" includes the opening balances of the entities falling within the scope of consolidation, including the Parent Company, arising from the first-time consolidation of the Group, broken down as follows:

- Financial assets measured at fair value through profit or loss equal to EUR 426 million;
  - of which financial assets held for trading of EUR 2 million;
  - of which financial assets measured at fair value of EUR 2 million;

- of which other financial assets obligatorily measured at fair value amounting to EUR 422 million.

- Financial assets measured at fair value through other comprehensive income equal to EUR 313 million.
- Tangible assets of EUR 16 million.

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

As at the reporting date, the Group does not hold any liabilities measured at fair value on a recurring base classified to level 3.

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

ASSETS AND LIABILITIES WHICH ARE NOT MEASURED AT FAIR VALUE OR WHICH ARE MEASURED AT FAIR VALUE ON A NON-RECURRING BASIS	31/12/2019			
	CA	L1	L2	L3
1. Financial assets measured at amortised cost	60,932	18,590	1,463	41,417
2. Tangible assets held for investment purposes	96	-	-	93
3. Non-current assets and groups of assets held for disposal	9	-	-	7
Total	**61,037**	**18,590**	**1,463**	**41,517**
1. Financial liabilities measured at amortised cost	64,143	-	3,418	60,703
2. Liabilities associated to assets held for disposal	-	-	-	-
Total	**64,143**	**-**	**3,418**	**60,703**

KEY:

CA = Carrying amount

L1 = Level 1

L2 = Level 2

L3 = Level 3

A.5 - Information on the day one profit/loss

The Group did not carry out any transactions for which, at the moment of first-time recognition of a financial instrument, a difference emerges between the purchase value and the value of the instrument obtained using internal valuation techniques.

Part B - Information on the consolidated statement of financial position

Assets

Below are the sections concerning consolidated assets as at 31 December 2019.

As described in Part A - Accounting policies - A.1 - General part - Section 3 - Scope and methods of consolidation, following the establishment of the Cassa Centrale Group, the parent company and the affiliated Banks that joined the Group constitute a "single consolidating entity" for the purposes of preparing the consolidated financial statements.

In relation to the above, as described in detail in Section 3 - Scope and methods of consolidation, the tables in the Consolidated Explanatory Notes do not show the comparative balances for the previous year. It should also be noted that, within the tables showing the changes in the year, the balances resulting from the consolidation of the affiliated Banks, at the date of incorporation of the Group, are shown under the sub-item "Other changes".

Section 1 - Cash and cash equivalents - Item 10

1.1 Cash and cash equivalents: breakdown

	Total 31/12/2019
a) Cash	550
b) Deposits on demand at central banks	5
Total	**555**

The sub-item 'Deposits on demand at central banks' refers to transactions with the Bank of Italy.

Section 2 - Financial assets measured at fair value through profit or loss - Item 20

2.1 Financial assets held for trading: breakdown by category

ITEMS/VALUES	Total 31/12/2019		
	L1	L2	L3
A. Cash assets			
1. Debt securities	-	-	-
1.1 Structured securities	-	-	-
1.2 Other debt securities	-	-	-
2. Equities	-	-	-
3. UCITS units	-	-	-
4. Loans	-	-	-
4.1 Repos	-	-	-
4.2 Other	-	-	-
Total (A)	**-**	**-**	**-**
B. DERIVATIVE INSTRUMENTS			
1. Financial derivatives	-	7	-
1.1 trading	-	6	-
1.2 connected to the fair value option	-	1	-
1.3 other	-	-	-
2. Credit derivatives	-	-	-
2.1 trading	-	-	-
2.2 connected to the fair value option	-	-	-
2.3 other	-	-	-
Total (B)	**-**	**7**	**-**
Total (A+B)	**-**	**7**	**-**

KEY:

L1 = Level 1

L2 = Level 2

L3 = Level 3

This item contains the financial assets (debt securities, equities, UCITS units, and derivatives) classified in the trading book.

2.2 Financial assets held for trading: breakdown by debtors/issuers/counterparties

ITEMS/VALUES	Total 31/12/2019
A. CASH ASSETS	
1. Debt securities	-
a) Central Banks	-
b) Public bodies	-
c) Banks	-
d) Other financial companies	-
of which: insurance companies	-
e) Non-financial companies	-
2. Equities	-
a) Banks	-
b) Other financial companies	-
of which: insurance companies	-
c) Non-financial companies	-
d) Other issuers	-
3. UCITS units	-
4. Loans	-
a) Central Banks	-
b) Public bodies	-
c) Banks	-
d) Other financial companies	-
of which: insurance companies	-
e) Non-financial companies	-
f) Households	-
Total (A)	-
B. DERIVATIVE INSTRUMENTS	
a) Central counterparties	-
b) Other	7
Total (B)	**7**
Total (A+B)	**7**

2.3 Financial assets measured at fair value: breakdown by category

ITEMS/VALUES	Total 31/12/2019		
	L1	L2	L3
1. DEBT SECURITIES	-	-	-
1.1 Structured securities	-	-	-
1.2 Other debt securities	-	-	-
2. LOANS	-	-	2
2.1 Structured	-	-	-
2.2 Other	-	-	2
Total	-	-	2

KEY:

L1 = Level 1

L2 = Level 2

L3 = Level 3

2.4 Financial assets measured at fair value: breakdown by debtors/issuers

ITEMS/VALUES	Total 31/12/2019
1. DEBT SECURITIES	-
a) Central Banks	-
b) Public bodies	-
c) Banks	-
d) Other financial companies	-
of which: insurance companies	-
e) Non-financial companies	-
2. LOANS	2
a) Central Banks	-
b) Public bodies	-
c) Banks	-
d) Other financial companies	-
of which: insurance companies	-
e) Non-financial companies	-
f) Households	2
Total	2

2.5 Other financial assets obligatorily measured at fair value: breakdown by category

ITEMS/VALUES	Total 31/12/2019		
	L1	L2	L3
1. Debt securities	-	47	17
1.1 Structured securities	-	-	-
1.2 Other debt securities	-	47	17
2. Equities	18	-	-
3. UCITS units	142	-	85
4. Loans	-	-	284
4.1 Repos	-	-	-
4.2 Other	-	-	284
Total	**160**	**47**	**386**

KEY:

L1 = Level 1

L2 = Level 2

L3 = Level 3

The sub-item "1.2. Other debt securities" includes junior securities relating to securitisation transactions for about EUR 4 million classified at fair value level 3.

Loans include approximately EUR 221 million in life insurance policies issued by insurance companies, linked to the return on a separate holding, and obligatorily measured at fair value following the failure of the SPPI test.

The item 'UCITS units' is composed of the following main categories of funds:

- bonds totalling EUR 79 million;
- stocks totalling EUR 49 million;
- balanced totalling EUR 39 million;
- real estate totalling approximately EUR 33 million;
- NPLs totalling EUR 26 million;
- private equity totalling approximately EUR 1 million.

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

	Total 31/12/2019
1. EQUITIES	**18**
of which: banks	1
of which: other financial companies	1
of which: non-financial companies	16
2. DEBT SECURITIES	**64**
a) Central Banks	-
b) Public bodies	11
c) Banks	17
d) Other financial companies	36
of which: insurance companies	13
e) Non-financial companies	-
3. UCITS UNITS	**227**
4. LOANS	**284**
a) Central Banks	-
b) Public bodies	-
c) Banks	-
d) Other financial companies	266
of which: insurance companies	221
e) Non-financial companies	12
f) Households	6
Total	**593**

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

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

ITEMS/VALUES	Total 31/12/2019		
	L1	L2	L3
1. Debt securities	7,157	105	3
1.1 Structured securities	-	-	-
1.2 Other debt securities	7,157	105	3
2. Equities	4	-	279
3. Loans	-	-	-
Total	**7,161**	**105**	**282**

KEY:

L1 = Level 1

L2 = Level 2

L3 = Level 3

The item "2. Equities" includes residual Iccrea Banca S.p.A. securities held by the affiliated Banks for about EUR 142 million. These securities are part of the agreement that allowed the Cassa Centrale Group's stake in Iccrea Banca S.p.A. to be reduced below the 10% threshold. The remainder will be sold in full in annual and proportional instalments by 31 December 2022.

This item also includes equities relating to Cassa Centrale Banca's participation in the Carige share capital increase of EUR 63 million (8.34% of the share capital).

3.2. Financial assets measured at fair value through other comprehensive income: breakdown by debtors/issuers

ITEMS/VALUES	Total 31/12/2019
1. DEBT SECURITIES	**7,265**
a) Central Banks	-
b) Public bodies	6,972
c) Banks	247
d) Other financial companies	27
of which: insurance companies	-
e) Non-financial companies	19
2. EQUITIES	**283**
a) Banks	229
b) Other issuers:	54
- other financial companies	11
of which: insurance companies	4
- non-financial companies	34
- other	9
3. LOANS	**-**
a) Central Banks	-
b) Public bodies	-
c) Banks	-
d) Other financial companies	-
of which: insurance companies	-
e) Non-financial companies	-
f) Households	-
Total	**7,548**

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

	Gross value				Total value adjustments			Overall partial write-offs*
	First stage	of which: Instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	
Debt securities	7,266	6,391	3	1	4	-	1	-
Loans	-	-	-	-	-	-	-	-
Total	**7,266**	**6,391**	**3**	**1**	**4**	**-**	**1**	**-**
of which: impaired financial assets acquired or originated	X	X	-	-	X	-	-	-

*Value to be displayed for information

The division by stage of risk of financial assets measured at fair value through other comprehensive income is applied in compliance with the provisions of the impairment model in application of IFRS 9.

For more detailed information, please refer to Part A - Accounting policies in paragraph "15.5 Methods of recognition of impairment losses" and Part E - Information on risks and related hedging policies.

Section 4 - Financial assets measured at amortised cost - Item 40

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

TYPE OF TRANSACTIONS/VALUES	Total 31/12/2019					
	Carrying amount			Fair value		
	First and second stage	Third stage	of which: impaired acquired or originated	L1	L2	L3
A. LOANS TO CENTRAL BANKS	**455**	**-**	**-**	**-**	**-**	**455**
1. Fixed-term deposits	-	-	-	X	X	X
2. Compulsory reserve	455	-	-	X	X	X
3. Repos	-	-	-	X	X	X
4. Other	-	-	-	X	X	X
B. LOANS TO BANKS	**1,084**	**-**	**-**	**177**	**217**	**704**
1. Loans	**711**	**-**	**-**	**-**	**20**	**692**
1.1 Current accounts and deposits on demand	337	-	-	X	X	X
1.2. Fixed-term deposits	281	-	-	X	X	X
1.3. Other loans:	93	-	-	X	X	X
- Repos receivables	-	-	-	X	X	X
- Financing for leases	1	-	-	X	X	X
- Other	92	-	-	X	X	X
2. Debt securities	**373**	**-**	**-**	**177**	**197**	**12**
2.1 Structured securities	-	-	-	-	-	-
2.2 Other debt securities	373	-	-	177	197	12
Total	**1,539**	**-**	**-**	**177**	**217**	**1,159**

KEY:

L1 = Level 1

L2 = Level 2

L3 = Level 3

The balance of "Other debt securities" includes the subscription, by the Cassa Centrale Group, of the subordinated bond issued by Carige at an annual rate of 8.25%. This subordinated loan was subscribed by Cassa Centrale Banca and its affiliated Banks for a nominal value of EUR 100 million.

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

TYPE OF TRANSACTIONS/VALUES	Total 31/12/2019					
	Carrying amount			Fair value		
	First and second stage	Third stage	of which: impaired acquired or originated	L1	L2	L3
1. LOANS	**39,059**	**1,885**	**-**	**-**	**1,115**	**40,052**
1. Current accounts	4,707	335	-	X	X	X
2. Repos receivables	-	-	-	X	X	X
3. Mortgage loans	29,429	1,459	-	X	X	X
4. Credit cards, personal loans and salary-backed loans	759	13	-	X	X	X
5. Financing for leases	586	29	-	X	X	X
6. Factoring	-	-	-	X	X	X
7. Other loans	3,578	49	-	X	X	X
2. DEBT SECURITIES	**18,449**	**-**	**-**	**18,413**	**131**	**206**
2.1. Structured securities	-	-	-	-	-	-
2.2. Other debt securities	18,449	-	-	18,413	131	206
Total	**57,508**	**1,885**	**-**	**18,413**	**1,246**	**40,258**

KEY:

L1 = Level 1

L2 = Level 2

L3 = Level 3

Loans to customers are shown net of value adjustments from write-downs. Impaired assets include the non-performing loans, unlikely to pay and past due exposures according to Bank of Italy Circular no. 272 of 30 July 2008 and subsequent updates. Details of these exposures, the amounts and the breakdown of the value adjustments, are shown in Part E of the Explanatory notes - 'Credit quality'. The fair value of short-term or revocable receivables was conventionally assumed to be equal to the carrying amount. For the impaired positions it was deemed appropriate to assume the fair value equal to the net carrying amount.

The item "2.2. Other debt securities" includes senior securities relating to securitisation transactions for approximately EUR 180 million classified at fair value level 3.

Loans to customers include loans from third-party funds under administration with risk borne by the Group amounting to approximately EUR 96 million.

4.3 Financial assets measured at amortised cost: breakdown by debtors/issuers of loans to customers

TYPE OF TRANSACTIONS/VALUES	Total 31/12/2019		
	First and second stage	Third stage	of which: impaired assets acquired or originated
1. DEBT SECURITIES	**18,449**	**-**	**-**
a) Public bodies	18,181	-	-
b) Other financial companies	240	-	-
of which: insurance companies	-	-	-
c) Non-financial companies	28	-	-
2. LOANS TO:	**39,059**	**1,885**	**-**
a) Public bodies	207	-	-
b) Other financial companies	853	13	-
of which: insurance companies	-	-	-
c) Non-financial companies	17,846	1,179	-
d) Households	20,153	693	-
Total	**57,508**	**1,885**	**-**

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

	Gross value				Total value adjustments			Overall partial write-offs*
	First stage	of which: Instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	
Debt securities	18,799	16,555	83	1	23	37	1	-
Loans	33,612	945	6,923	4,188	76	234	2,303	305
Total 31/12/2019	**52,411**	**17,500**	**7,006**	**4,189**	**99**	**271**	**2,304**	**305**
of which: impaired financial assets acquired or originated	X	X	-	-	X	-	-	-

*Value to be displayed for information purposes

The division by stage of risk of financial assets measured at amortised cost is applied in compliance with the provisions of the impairment model in application of IFRS 9.

For more detailed information on the impairment model, please refer to Part A - Accounting policies in paragraph "15.5 Methods of recognition of impairment losses" and Part E - "Information on risks and related hedging policies".

Section 5 - Hedging derivatives - Item 50

This item features the derivative contracts designated as effective hedging instruments, which at the reference date show a positive fair value.

With regard to hedging transactions, the Group continues to apply IAS 39 in full for accounting purposes, as required by the transitional provisions of IFRS 9.

With regard to the objectives and strategies underlying hedging transactions, please refer to the information provided in Part E - Information on risks and related hedging policies, Section 3 - Derivatives and hedging policies.

5.1 Hedging derivatives: breakdown by type of coverage and levels

	FV 31/12/2019			NV 31/12/2019
	L1	L2	L3	
A. FINANCIAL DERIVATIVES	**-**	**-**	**-**	**-**
1. Fair value	-	3	-	43
2. Cash Flows	-	-	-	-
3. Foreign Investments	-	-	-	-
B. CREDIT DERIVATIVES	**-**	**-**	**-**	**-**
1. Fair value	-	-	-	-
2. Cash Flows	-	-	-	-
Total	**-**	**3**	**-**	**43**

KEY:

NV = notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

5.2 Hedging derivatives: breakdown by hedged portfolio and type of hedge

HEDGING TRANSACTIONS/TYPE	Fair value							Cash flows		Foreign Investments
	Specific						Macro	Specific	Macro	
	debt securities and interest rates	equities and stock market indices	currencies and gold	loans	commodities	others				
1. Financial assets measured at fair value through other comprehensive income	-	-	-	-	X	X	X	-	X	X
2. Financial assets measured at amortised cost	-	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	-	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	-	-	-	-	-	-	-	-	-	-
1. Financial liabilities	3	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	**3**	-	-	-	-	-	-	-	-	
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	-	X	-	-

Section 6 - Adjustment of the financial assets subject to macro-hedging - Item 60

This item includes the balance of changes in the value of assets subject to macro interest rate risk hedging, for the application of which the Group avails itself of the possibility, provided by IFRS 9, to continue to apply IAS 39 in the carve-out version.

6.1 Value adjustment of hedged assets: breakdown by hedged portfolios

VALUE ADJUSTMENT OF HEDGED ASSETS/VALUES	Total 31/12/2019
1. POSITIVE ADJUSTMENT	**31**
1.1 of specific portfolios:	7
a) financial assets measured at amortised cost	7
b) financial assets measured at fair value through other comprehensive income	-
1.2 total	24
2. NEGATIVE ADJUSTMENT	**-**
2.1 of specific portfolios:	-
a) financial assets measured at amortised cost	-
b) financial assets measured at fair value through other comprehensive income	-
2.2 total	-
Total	**31**

Section 7 - Equity investments - Item 70

This section includes the equity investments in companies under joint control or subject to a significant influence (IAS 28 and IFRS 11).

As at the reporting date, the value of the equity investments amounted to EUR 89 million, relating:

- to 'significant' equity investments totalling EUR 57 million (as represented in the following table 7.2);
- to 'non significant' equity investments totalling EUR 32 million (as represented, on the whole, in the following table 7.4).

The scope of 'significant equity investments' was determined by considering the materiality of the carrying amount of the investment and the share of the investee's assets with respect to the homogeneous balances relating to the current financial statements.

7.1 Equity investments: information on investment ratios

NAME	Registered office	Operating headquarters	Relationship type*	Investment relationship		Votes available %
				Investing company	% Share	
A. JOINTLY CONTROLLED COMPANIES						
CASSE RURALI RAIFFEISEN FINANZIARIA S.p.A.	Bolzano	Bolzano	7	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.P.A.	50.00	50.00
FRONTE PARCO IMMOBILIARE S.r.l.	Bologna	Bologna	7	BANCA DI BOLOGNA CREDITO COOPERATIVO - COOPERATIVE COMPANY	50.00	50.00
B. COMPANIES SUBJECT TO A SIGNIFICANT INFLUENCE						
LE CUPOLE	Manerbio (BS)	Manerbio (BS)	4	CASSA PADANA BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	22.00	22.00
FINANZIARIA DELLE BANCHE DI CREDITO COOPERATIVO DEL FRIULI VENEZIA GIULIA PER LO SVILUPPO DEL TERRITORIO S.r.l. IN ABBREVIATED FORM - BCC SVILUPPO TERRITORIO FVG	Udine	Udine	4	BANCATER CREDITO COOPERATIVO FVG - COOPERATIVE COMPANY	17.16	17.16
				PRIMACASSA - CREDITO COOPERATIVO FVG - COOPERATIVE COMPANY	8.77	8.77
				ZKB CREDITO COOPERATIVO DI TRIESTE E GORIZIA - COOPERATIVE COMPANY	8.77	8.77
				CREDITO COOPERATIVO - CASSA RURALE ED ARTIGIANA DEL FRIULI VENEZIA GIULIA - COOPERATIVE COMPANY	7.26	7.26
				FRIULOVEST BANCA - CREDITO COOPERATIVO - COOPERATIVE COMPANY	7.26	7.26
				BANCA DI CREDITO COOPERATIVO DI TURRIACO - COOPERATIVE COMPANY	0.99	0.99
					50.21	50.21
FINANZIARIA TRENTINA DELLA COOPERAZIONE	Trento	Trento	4	CASSA RURALE ALTA VALSUGANA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	7.19	7.19
				CASSA RURALE ALTO GARDA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	6.53	6.53
				CASSA RURALE DI TRENTO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	5.22	5.22
				CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.P.A.	4.08	4.08

NAME	Registered office	Operating headquarters	Relationship type*	Investment relationship		Votes available %
				Investing company	% Share	
				CASSA RURALE LAVIS - MEZZOCORONA - VALLE DI CEMBRA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	3.26	3.26
				CASSA RURALE DOLOMITI DI FASSA PRIMIERO E BELLUNO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	3.26	3.26
				CASSA RURALE VAL DI FIEMME - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	3.12	3.12
				CASSA RURALE VAL DI NON - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	2.96	2.96
				CASSA RURALE VALSUGANA E TESINO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	2.88	2.88
				CASSA RURALE ADAMELLO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	2.45	2.45
				OTHER MINORITY INTERESTS	6.56	6.56
					47.51	47.51
PARTECIPAZIONI COOPERATIVE S.r,l.	Trento	Trento	4	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.P.A.	13.92	13.92
				CASSA RURALE ALTA VALSUGANA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	5.1	5.1
				CASSA RURALE DI TRENTO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	4.64	4.64
				CASSA RURALE VAL DI NON - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	3.71	3.71
				CASSA RURALE ALTO GARDA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	3.48	3.48
				CASSA RURALE DOLOMITI DI FASSA PRIMIERO E BELLUNO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	2.32	2.32
				CASSA RURALE DI ROVERETO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	2.32	2.32

NAME	Registered office	Operating headquarters	Relationship type*	Investment relationship		Votes available %
				Investing company	% Share	
				CASSA RURALE LAVIS - MEZZOCORONA - VALLE DI CEMBRA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	2.32	2.32
				CASSA RURALE VAL DI FIEMME - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	2.32	2.32
				CASSA RURALE VALLAGARINA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	2.09	2.09
				OTHER MINORITY INTERESTS	6.27	6.27
					48.49	48.49
CENTRALE TRADING	Trento	Trento	4	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.P.A.	32.5	32.5
				PHOENIX INFORMATICA BANCARIA S.p.A.	10	10
					42.5	42.5
CONSORZIO SERVIZI BANCARI CO.SE.BA. S.C.P.A.	Bari	Bari	4	BANCA DI CREDITO COOPERATIVO DI CONVERSANO - COOPERATIVE COMPANY	7.98	7.98
				BANCA DI CREDITO COOPERATIVO DI ALBEROBELLO E SAMMICHELE DI BARI - COOPERATIVE COMPANY	7.21	7.21
				BANCA DI CREDITO COOPERATIVO DI SAN GIOVANNI ROTONDO - COOPERATIVE COMPANY	6.64	6.64
				BANCA DI CREDITO COOPERATIVO DI CASSANO DELLE MURGE E TOLVE - COOPERATIVE COMPANY	6.54	6.54
				BANCA DI CREDITO COOPERATIVO DI LOCOROTONDO CASSA RURALE E ARTIGIANA - COOPERATIVE COMPANY	4.84	4.84
				CREDITO COOPERATIVO CENTRO CALABRIA - COOPERATIVE COMPANY	3.93	3.93
				BANCA DI CREDITO COOPERATIVO DI SAN MARZANO DI SAN GIUSEPPE - TARANTO - COOPERATIVE COMPANY	2.05	2.05
				OTHER MINORITY INTERESTS	1.83	1.83
					41.02	41.02

NAME	Registered office	Operating headquarters	Relationship type*	Investment relationship		Votes available %
				Investing company	% Share	
SCOUTING S.p.A.	Bellaria - Igea Marina (RN)	Bellaria - Igea Marina (RN)	4	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.P.A.	8.26	8.26
				ROMAGNABANCA CREDITO COOPERATIVO ROMAGNA EST E SALA DI CESENATICO - COOPERATIVE COMPANY	6	6
				CASSA RURALE ALTA VALSUGANA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	6.29	6.29
				BANCA MALATESTIANA - CREDITO COOPERATIVO - COOPERATIVE COMPANY	4.65	4.65
				BANCA PREALPI SAN BIAGIO CREDITO COOPERATIVO - COOPERATIVE COMPANY	4.65	4.65
					29.85	29.85
FORMAZIONE LAVORO SOCIETA' CONSORTILE PER AZIONI	Trento	Trento	4	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.P.A.	22.21	22.21
				CASSA RURALE ALTA VALSUGANA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	1.64	1.64
				CASSA RURALE VAL DI NON - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	1.52	1.52
				CASSA RURALE ALTO GARDA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	1.27	1.27
				CASSA RURALE VALLAGARINA - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	1.23	1.23
				OTHER MINORITY INTERESTS	7.58	7.58
					35.45	35.45
CABEL HOLDING S.p.A.	Empoli (FI)	Empoli (FI)	4	BANCA DI CREDITO COOPERATIVO DI CASTAGNETO CARDUCCI - COOPERATIVE COMPANY	19.5	19.5
				CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.P.A.	7.66	7.66
				BANCA LAZIO NORD CREDITO COOPERATIVO - COOPERATIVE COMPANY	2.01	2.01
					29.17	29.17

NAME	Registered office	Operating headquarters	Relationship type*	Investment relationship		Votes available %
				Investing company	% Share	
SERENA S.r.l.	Manzano (UD)	Manzano (UD)	4	BANCATER CREDITO COOPERATIVO FVG - COOPERATIVE COMPANY	29.06	29.06
RITTNERHORN SEILBAHNEN AG	Renon (BZ)	Renon (BZ)	4	CASSA RURALE RENON - COOPERATIVE COMPANY	26.51	26.51
SENIO ENERGIA S.r.l.	Faenza (RA)	Faenza (RA)	4	BANCA DI CREDITO COOPERATIVO DELLA ROMAGNA OCCIDENTALE - COOPERATIVE COMPANY	22.22	22.22
RENDENA GOLF S.p.A.	Bocenago (TN)	Bocenago (TN)	4	CASSA RURALE ADAMELLO - BANCA DI CREDITO COOPERATIVO - COOPERATIVE COMPANY	24.76	24.76
SERVIZI E FINANZA FVG S.r.l.	Udine	Udine	4	CASSA CENTRALE BANCA - CREDITO COOPERATIVO ITALIANO S.P.A.	24.51	24.51

* Relationship type:
1 - majority of voting rights in the ordinary shareholders' meeting
2 - dominant influence in the ordinary shareholders' meeting
3 - agreements with other shareholders
4 - company subject to a significant influence
5 - unitary management pursuant to Article 26, paragraph 1, of "Legislative Decree 87/92"
6 - unitary management pursuant to Article 26, paragraph 2, of "Legislative Decree 87/92"
7 - joint ventures
8 - other type of relationship.

For the criteria and methods of determination of the consolidation scope and the reasons for which there is recourse to joint control or significant influence, please refer to Part A - Accounting policies of these Explanatory notes.

7.2 Significant equity investments: carrying amount, fair value and dividends received

NAME	Carrying amount	Fair value	Dividends received
A. JOINTLY CONTROLLED COMPANIES			
CASSE RURALI RAIFFEISEN FINANZIARIA S.p.A.	15	-	-
B. COMPANIES SUBJECT TO A SIGNIFICANT INFLUENCE			
CABEL HOLDING S.p.A.	12	-	-
FINANZIARIA DELLE BANCHE DI CREDITO COOPERATIVO DEL FRIULI VENEZIA GIULIA PER LO SVILUPPO DEL TERRITORIO S.r.l. IN ABBREVIATED FORM - BCC SVILUPPO TERRITORIO FVG	10	-	-
FONDO LEONIDA	7	-	-
FINANZIARIA TRENTINA DELLA COOPERAZIONE	7	-	-
ASSICURA S.r.l.	6	-	-
Total	**57**	**-**	**-**

7.3 Significant equity investments: accounting information

The table shows the data obtained from the last accounting position available.

NAME	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues	Interest margin	Value adjustments and write-backs on tangible and intangible assets	Profit (loss) before tax from current operating activities	Profit (loss) after tax from current operating activities	Profit (loss) after tax from discontinued operations	Profit (loss) for the year (1)	Other post-tax income components (2)	Comprehensive income (3) = (1) + (2)
A. JOINTLY CONTROLLED COMPANIES														
CASSE RURALI RAIFFEISEN FINANZIARIA S.p.A.	-	63	-	32	-	1	-	-	-	-	-	-	5	5
B. SUM OF THE NET WEIGHTED POSITIONS														
CABEL HOLDING S.p.A.	X	25	17	-	1	4	X	1	-	-	-	-	-	-
FINANZIARIA DELLE BANCHE DI CREDITO COOPERATIVO DEL FRIULI VENEZIA GIULIA PER LO SVILUPPO DEL TERRITORIO S.r.l. IN ABBREVIATED FORM - BCC SVILUPPO TERRITORIO FVG	X	19	-	-	-	-	X	-	-	-	-	-	-	-
FONDO LEONIDA	X	-	9	1	-	-	X	-	-	-	-	-	-	-
FINANZIARIA TRENTINA DELLA COOPERAZIONE	X	10	1	-	-	-	X	-	-	-	-	-	-	-
ASSICURA S.r.l.	X	6	2	-	-	-	X	-	-	-	-	-	-	-

7.4 Non significant equity investments: accounting information

NAME	Carrying amount of equity investments	Total assets	Total liabilities	Total revenues	Profit (loss) after tax from current operating activities	Profit (loss) after tax from operating activities	Profit (loss) for the year (1)	Other post-tax income components (2)	Comprehensive income (3) = (1) + (2)
A. JOINTLY CONTROLLED COMPANIES	-	28	27	3	-	-	-	-	-
B. COMPANIES SUBJECT TO A SIGNIFICANT INFLUENCE	32	88	40	18	(4)	-	(4)	-	(4)

The table shows the information of an accounting nature, cumulatively by type of investment relationship, with reference to non significant companies subject to significant influence. 'Total liabilities' does not include Equity.

In the column 'Total revenues' the total amount of the income components with a positive sign is shown, gross of their tax effect. The values are expressed with reference to the percentage held by the Group, as required by IFRS 12.

7.5 Equity investments: annual changes

	Total 31/12/2019
A. OPENING BALANCES	**-**
B. INCREASES	**98**
B.1 Purchases	-
B.2 Write-backs	-
B.3 Revaluations	1
B.4 Other changes	97
C. DECREASES	**9**
C.1 Sales	3
C.2 Value adjustments	1
C.3 Write-downs	5
C.4 Other changes	-
D. CLOSING BALANCES	**89**
E. TOTAL REVALUATIONS	**1**
F. TOTAL ADJUSTMENTS	**1**

The item "B4. Other changes" includes EUR 97 million relating to the opening balances of the entities falling within the scope of consolidation, including the Parent Company, arising from the first-time consolidation of the Group.

The main changes in equity investments during the current year are summarised below:

- sale of the investment in Assicura Cooperazione Trentina S.r.l held by Cassa Centrale Banca for approximately EUR 3 million;
- adjustment of the value of equity investments valued at equity for a net amount of approximately EUR 1.7 million between write-downs and total revaluations.

7.6 Significant valuations and assumptions to establish the existence of joint control or significant influence

For the criteria and methods of determination of the consolidation scope and the reasons for which there is recourse to joint control or significant influence, please refer to Part A - Accounting policies (IFRS 12 para. 7, letters b) and c)).

7.7 Commitments referring to equity investments in subsidiaries under joint control

It should be noted that there are no commitments and contingent liabilities deemed significant.

7.8 Commitments referring to equity investments in companies subject to a significant influence

It should be noted that there are no commitments and contingent liabilities deemed significant.

7.9 Significant restrictions

There are no significant restrictions on the ability of joint ventures or associates to transfer funds to the entity in the form of dividends, loan repayments or advances made by the entity.

7.10 Other information

For most of the companies subject to joint control or significant influence, the timing of availability of the year-end financial statements is not compatible with the timing of the consolidated financial statements of the Cassa Centrale Group; in this regard, for the application of the equity method, reference is made to the latest available accounting reports, represented, in most cases, by the latest financial statements or half-yearly report available.

In any case, when the accounting records of the associate or joint venture used in applying the equity method refer to a date other than that of the consolidated financial statements, adjustments are made to take into account the effects of significant transactions or events that occurred between that date and the date of the Group's consolidated financial statements.

As at the reporting date, there were no impairment losses affecting the carrying amount of investments in companies subject to joint control or significant influence; for these investments, for which there is no implicit goodwill, the carrying amount of the net investment is therefore substantially in line with the corresponding share of equity held.

Section 8 - Reinsurers' share of technical provisions - Item 80

The tables of this section do not contain information and therefore were not filled in.

Section 9 - Tangible assets - Item 90

9.1 Tangible assets for business use: breakdown of the assets measured at cost

ASSETS/VALUES	Total 31/12/2019
1. ASSETS OWNED	950
a) land	150
b) buildings	675
c) furniture	46
d) electronic systems	25
e) other	54
2. RIGHTS OF USE ACQUIRED THROUGH LEASE	136
a) land	-
b) buildings	129
c) furniture	-
d) electronic systems	6
e) other	1
Total	1,086
of which: obtained through the enforcement of guarantees received	4

For details of the rights of use acquired through lease, please refer to the information provided at the end of table "9.6 Tangible assets for business use: annual changes".

9.2 Tangible assets held for investment purposes: breakdown of the assets measured at cost

ASSETS/VALUES	Total 31/12/2019			
	Carrying amount	Fair value		
		L1	L2	L3
1. ASSETS OWNED	96	-	-	93
a) land	29	-	-	29
b) buildings	67	-	-	64
2. RIGHTS OF USE ACQUIRED THROUGH LEASE	-	-	-	-
a) land	-	-	-	-
b) buildings	-	-	-	-
Total	96	-	-	93
of which: obtained through the enforcement of guarantees received	15	-	-	14

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

9.3 Tangible assets for business use: breakdown of the revalued assets

ASSETS/VALUES	Total 31/12/2019		
	L1	L2	L3
1. ASSETS OWNED	**-**	**-**	**6**
a) land	-	-	1
b) buildings	-	-	5
c) furniture	-	-	-
d) electronic systems	-	-	-
e) other	-	-	-
2. RIGHTS OF USE ACQUIRED THROUGH LEASE	**-**	**-**	**-**
a) land	-	-	-
b) buildings	-	-	-
c) furniture	-	-	-
d) electronic systems	-	-	-
e) other	-	-	-
Total	**-**	**-**	**6**
of which: obtained through the enforcement of guarantees received	-	-	-

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

9.4 Tangible assets held for investment purposes: breakdown of the assets measured at fair value

ASSETS/VALUES	Total 31/12/2019		
	L1	L2	L3
1. ASSETS OWNED	**-**	**-**	**12**
a) land	-	-	1
b) buildings	-	-	11
2. RIGHTS OF USE ACQUIRED THROUGH LEASE	**-**	**-**	**-**
a) land	-	-	-
b) buildings	-	-	-
Total	**-**	**-**	**12**
of which: obtained through the enforcement of guarantees received	-	-	-

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

9.5 Inventories of tangible assets disciplined by IAS 2: breakdown

ASSETS/VALUES	Total 31/12/2019
1. INVENTORIES OF TANGIBLE ASSETS OBTAINED THROUGH THE ENFORCEMENT OF GUARANTEES RECEIVED	**31**
a) land	27
b) buildings	4
c) furniture	-
d) electronic systems	-
e) other	-
2. OTHER INVENTORIES OF TANGIBLE ASSETS	**41**
Total	**72**
of which: measured at fair value net of costs to sell	-

Other inventories of tangible assets mainly include real estate that is not functional to banking activities.

9.6 Tangible assets for business use: annual changes

	Land	Buildings	Furniture	Electronic systems	Other	Total
A. GROSS OPENING BALANCES	**-**	**-**	**-**	**-**	**-**	**-**
A.1 Total net impairment	-	-	-	-	-	-
A.2 NET OPENING BALANCES	**-**	**-**	**-**	**-**	**-**	**-**
B. INCREASES:	**152**	**876**	**56**	**47**	**78**	**1,209**
B.1 Purchases	-	16	12	9	11	48
B.2 Expenditures for capitalised improvements	-	4	-	-	-	4
B.3 Write-backs	-	-	-	-	-	-
B.4 Positive fair value changes charged to	-	3	-	-	-	3
a) equity	-	3	-	-	-	3
b) income statement	-	-	-	-	-	-
B.5 Positive exchange rate differences	-	-	-	-	-	-
B.6 Transfers from properties held for investment purposes	-	-	X	X	X	-
B.7 Other changes	152	853	44	38	67	1,154
C. DECREASES:	**1**	**67**	**10**	**16**	**23**	**117**
C.1 Sales	1	7	1	-	1	10
C.2 Depreciation	-	50	9	14	18	91
C.3 Value adjustments for impairment charged to	-	6	-	-	-	6
a) equity	-	-	-	-	-	-
b) income statement	-	6	-	-	-	6
C.4 Negative fair value changes charged to	-	1	-	-	-	1
a) equity	-	1	-	-	-	1
b) income statement	-	-	-	-	-	-
C.5 Negative exchange rate differences	-	-	-	-	-	-
C.6 Transfers to:	-	2	-	-	-	2
a) tangible assets held for investment purposes	-	2	X	X	X	2
b) non-current assets and groups of assets held for disposal	-	-	-	-	-	-
C.7 Other changes	-	1	-	2	4	7
D. NET CLOSING BALANCES	**151**	**809**	**46**	**31**	**55**	**1,092**
D.1 Total net impairment	-	56	9	14	18	97
D.2 GROSS CLOSING BALANCES	**151**	**1,150**	**254**	**150**	**288**	**1,993**
E. Valuation at cost	3	38	3	-	5	49

The item "B.7 Other changes" also includes the positive opening balances relating to the entities falling within the scope of consolidation, including the Parent Company Cassa Centrale Banca, arising from the first-time consolidation of the Group, broken down as follows:

- land amounting to EUR 152 million;
- buildings amounting to EUR 840 million;
- furniture amounting to EUR 42 million;
- electronic systems amounting to 37 million Euro;
- other tangible assets amounting to EUR 64 million.

Tangible fixed assets are depreciated, i.e. the depreciable value of the asset is charged to the income statement in portions reflecting its long-term use based on its estimated useful life.

With regard to the rights of use acquired through lease, the annual changes in this category are shown below:

	Branches	Cars	Land	Real estate per employees	Offices	Warehouses and other areas	Equipment	Other	Buildings	Total
Balance as at 1 January	**97**	**1**	**-**	**-**	**37**	**1**	**3**	**1**	**-**	**140**
Of which:										
- Historical cost	97	1	-	-	37	1	3	1	-	**140**
- Depreciation fund	-	-	-	-	-	-	-	-	-	**-**
Increases	13	1	-	-	5	-	2	1	-	**22**
Decreases	(3)	-	-	-	-	-	-	-	-	**(3)**
Depreciation	(20)	(1)	-	-	(1)	-	(1)	-	-	**(23)**
Impairment	-	-	-	-	-	-	-	-	-	**-**
Balance as at 31 December	**87**	**1**	**-**	**-**	**41**	**1**	**4**	**2**	**-**	**136**
Of which:										
- Historical cost	107	2	-	-	42	1	5	2	-	**159**
- Depreciation fund	(20)	(1)	-	-	(1)	-	(1)	-	-	**(23)**

The item "Equipment", amounting to EUR 4 million, mainly refers to ATMs and cash-in-cash-out machines.

The item "Other" mainly includes the rights of use deriving from the lease of locations for the installation of ATMs.

The item "Increases" includes rights of use relating to contracts signed during the period. Changes in assets per right of use due to contractual changes are recorded under "Increases" and "Decreases".

As at the reporting date, there were no leaseback transactions for the Group.

The balance as at 1 January 2020 includes the amount resulting from the first-time adoption of IFRS16 for a total of approximately EUR 120 million.

9.7 Tangible assets held for investment purposes: annual changes

	TOTAL	
	Land	Buildings
A. OPENING BALANCES	**-**	**-**
B. INCREASES	**30**	**89**
B.1 Purchases	2	1
B.2 Expenditures for capitalised improvements	-	-
B.3 Positive fair value changes	-	-
B.4 Write-backs	-	-
B.5 Positive exchange rate differences	-	-
B.6 Transfers from properties for business use	-	2
B.7 Other changes	28	86
C. DECREASES	**-**	**11**
C.1 Sales	-	4
C.2 Depreciation	-	1
C.3 Negative fair value changes	-	-
C.4 Value adjustments for impairment	-	6
C.5 Negative exchange rate differences	-	-
C.6 Transfers to:	-	-
a) properties for business use	-	-
b) non-current assets and groups of assets held for disposal	-	-
C.7 Other changes	-	-
D. CLOSING BALANCES	**30**	**78**
E. Valuation at fair value	14	42

The item "B.7 Other changes" also includes the positive opening balances relating to the entities falling within the scope of consolidation, including the Parent Company Cassa Centrale Banca, arising from the first-time consolidation of the Group, broken down as follows:

- land amounting to EUR 28 million;
- buildings amounting to EUR 86 million.

Tangible assets for investment purposes are recorded in the financial statements at purchase or construction cost.

The item "E. Valuation at fair value" shows the fair value of real estate for information purposes.

9.8 Inventories of tangible assets disciplined by IAS 2: annual changes

	Inventories of tangible assets obtained through the enforcement of guarantees received					Other inventories of tangible assets	Total
	Land	Buildings	Furniture	Electronic systems	Other		
A. OPENING BALANCES	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. INCREASES	**28**	**6**	**-**	**-**	**-**	**47**	**81**
B.1 Purchases	1	-	-	-	-	1	2
B.2 Write-backs	-	-	-	-	-	-	-
B.3 Positive exchange rate differences	-	-	-	-	-	-	-
B.4 Other changes	27	6	-	-	-	46	79
C. DECREASES	**1**	**2**	**-**	**-**	**-**	**6**	**9**
C.1 Sales	1	2	-	-	-	-	3
C.2 Value adjustments for impairment	-	-	-	-	-	6	6
C.3 Negative exchange rate differences	-	-	-	-	-	-	-
C.4 Other changes	-	-	-	-	-	-	-
D. CLOSING BALANCES	**27**	**4**	**-**	**-**	**-**	**41**	**72**

The item "B.4 Other changes" also includes the positive opening balances relating to the entities falling within the scope of consolidation, including the Parent Company Cassa Centrale Banca, arising from the first-time consolidation of the Group, broken down as follows:

- land amounting to EUR 26 million;
- buildings amounting to EUR 6 million;
- other inventories of tangible assets amounting to EUR 46 million.

9.9 Commitments for tangible asset purchases

As required by paragraph 74, letter c) of IAS 16, at the reference date of these financial statements the contractual commitments for the purchase of tangible assets amounted to approximately EUR 14 million and mainly refer to the completion of buildings for business use under construction for approximately EUR 10 million.

Section 10 - Intangible assets - Item 100

10.1 Intangible assets: breakdown by type of asset

ASSETS/VALUES	Total 31/12/2019	
	Definite duration	Indefinite duration
A.1 GOODWILL	**X**	**28**
A.1.1 pertaining to the Group	X	28
A.1.2 pertaining to minority interests	X	-
A.2 OTHER INTANGIBLE ASSETS	**53**	**-**
A.2.1 Assets valued at cost:	53	-
a) intangible assets generated internally	-	-
b) other assets	53	-
A.2.2 Assets measured at fair value:	-	-
a) intangible assets generated internally	-	-
b) other assets	-	-
Total	**53**	**28**

In compliance with the relevant accounting regulations:

- all the intangible assets are valued at cost;
- no amortisation has been calculated for intangible assets with an indefinite life.

No internally generated intangible assets were posted.

Information on the impairment test of goodwill

As required by IAS 36 Impairment of Assets, goodwill is tested for impairment at least once a year.

The consolidated goodwill, prior to the impairment test amounting to EUR 55 million, mainly relates to the acquisition of Phoenix Informatica Bancaria S.p.A. (now Allitude S.p.A.), Servizi Bancari Associati S.p.A. (hereinafter also "SBA"), Nord Est Asset Management S.A. (hereinafter also "NEAM") and the Assicura Group between 2017 and 2018.

The procedures relating to the impairment test of goodwill include the following steps:

- identification of the cash generating units (hereinafter also 'CGUs');
- determination of the carrying amount of the CGU;
- determination of the recoverable value of the CGUs, after identifying the most appropriate valuation models and parameters for determining the fair value (hereinafter also "FV") and value in use of the CGUs;
- comparison between the carrying amount and recoverable value of the individual CGUs.

Sensitivity analyses were also carried out on the recoverable value of the CGUs to changes in certain parameters relevant to the valuation.

Detailed information on the impairment test of consolidated goodwill as at 31 December 2019 is provided below.

Identification of Cash Generating Units (CGUs)

According to IAS 36, if, as in the case of goodwill, it is not possible to determine directly the recoverable value of the specific asset recorded in the financial statements (because the asset itself does not produce autonomous cash flows), the recoverable value of the cash generating unit (CGU) to which the asset belongs must be determined.

The CGU is defined by IAS 36 as "the smallest identifiable group of assets that generates cash flows largely independent of cash flows from other assets, or groups of assets".

In order to identify the cash generating units to which to assign the assets to be tested for impairment, it is necessary that the identified CGUs generate cash flows that are largely independent of those deriving from other identified units. In this sense, with a view to identifying the CGUs, the internal organisation and the management and control methods of the business are extremely important.

In relation to the above, the following CGUs have been identified for the purpose of impairment testing of the CCB Group's consolidated goodwill:

- **Allitude**, which groups together the IT and administrative services companies of the Group that were merged on 1 January 2020 (formerly Phoenix, formerly SBA, formerly Centro Sistemi Direzionali S.r.l. (hereinafter "CSD") and formerly Informatica Bancaria Finanziaria S.p.A. /Informatica Bancaria Trentina S.r.l.);
- **Asset management**, which includes the asset management services currently provided by the Luxembourg-based company NEAM;
- **Insurance**, which includes the offer of insurance services to customers and corresponds to the sum of the subsidiaries Assicura Agenzia S.r.l. and Assicura Broker S.r.l. (hereinafter also referred to as "Assicura");

The table below shows the values of goodwill as at 31 December 2019, subject to impairment testing, allocated to the three CGUs in question.

(Figures in millions of euro)

CASH GENERATING UNIT (CGU)	Goodwill
- Allitude	27
- Asset management	21
- Insurance	5
Total	**53**

It should be noted that the goodwill allocated to the Allitude CGU consists of goodwill relating to the acquisitions of Phoenix (for an amount of EUR 18 million) and SBA (for an amount of EUR 9 million).

It should also be noted that the goodwill item in the consolidated financial statements, amounting to EUR 55 million prior to the impairment test, includes residual goodwill of approximately EUR 2 million recorded in the separate financial statements of certain affiliated Banks and mainly attributable to the merger by incorporation of other affiliated Banks which took place before the launch of the Group and for which the impairment test in accordance with IAS 36, which did not give rise to impairment losses, was carried out independently by each of these Banks.

Determination of the carrying amount of the CGU

The carrying amount of the three CGUs identified was determined by calculating their carrying amount in the consolidated financial statements as at 31 December 2019. The above carrying amount, in substance, was determined considering the contribution to the consolidation of the CGUs in terms of equity, goodwill and intangible assets with a definite life net of the related deferred tax liabilities.

The values as at 31 December 2019 are shown below.

(Figures in millions of euro)

CGU	Carrying amount in the consolidated financial statements
- Allitude	202
- Asset management	37
- Insurance	16

In relation to the table above, please note that:

- the following are included in the consolidated carrying amount of the Allitude CGU:
  - goodwill, amounting to EUR 35 million, calculated by applying the "gross up" technique and therefore also considering the portion of goodwill attributable to third parties. This is consistent with the valuation of the CGUs, which takes into account the cash flows of the entire Group (reference is therefore made to EUR 27 million of goodwill, which when measured at 100% leads to EUR 35 million);
  - intangible assets with a definite life of EUR 18 million;
- the consolidated carrying amount of the Asset Management CGU includes, in addition to goodwill of EUR 21 million (already 100%), intangible assets with a definite life of EUR 4 million;
- the consolidated carrying amount of the Insurance CGU includes, in addition to goodwill of EUR 5 million (already 100%), intangible assets with a definite life of EUR 3 million.

In relation to the above, it emerges that, as part of the impairment test, in addition to consolidated goodwill, intangible assets with a definite life totalling EUR 25 million as at 31 December 2019 were also tested for recoverability.

Determination of the recoverable value of the CGU

The carrying amount of the identified CGUs was tested for impairment by comparing it with their recoverable value. According to IAS 36, para. 6, the recoverable value of an asset or CGU is the higher of its fair value less costs to sell and its value in use.

The Cassa Centrale Group has estimated the recoverable value of the three CGUs using the value in use method. In this regard, the value in use of the Asset Management and Insurance CGUs was higher than their carrying amount and therefore, in accordance with IAS 36 para. 19, it was not necessary to estimate any other amount by way of fair value. The fair value of the Allitude CGU was not estimated, despite the fact that its value in use is lower than its carrying amount, because the specific characteristics of the CGU make this approach insignificant for the purposes of estimating the actual recoverable value of the same.

More specifically, the following methodologies were used to determine the value in use of the various CGUs identified:

- **for the Allitude CGU: Discounted Cash Flow Method**

  This methodology is based on the general concept that the value of a company is equal to the discounted value of the following two elements:
  - cash flows that the company will be able to generate within the forecast time period;
  - terminal value, i.e. the value of the business as a whole deriving from the period beyond the forecast time period.

  That said, the Allitude business is divided into two operating segments:
  - Extra captive: to which the goodwill is attributable and allocated. The recoverable value of this component can be estimated using a Discounted Cash Flow ("DCF") model which only takes into account revenues from that line of business. The DCF relating to the extra captive business has been constructed starting from the economic and equity situation as at 1 January 2020 and from the economic and equity projections of Allitude for the 2020-2022 period approved by the Board of Directors on 26 February 2020;
  - Captive: to which goodwill is not attributable and whose recoverable value is therefore considered to be equal to the net invested capital (NIC) used to carry out this business.

  Consequently, the impairment test of the Allitude CGU was carried out by comparing the carrying amount of the CGU in the consolidated financial statements of the Group with a recoverable value estimated as the sum of the following elements:
  - Enterprise Value of the Extra Captive business: valued using the DCF model mentioned above, for the development of which the net invested capital (NIC) used to service this business has been identified;
  - Enterprise Value of the Captive business: the value of which, since it does not generate extra-group revenue streams, is considered to be equal to the net invested capital used to carry out this business (obtained by the difference between total NIC and NIC identified to service the extra-captive business);
  - Net Financial Position (NFP);
  - Surplus Asset (SA).

  The formula used is as follows: Equity Value = EV Extra captive + NIC Captive - NFP + SA

The main determinants (cash flows, discount rate, long-term growth rate and Terminal Value) for the estimate of the Enterprise Value of the extra captive business are discussed below.

a. Cash flows

As noted above, the calculation of cash flows is based on the present value of the company's future net income and has been constructed starting from the economic and equity situation as at 1 January 2020 and on the basis of the economic and equity projections included in the 2020-2022 Business Plan approved by the Board of Directors on 26 February 2020.

b. Discount rate (Ke)

The rate used to discount cash flows is the estimated "Ke"(Cost of Equity) of 9.4%.

The above rate (calculated before tax) was estimated using the Capital Asset Pricing Model ("CAPM'), according to which the return on a risky asset must be equal to the sum of the risk-free rate and a risk premium, depending on the specific riskiness of the asset according to the following formula: Ke = Rf + β * ERP.

In detail, the Cost of Equity (as mentioned, equal to 9.4%) was determined on the basis of the following parameters:

- risk-free rate (Rf), equal to 1.2%, corresponding to the six-month average gross average rate of return on 10-year Treasury Bonds issued by the Italian State as of 31 December 2019;
- beta coefficient (β), equal to 1.5, measures the sensitivity of the company's share performance to changes in the market portfolio performance and is estimated on the basis of a sample of comparable companies;
- equity risk premium (ERP), i.e. the additional return required by a risk-averse investor over the return on risk-free assets of 5.5%, in line with valuation practice for the relevant market.

c. Long-term growth rate (g) and Terminal Value (TV)

The Terminal Value was determined as the value of an estimated perpetual annuity based on the last flow of the explicit period. A long-term growth rate "g" of 1.5% was applied to the normalised income thus determined, in line with the International Monetary Fund's long-term inflation estimate.

Result of the evaluation

On the basis of the method described above, the recoverable value for the Allitude CGU is EUR 167 million.

- **for the Asset Management CGU: Analytical income method**

According to the income method in the so-called levered version, the value of a company is derived from the income it is expected to be able to produce. In other words, the value attributable to the economic capital of the company (Equity Value) is assumed to be the series of current values of the company's future net income.

In the analytical approach, the income method takes as reference, in addition to the expected net income over the explicit forecast period, the expected normal net income for the definition of the Terminal Value.

The analytical income method was flanked by the "regression analysis" method, which estimates the fair value of the CGU (although this was not strictly necessary, according to para. 19 of IAS 36, since the value in use is already higher than the carrying amount). This method estimates the economic capital of the company being valued on the basis of the correlation between the prospective return on capital and the related premium or discount expressed by stock market prices compared to equity for a sample of comparable listed companies.

The main determinants (cash flows, discount rate, long-term growth rate and Terminal Value) for the estimate of value in use are commented on below:

a. Cash flows

The analytical income method was constructed starting from the income statement budget as at 31 December 2020 approved by the Board of Directors on 28 November 2019.

b. Discount rate (Ke)

The rate used to discount cash flows is the estimated "Ke"(Cost of Equity) of 7.5%.

The above rate (calculated before tax) was estimated using the "Capital Asset Pricing Model ("CAPM'), according to which the return on a risky asset must be equal to the sum of the risk-free rate and a risk premium, depending on the specific riskiness of the asset according to the following formula: Ke = Rf + β * ERP.

In detail, the Cost of Equity (as mentioned, equal to 7.5%) was determined on the basis of the following parameters:

- risk-free rate (Rf), equal to 1.2%, corresponding to the six-month average gross average rate of return on 10-year Treasury Bonds issued by the Italian State as of 31 December 2019;
- beta coefficient (β), equal to 1.1, measures the sensitivity of the company's share performance to changes in the market portfolio performance and is estimated on the basis of a sample of comparable companies;
- equity risk premium (ERP), i.e. the additional return required by a risk-averse investor over the return on risk-free assets of 5.5%, in line with valuation practice for the relevant market.

c. Long-term growth rate (g) and Terminal Value (TV)

The normal net income expected for the definition of the Terminal Value has been identified on the basis of the average adjusted net income realised by NEAM in 2019 and the 2020 budget.

A long-term growth rate "g" of 1.5% was applied to the normalised income thus determined, in line with the International Monetary Fund's long-term inflation estimate.

With reference to the "Regression Analysis", this was set up by relating the P/AuM multiple to the RoAuM from a sample of comparable listed companies operating in the Asset Management sector and led to a higher value than the carrying amount of the CGU.

Result of the evaluation

On the basis of the analytical income method described above, the recoverable value of the Asset Management CGU is EUR 52 million.

- **for CGU Insurance: Analytical income method**

According to the income method in the so-called levered version, the value of a company is derived from the income it is expected to be able to produce. In other words, the value attributable to the economic capital of the company (Equity Value) is assumed to be the series of current values of the company's future net income. In the analytical approach, the income method takes as reference, in addition to the expected net income over the explicit forecast period, the expected normal net income for the definition of the Terminal Value.

The main determinants (cash flows, discount rate, long-term growth rate and Terminal Value) for the estimate of value in use are commented on below:

a. Cash flows

The calculation of cash flows is based on the present value of the company's future net income and was constructed from the income statement budget as at 31 December 2020 approved by the Board of Directors on 12 December 2019.

b. Discount rate (Ke)

The rate used to discount cash flows is the estimated "Ke"(Cost of Equity) of 6.1%.

The above rate (calculated before tax) was estimated using the "Capital Asset Pricing Model ("CAPM'), according to which the return on a risky asset must be equal to the sum of the risk-free rate and a risk premium, depending on the specific riskiness of the asset according to the following formula: Ke = Rf + β * ERP.

In detail, the Cost of Equity (as mentioned, equal to 6.1%) was determined on the basis of the following parameters:

- risk-free rate (Rf), equal to 1.2%, corresponding to the six-month average gross average rate of return on 10-year Treasury Bonds issued by the Italian State as of 31 December 2019;
- beta coefficient (β), equal to 0.9, measures the sensitivity of the company's share performance to changes in the market portfolio performance and is estimated on the basis of a sample of comparable companies;
- equity risk premium (ERP), i.e. the additional return required by a risk-averse investor over the return on risk-free assets of 5.5%, in line with valuation practice for the relevant market.

c. Long-term growth rate (g) and Terminal Value (TV)

The normal net income expected for the definition of Terminal Value was determined on the basis of the average net income realised in 2019 and the 2020 budget.

A long-term growth rate "g" of 1.5% was applied to the normalised income thus determined, in line with the International Monetary Fund's long-term inflation estimate.

Result of the evaluation

On the basis of the method described above, the recoverable value for the Insurance CGU is EUR 51 million.

Comparison between the carrying amount and recoverable value of the CGU: results of the impairment test

Following the comparison between the carrying amount and the recoverable value (value in use) of the individual CGUs, the impairment test as at 31 December 2019 showed the following results:

(Figures in millions of euro)

CGU	Carrying amount (a)	Recoverable value (value in use) (b)	Difference (c)=(b)-(a)	Impairment attributable to the CCB Group (d)
Allitude	202	167	(35)	(27)
Asset management	37	52	15	-
Insurance	16	51	35	-
Total				**(27)**

As can be seen from the table above, for the Allitude CGU there is a negative difference of EUR 35 million between the recoverable value (EUR 167 million) and the carrying amount of Allitude in the consolidated financial statements (EUR 202 million after the grossing up of goodwill).

After attributing the aforementioned total negative difference of EUR 35 million to the minority interest in goodwill (EUR 9 million), it is necessary to proceed with an impairment of EUR 26 million of the goodwill allocated to the Allitude CGU. Taking into account the fact that, compared to the value of the goodwill recorded (EUR 27 million), a marginal portion of approximately EUR 0.6 million would remain, it was decided to write down entirely the goodwill allocated to the Allitude CGU for an amount of EUR 27 million.

It should be noted that the aforementioned impairment:

- does not have a negative prudential impact on consolidated regulatory capital as goodwill, in accordance with current prudential regulations, is in any case fully deducted from the CET 1;
- does not affect the carrying amount of the investments in Allitude companies held by CCB in its separate financial statements because the individual carrying amount is lower than their recoverable value.

On the other hand, with reference to the Asset Management and Insurance CGUs, since their recoverable value is higher than their carrying amount, no write-down of goodwill was necessary at the reference date of the consolidated financial statements.

The value adjustment of goodwill relating to the Allitude CGU, totalling EUR 27 million, was recorded with a contra-entry in the consolidated income statement under item 270. "Value adjustments to goodwill". As a result of the checks described above, residual consolidated goodwill as at 31 December 2019 amounted to EUR 28 million.

Sensitivity analysis

Finally, sensitivity analyses were carried out on the value in use of the CGUs identified with respect to the market parameters used (“Ke” and “g”). The analyses carried out show a variation:

- in the recoverable value of the Allitude CGU as a result of changes in the parameters considered:
    - equal to -EUR 0.56 million in correspondence with an increase in “Ke” of +25 bps;
    - equal to +EUR 0.60 million in correspondence with a decrease in “Ke” of -25 bps;
    - equal to +EUR 0.46 million in correspondence with an increase in “g” of +25 bps;
    - equal to -EUR 0.43 million in correspondence with a decrease in “g” of -25 bps.

- in the recoverable value of the Asset Management CGU as a result of changes in the parameters considered:
    - equal to -EUR 2.1 million in correspondence with an increase in “Ke” of +25 bps;
    - equal to +EUR 2.3 million in correspondence with a decrease in “Ke” of -25 bps;
    - equal to +EUR 2.3 million in correspondence with an increase in “g” of +25 bps;
    - equal to -EUR 2.1 million in correspondence with a decrease in “g” of -25 bps.

- in the recoverable value of the Insurance CGU as a result of changes in the parameters considered:
    - equal to -EUR 2.6 million in correspondence with an increase in “Ke” of +25 bps;
    - equal to +EUR 2.9 million in correspondence with a decrease in “Ke” of -25 bps;
    - equal to +EUR 2.9 million in correspondence with an increase in “g” of +25 bps;
    - equal to -EUR 2.6 million in correspondence with a decrease in “g” of -25 bps.

10.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total
		DEF	INDEF	DEF	INDEF	
A. OPENING BALANCES	-	-	-	-	-	-
A.1 Total net impairment	-	-	-	-	-	-
A.2 NET OPENING BALANCES	-	-	-	-	-	-
B. INCREASES	55	-	-	64	-	119
B.1 Purchases	-	-	-	17	-	17
B.2 Increase in internal intangible assets	X	-	-	-	-	-
B.3 Write-backs	X	-	-	-	-	-
B.4 Positive fair value changes	-	-	-	-	-	-
- to Equity	X	-	-	-	-	-
- to Income Statement	X	-	-	-	-	-
B.5 Positive exchange rate differences	-	-	-	-	-	-
B.6 Other changes	55	-	-	47	-	102
C. DECREASES	27	-	-	11	-	38
C.1 Sales	-	-	-	-	-	-
C.2 Value adjustments	27	-	-	11	-	38
- Amortisation	X	-	-	11	-	11
- Write-downs	27	-	-	-	-	27
+ equity	X	-	-	-	-	-
+ income statement	27	-	-	-	-	27
C.3 Negative fair value changes:	-	-	-	-	-	-
- to Equity	X	-	-	-	-	-
- to Income Statement	X	-	-	-	-	-
C.4 Transfers to non-current assets held for disposal	-	-	-	-	-	-
C.5 Negative exchange rate differences	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
D. NET CLOSING BALANCES	28	-	-	53	-	81
D.1 Total net value adjustments	-	-	-	11	-	11
E. GROSS CLOSING BALANCES	28	-	-	64	-	92
F. VALUATION AT COST	-	-	-	-	-	-

KEY:

DEF = with definite duration

INDEF = with indefinite duration

The item "B.6 other changes" includes the opening balances relating to the entities falling within the scope of consolidation, including the Parent Company, arising from the first-time consolidation of the Group, broken down as follows:

- goodwill amounting to EUR 55 million;
- other intangible assets with a definite life of EUR 47 million.

The intangible assets described were entirely acquired externally and valued at cost.

The sub-item "F. 'Valuation at cost' is not measured since its compilation is only set for intangible assets measured at fair value in the financial statements.

10.3 Intangible assets: other information

Based on the requirements of IAS 38 section 122 and 124, it should be noted that the amount of the contractual commitments for the purchase of intangible assets amounts to approximately EUR 4 million relating to the acquisition of software licences.

It should also be noted that the Group has not:

- provided intangible assets as guarantee for its debts;
- acquired intangible assets via operating or financial lease agreements;
- acquired intangible assets via government concession;
- recorded intangible assets revalued at fair value.

Section 11 - Tax assets and tax liabilities - Item 110 of assets and item 60 of liabilities

11.1 Deferred tax assets: breakdown

THROUGH THE INCOME STATEMENT	IRES	IRAP	TOTAL
Loans	538	77	615
Tangible fixed assets	13	1	14
Provisions for risks and charges	47	6	53
Tax losses	18	-	18
Administrative expenses	-	-	-
Other items	18	3	21
TOTAL	634	87	721

THROUGH EQUITY	IRES	IRAP	TOTAL
Negative reserves for HTCS financial assets	5	2	7
TFR	2	-	2
Other items	2	-	2
TOTAL	9	2	11

The item "Loans" in the table above shows Deferred Tax Assets (or "DTA") mainly relating to:

- Write-downs and losses on loans to customers not yet deducted from taxable income pursuant to paragraph 3 of Article 106 of the Consolidated Income Tax Act (TUIR) and Article 6, paragraph 1, letter c-bis) of IRAP Decree 446/1997 that may be converted into a tax credit, regardless of the future profitability of the company, both in the event of statutory loss and IRES tax loss or negative IRAP value of production pursuant to Law no. 214 of 22 December 2011 (so-called "Qualified DTA") for EUR 575 million; as a result of Article 1, paragraph 712, of the 2020 Stability Law (Law no. 160 of 27 December 2019), the deductibility of the 12% share envisaged for 2019 was deferred in four constant instalments from 2022 to 2025, both for IRES and IRAP purposes;
- adjustments from the expected credit loss (ECL) model in IFRS 9 FTA on loans to customers that cannot be converted into a tax credit and can therefore only be recognised in the presence of probable and sufficient future taxable income of EUR 33 million (Article 1, paragraphs 1067-1069, Law no. 145 of 30 December 2018). Advance taxes, where recognised, correspond to the future benefit relating to the deductibility in subsequent years of the reserve for first-time application of IFRS 9 relating to expected losses recognised on loans to customers, following the approval of the 2019 Budget Law, which provided for its tax relevance in the amount of 10% in 2018 and for the remaining 90% in the nine subsequent tax periods. As a result of the changes introduced by the 2020 Stability Law, the deductible portion pertaining to the tax year in progress as at 31 December 2019, both for IRES and IRAP purposes, was postponed to the 2028 tax year.

"Other items" in the table above include:

- deferred tax assets relating to goodwill convertible into tax credits, regardless of the future profitability of the company, both in the event of statutory and IRES tax losses or negative IRAP production value pursuant to Law no. 214 of 22 December 2011 of EUR 0.03 million; as a result of the changes introduced by the 2020 Stability Law, the portion of 5% of the amount of these negative components envisaged for the tax period in progress as at 31 December 2019 is also deferred for both IRES and IRAP purposes, on a straight-line basis, to 2025 and the following 4 years;
- deferred tax assets arising from misalignments between statutory and tax items arising from IFRS 3 business combinations for EUR 10.67 million.

It should be noted that, with specific reference to the aforementioned qualified DTAs on write-downs and losses on loans to customers and goodwill, the maintenance of their convertibility into tax credits is subject to the payment of the fee, where due, pursuant to Law Decree no. 59 of 3 May 2016, amended and converted into law by Law no. 15 of 17 February 2017.

In addition, it should be noted that the tax regulations relating to the convertibility of advance taxes relating to adjustments to loans, goodwill and intangible assets into tax credits, in giving "certainty" to the recovery of qualified DTAs, affect the "probability test" provided for by IAS 12, making it automatically satisfied for this particular type.

With reference to the details of the probability test carried out on deferred tax assets, please refer to paragraph 11.7 "Other information" below.

11.2 Deferred tax liabilities: breakdown

THROUGH THE INCOME STATEMENT	IRES	IRAP	TOTAL
Tangible fixed assets	10	2	12
Capital gains by instalments	-	-	-
Other items	20	2	22
TOTAL	30	4	34

THROUGH EQUITY	IRES	IRAP	TOTAL
Positive reserves for HTCS financial assets	13	7	20
Other items	3	-	3
TOTAL	16	7	23

Deferred tax liabilities as a contra-entry to the income statement mainly relate to:

- revaluations of tangible fixed assets made during the transition to international accounting standards;
- misalignments between statutory and tax items arising from the application of business combinations pursuant to IFRS 3 carried out in previous years.

11.3 Changes in advance taxes (through the income statement)

	Total 31/12/2019
1. OPENING AMOUNT	-
2. INCREASES	1,355
2.1 Advance taxes recorded in the year	611
a) relating to previous years	-
b) due to changed accounting criteria	-
c) write-backs	-
d) other	611
2.2 New taxes or increases in tax rates	19
2.3 Other increases	725
3. DECREASES	634
3.1 Advance taxes cancelled in the year	631
a) reversals	623
b) write-downs for uncollectable amounts	-
c) changed accounting criteria	-
d) other	8
3.2 Decrease in tax rates	-
3.3 Other decreases:	3
a) transformation into tax credits under Law no. 214/2011	3
b) other	-
4. CLOSING AMOUNT	721

The sub-item "2.3 Other increases" includes EUR 720 million relating to the opening balances of the entities falling within the scope of consolidation, including the Parent Company, deriving from the first-time consolidation of the Group.

The other increases in advance taxes recognised during the year, amounting to EUR 634 million, are mainly due to the total reinstatement of the residual advance tax assets as at 31 December 2019 relating to:

- write-downs and losses on loans to customers not deducted until 31 December 2015, for the residual portion as at 31 December 2019, net of the amount transformed into a tax credit as a result of the 2018 statutory loss, amounting to EUR 575 million;
- adjustments to loans to customers, carried out during the transition to IFRS 9 (Article 1, paragraphs 1067-1069 of Law no. 145 of 28 December 2018) for the residual amount as at 31 December 2019 of EUR 33 million;
- non-deductible provisions for risks and charges.

The decreases in advance taxes mainly include the discharge of their balance prior to the reporting date.

The portion of deferred tax assets arising from tax losses carried forward to subsequent years amounts to EUR 18 million.

11.4 Changes in advance taxes according to Law 214/2011

	Total 31/12/2019
1. OPENING AMOUNT	**-**
2. INCREASES	**590**
3. DECREASES	**16**
3.1 Reversals	12
3.2 Transformation into tax credits	3
a) deriving from losses for the year	3
b) deriving from tax losses	-
3.3 Other decreases	1
4. CLOSING AMOUNT	**574**

The item "2. Increases" includes EUR 574 million relating to the opening balances of the entities falling within the scope of consolidation, including the Parent Company, arising from the first-time consolidation of the Group.

Table 11.4 shows changes in advance taxes recognised on value adjustments to loans to customers and goodwill pursuant to Law no. 214/2011. As already clarified, as a result of the rules introduced with the 2020 Stability Law, during the year there are no:

- reversals referring to adjustments to loans to customers, as the deduction of the portion of these negative components envisaged for the tax period in progress as at 31 December 2019 is deferred for both IRES and IRAP purposes, on a straight-line basis, to 2022 and the following three years;
- reversals relating to goodwill, as the deduction of the 5% portion of the amount of these negative components envisaged for the tax period in progress as at 31 December 2019 is deferred for both IRES and IRAP purposes, on a straight-line basis, to 2025 and the following four years.

The increases are attributable, among other things, to effects resulting from changes in future IRAP rates.

The transformation referred to in point 3.2. a) was carried out in light of the provisions of Law Decree no. 225/2010, converted with amendments to Law no. 10/2011. In particular, Article 2, paragraphs 55-56, provides that in the event of a loss for the year, the advance taxes

recorded in the financial statements relating to value adjustments to loans and those relating to the value of goodwill and other intangible assets are converted into tax credits.

The transformation starts from the date of approval of the financial statements and takes place for an amount equal to the loss for the year multiplied by the ratio between the DTAs and equity before the loss for the year. As from the tax period of the conversion, the negative components corresponding to the DTAs converted into a tax credit are not deductible.

11.5 Changes in deferred taxes (through the income statement)

	Total 31/12/2019
1. OPENING AMOUNT	**-**
2. INCREASES	**58**
2.1 Deferred taxes recorded in the year	21
a) relating to previous years	-
b) due to changed accounting criteria	-
c) other	21
2.2 New taxes or increases in tax rates	-
2.3 Other increases	37
3. DECREASES	**24**
3.1 Deferred taxes cancelled in the year	24
a) reversals	24
b) due to changed accounting criteria	-
c) other	-
3.2 Decrease in tax rates	-
3.3 Other decreases	-
4. CLOSING AMOUNT	**34**

The sub-item "2.3 Other increases" includes EUR 37 million relating to the opening balances of the entities falling within the scope of consolidation, including the Parent Company, deriving from the first-time consolidation of the Group.

The increase in deferred taxes recognised during the year is mainly due to the reinstatement of the residual deferred taxes as at 31 December 2019.

Deferred taxes cancelled during the year refer to the discharge of their balance prior to the reporting date.

11.6 Changes in advance taxes (through Equity)

	Total 31/12/2019
1. OPENING AMOUNT	**-**
2. INCREASES	**130**
2.1 Advance taxes recorded in the year	12
a) relating to previous years	-
b) due to changed accounting criteria	-
c) other	12
2.2 New taxes or increases in tax rates	-
2.3 Other increases	118
3. DECREASES	**119**
3.1 Advance taxes cancelled in the year	119
a) reversals	117
b) write-downs for uncollectable amounts	1
c) due to changed accounting criteria	-
d) other	1
3.2 Decrease in tax rates	-
3.3 Other decreases	-
4. CLOSING AMOUNT	**11**

The sub-item "2.3 Other increases" includes EUR 118 million relating to the opening balances of the entities falling within the scope of consolidation, including the Parent Company, deriving from the first-time consolidation of the Group.

Advance taxes refer respectively to write-downs of financial assets measured at fair value through other comprehensive income. These changes have a contra-entry in the valuation reserve for financial assets measured at fair value through other comprehensive income.

Advance taxes cancelled during the year refer to the discharge of their balance prior to the reporting date.

11.7 Changes in deferred taxes (through Equity)

	Total 31/12/2019
1. OPENING AMOUNT	**-**
2. INCREASES	**49**
2.1 Deferred taxes recorded in the year	21
a) relating to previous years	-
b) due to changed accounting criteria	-
c) other	21
2.2 New taxes or increases in tax rates	-
2.3 Other increases	28
3. DECREASES	**26**
3.1 Deferred taxes cancelled in the year	26
a) reversals	26
b) due to changed accounting criteria	-
c) other	-
3.2 Decrease in tax rates	-
3.3 Other decreases	-
4. CLOSING AMOUNT	**23**

The sub-item "2.3 Other increases" includes EUR 27 million relating to the opening balances of the entities falling within the scope of consolidation, including the Parent Company, deriving from the first-time consolidation of the Group.

Deferred taxes refer respectively to revaluations of Financial assets measured at fair value through other comprehensive income. These changes have a contra-entry in the valuation reserve for financial assets measured at fair value through other comprehensive income.

Deferred taxes cancelled during the year refer to the discharge of their balance prior to the reporting date.

11.8 Other information

BREAKDOWN OF CURRENT TAXES	IRES	IRAP	Other	Total
Current tax liabilities	(30)	(23)	(3)	(56)
Advances paid/tax credits	77	30	1	108
Withholding taxes incurred	3	-	-	3
Other tax credits	2	3	-	5
Tax credits under Law 214/2011	21	2	19	42
Debt balance of item 60 a) of liabilities	(13)	(7)	(3)	(23)
Credit balance of item 110 a) of assets	86	19	20	125
Tax credits that cannot be offset: capital portion	8	1	3	12
Tax credits that cannot be offset: interest portion	3	-	-	3
Credit balance of item 110 a) of assets	97	20	23	140

With regard to the Group's tax position, for the financial years not yet prescribed, there have been no assessment notices received to date.

Information on the deferred tax assets probability test

According to para. 5 of IAS 12, deferred tax assets are defined as the amount of income taxes for the year that may be recovered in future years with regard to the following scenarios:

- deductible temporary differences;
- carry-over of unused tax losses (and also of ACE);
- carry-over of unused tax credits.

With particular reference to "temporary differences", these are defined as differences that are formed transiently between the carrying amount of assets (liabilities) and their tax value. These are defined as "deductible" when they generate amounts that can be deducted in determining future taxable income in connection with the realisation of assets (settlement of liabilities).

In the presence of a temporary deductible difference, para. 24 of IAS 12 provides for the recognition in the financial statements of a deferred tax asset - equal to the product of the deductible temporary difference and the expected tax rate in the year in which it will be paid - only if and to the extent that it is probable that there will be future taxable income against which the deductible temporary differences can be used (so-called probability test). In fact, the economic benefit of reducing future tax payments is only achievable if the taxable income is a large amount (IAS 12, para. 27).

The probability test relating to advance taxes recognised in the 2019 financial statements was carried out separately by the individual companies, due to the following considerations:

a. for IRES purposes, the Group does not meet the regulatory requirements to participate in the national tax consolidation regime pursuant to Articles 117 *et seq.* of the Consolidated Income Tax Act (TUIR) and does not determine a single IRES taxable base for the Group;

b. for IRAP purposes, in compliance with the law, advance taxes arising from deductible temporary differences must be verified on an individual basis.

Having said this, the Group has deferred tax assets (DTA) of EUR 731 million in its statement of financial position. Of these, EUR 575 million fall within the scope of Law no. 214/2011 and, therefore, for that already described, are considered "qualified" DTA (and therefore of certain recoverability).

On the remaining portion of DTA (those that cannot be converted into tax credits) amounting to EUR 156 million, there are no critical elements as the Group entities will be reasonably able to produce future taxable income such as to guarantee their recoverability.

Section 12 - Non-current assets and groups of assets held for disposal and associated liabilities - Item 120 of assets and item 70 of liabilities

12.1 Non-current assets and groups of assets held for disposal: breakdown by type of asset

	Total 31/12/2019
A. ASSETS HELD FOR SALE	
A.1 Financial assets	-
A.2 Equity investments	-
A.3 Tangible assets	9
of which: obtained through the enforcement of guarantees received	1
A.4 Intangible assets	-
A.5 Other non-current assets	-
TOTAL (A)	**9**
of which measured at cost	2
of which measured at fair value level 1	-
of which measured at fair value level 2	-
of which measured at fair value level 3	7
B. DISCONTINUED OPERATIONS	
B.1 Financial assets measured at fair value through profit or loss	-
- financial assets held for trading	-
- financial assets measured at fair value	-
- other financial assets obligatorily measured at fair value	-
B.2 Financial assets measured at fair value through other comprehensive income	-
B.3 Financial assets measured at amortised cost	-
B.4 Equity investments	-
B.5 Tangible assets	-
of which: obtained through the enforcement of guarantees received	-
B.6 Intangible assets	-
B.7 Other assets	-
Total (B)	**-**
of which measured at cost	-
of which measured at fair value level 1	-
of which measured at fair value level 2	-
of which measured at fair value level 3	-

	Total 31/12/2019
C. LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE	
C.1 Payables	-
C.2 Securities	-
C.3 Other liabilities	-
Total (C)	**-**
of which measured at cost	-
of which measured at fair value level 1	-
of which measured at fair value level 2	-
of which measured at fair value level 3	-
D. LIABILITIES ASSOCIATED WITH DISCONTINUED OPERATIONS	
D.1 Financial liabilities measured at amortised cost	-
D.2 Financial liabilities held for trading	-
D.3 Financial liabilities measured at fair value	-
D.4 Provisions	-
D.5 Other liabilities	-
Total (D)	**-**
of which measured at cost	-
of which measured at fair value level 1	-
of which measured at fair value level 2	-
of which measured at fair value level 3	-

12.2 Other information

As at the reporting date there is no significant additional information.

Section 13 - Other assets - Item 130

13.1 Other assets: breakdown

ITEMS	Total 31/12/2019
Tax receivables from tax authorities and other tax bodies	260
Cheques to be settled at the Clearing House or with Associates	7
Items in transit - other	22
Work in progress	225
Adjustments for illiquid items in the portfolio	33
Other debtors for security transactions	-
Customers and revenues to be collected	53
Prepayments and accrued income not capitalised	39
Improvement and enhancement expenses on non-separable third-party assets	21
Advances to suppliers	11
Intrinsic value of securities transactions and exchanges to be settled	1
Other lenders	139
Total	**811**

As at the reporting date, the Group did not present any significant amounts in relation to activities deriving from contracts with customers in accordance with IFRS 15 para. 116, letter a)

Liabilities

Below are the sections concerning consolidated liabilities as at 31 December 2019.

As described in Part A - Accounting policies - A.1 - General part - Section 3 - Scope and methods of consolidation, following the establishment of the Cassa Centrale Group, the parent company and the affiliated Banks that joined the Group constitute a "single consolidating entity" for the purposes of preparing the consolidated financial statements.

In relation to the above, as described in detail in Section 3 - Scope and methods of consolidation, the tables in the Consolidated Explanatory Notes do not show the comparative balances for the previous year. It should also be noted that, within the tables showing the changes in the year, the balances resulting from the consolidation of the affiliated Banks, at the date of incorporation of the Group, are shown under the sub-item "Other changes".

Section 1 - Financial liabilities measured at amortised cost - Item 10

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

TYPE OF TRANSACTIONS/VALUES	Total 31/12/2019			
	CA	Fair value		
		L1	L2	L3
1. DUE TO CENTRAL BANKS	**4,803**	**X**	**X**	**X**
2. DUE TO BANKS	**2,671**	**X**	**X**	**X**
2.1 Current accounts and deposits on demand	293	X	X	X
2.2 Fixed-term deposits	144	X	X	X
2.3 Loans	2,218	X	X	X
2.3.1 Repos payables	469	X	X	X
2.3.2 Other	1,749	X	X	X
2.4 Liabilities for commitments to repurchase own equity instruments	-	X	X	X
2.5 Payables for leases	13	X	X	X
2.6 Other payables	3	X	X	X
Total	**7,474**	**-**	**-**	**7,474**

KEY:

CA = Carrying amount

L1 = Level 1

L2 = Level 2

L3 = Level 3

The fair value valuation of the financial liabilities measured at amortised cost, included only for the purpose of fulfilling reporting requirements, is broken down into levels pursuant to the requirements set forth in IFRS 13 and depending on the characteristics and significance of the inputs used in the valuation process. For more details, please refer to Part A - Accounting policies, A.4 - Information on fair value in the Explanatory Notes.

The repos payables implemented against financial assets transferred but not derecognised are reported in Part E - Information on risks and related hedging policies, Section D - Disposal Transactions in the Explanatory Notes.

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

TYPE OF TRANSACTIONS/VALUES	Total 31/12/2019			
	CA	Fair value		
		L1	L2	L3
1. Current accounts and deposits on demand	44,472	X	X	X
2. Fixed-term deposits	3,301	X	X	X
3. Loans	1,695	X	X	X
3.1 Repos payables	1,524	X	X	X
3.2 Other	171	X	X	X
4. Liabilities for commitments to repurchase own equity instruments	-	X	X	X
5. Payables for leases	115	X	X	X
6. Other payables	472	X	X	X
Total	**50,055**	**-**	**-**	**50,055**

KEY:
CA = Carrying amount
L1 = Level 1
L2 = Level 2
L3 = Level 3

The sub-item "6. Other payables" mainly includes credit card and cheque debts.

The repos payables implemented against financial assets transferred but not derecognised are reported in Part E - Information on risks and related hedging policies, Section D - Disposal Transactions in the Explanatory Notes.

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

TYPE OF SECURITIES/VALUES	Total 31/12/2019			
	CA	Fair value		
		L1	L2	L3
A. SECURITIES				
1. bonds	3,258	-	3,267	6
1.1 structured	-	-	-	-
1.2 other	3,258	-	3,267	6
2. other securities	3,356	-	151	3,168
2.1 structured	-	-	-	-
2.2 other	3,356	-	151	3,168
Total	**6,614**	**-**	**3,418**	**3,174**

KEY:
CA = Carrying amount
L1 = Level 1
L2 = Level 2
L3 = Level 3

This item includes issued securities measured at amortised cost. Securities that as at the reporting date are expired but still not repaid are included. The portion of own issue debt securities not yet placed with third parties is excluded.

The fair value valuation of the debt securities in issue in the table above is presented solely for the purpose of fulfilling reporting requirements, is broken down into levels pursuant to the requirements set forth in IFRS 13 and depending on the characteristics and significance of the inputs used in the valuation process. For more details, please refer to Part A - Accounting policies, A.4 - Information on fair value in the Explanatory Notes.

The sub-item A.2.2 "Securities - other" mainly comprises certificates of deposit.

1.4 Details of subordinated debts/securities

ITEMS	Total 31/12/2019
a. Due to banks	-
b. Due to customers	-
c. Debt securities in issue	73
Total	**73**

A subordinated nature characterises the payables/securities whose right to reimbursement, in the event of liquidation of the issuing entity or if it is subject to other bankruptcy proceedings, can be exercised by the creditor only after other creditors who are not equally subordinated. Equity instruments which, according to international accounting standards, have equity characteristics, are excluded.

As at the reporting date, there are subordinated relationships with customers of approximately EUR 73 million, which are included in regulatory capital as Tier 2 instruments (Tier 2 capital - T2).

1.5 Details of structured debts

As at the reporting date, there are no structured debts.

1.6 Payables for leases

Financial lease liabilities

	Branches	Cars	Land	Real estate per employees	Offices	Warehouses and other areas	Equipment	Other	Buildings	Total
Balance as at 1 January	101	1	-	1	10	1	2	1	3	120
New contracts	19	1	-	-	8	-	5	2	-	35
Repayments	(16)	(1)	-	-	(1)	-	-	-	(3)	(21)
Other non-monetary movements*	-	-	-	-	-	-	-	-	-	-
Terminated contracts for modification/revaluation	(6)	-	-	-	-	-	-	-	-	(6)
Balance as at 31 December	**98**	**1**	**-**	**1**	**17**	**1**	**7**	**3**	**-**	**128**

*includes increments for indexing

The balance as at 1 January 2020 includes the amount resulting from the first-time adoption of IFRS16 for a total of approximately EUR 120 million.

Distribution by residual duration of financial payables for leases

	Branches	Cars	Land	Real estate per employees	Offices	Warehouses and other areas	Equipment	Other	Buildings	Total
Within 12 months	20	-	-	-	2	-	1	2	-	25
Between 1-5 years	54	1	-	1	6	1	4	1	-	68
Beyond 5 years	24	-	-	-	9	-	2	-	-	35
Total lease liabilities as at 31 December	**98**	**1**	**-**	**1**	**17**	**1**	**7**	**3**	**-**	**128**

Section 2 - Financial liabilities held for trading - Item 20

2.1 Financial liabilities held for trading: breakdown by category

TYPE OF TRANSACTIONS/ VALUES	Total 31/12/2019				
	NV	Fair value			Fair Value*
		L1	L2	L3	
A. CASH LIABILITIES					
1. Due to banks	-	-	-	-	-
2. Due to customers	-	-	-	-	-
3. Debt securities	-	-	-	-	X
3.1 Bonds	-	-	-	-	X
3.1.1 Structured	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X
3.2 Other securities	-	-	-	-	X
3.2.1 Structured	-	-	-	-	X
3.2.2 Other	-	-	-	-	X
Total (A)	**-**	**-**	**-**	**-**	**-**
B. DERIVATIVE INSTRUMENTS					
1. Financial derivatives	X	-	7	-	X
1.1 Trading	X	-	7	-	X
1.2 Connected to the fair value option	X	-	-	-	X
1.3 Other	X	-	-	-	X
2. Credit derivatives	X	-	-	-	X
2.1 Trading	X	-	-	-	X
2.2 Connected to the fair value option	X	-	-	-	X
2.3 Other	X	-	-	-	X
Total (B)	**X**	**-**	**7**	**-**	**X**
Total (A+B)	**X**	**-**	**7**	**-**	**X**

Fair value* = Fair value calculated excluding the changes in value due to change in credit quality of the issuer with respect to the date of issue.

KEY:

NV = nominal or notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

2.2 Details of 'Financial liabilities held for trading': subordinated liabilities

As at the reporting date, there are no subordinated financial liabilities held for trading.

2.3 Details of 'Financial liabilities held for trading': structured debts

As at the reporting date, there are no financial liabilities held for trading related to structured debts.

Section 3 - Financial liabilities measured at fair value - Item 30

2.1 Financial liabilities measured at fair value: breakdown by category

TYPE OF TRANSACTIONS/ VALUES	Total 31/12/2019				
	NV	Fair value			Fair Value*
		L1	L2	L3	
1. DUE TO BANKS	**-**	**-**	**-**	**-**	**-**
1.1 Structured	-	-	-	-	X
1.2 Other	-	-	-	-	X
of which:	-	-	-	-	-
- commitments to disburse funds	-	X	X	X	X
- financial guarantees issued	-	X	X	X	X
2. DUE TO CUSTOMERS	**-**	**-**	**-**	**-**	**-**
2.1 Structured	-	-	-	-	X
2.2 Other	-	-	-	-	X
of which:	-	-	-	-	-
- commitments to disburse funds	-	X	X	X	X
- financial guarantees issued	-	X	X	X	X
3. DEBT SECURITIES	**50**	**-**	**51**	**-**	**51**
3.1 Structured	2	-	2	-	X
3.2 Other	48	-	49	-	X
Total	**50**	**-**	**51**	**-**	**51**

Fair value* = Fair value calculated excluding the changes in value due to change in credit quality of the issuer with respect to the date of issue.

KEY:

NV = nominal value

L1 = Level 1

L2 = Level 2

L3 = Level 3

This item includes the financial liabilities for which the so-called Fair Value Option has been exercised. In this regard, it should be noted that the aforementioned Fair Value Option was exercised mainly in relation to debt instruments containing an implicit derivative for which it was considered that the fair value measurement of the entire instrument was less costly than the separate measurement and presentation in the financial statements of the main instrument and derivative.

The illustration of the criteria to determine the fair value is reported in Part A - Accounting policies.

3.2 Details of 'Financial liabilities measured at fair value': subordinated liabilities

As at the reporting date, there are no subordinated liabilities measured at fair value.

Section 4 - Hedging derivatives - Item 40

This item features the derivative contracts designated as effective hedging instruments, which as at the reporting date have a negative fair value.

With regard to hedging transactions, the Group continues to apply IAS 39 in full for accounting purposes, as required by the transitional provisions of IFRS 9.

With regard to the objectives and strategies underlying hedging transactions, please refer to the information provided in Part E - Information on risks and related hedging policies, Section 3 - Derivatives and hedging policies.

4.1 Hedging derivatives: breakdown by type of coverage and hierarchy levels

	Fair Value 31/12/19			NV 31/12/2019
	L1	L2	L3	
A. FINANCIAL DERIVATIVES	**-**	**43**	**-**	**348**
1) Fair value	-	43	-	348
2) Cash flows	-	-	-	-
3) Foreign investments	-	-	-	-
B. CREDIT DERIVATIVES	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-
2) Cash flows	-	-	-	-
Total	**-**	**43**	**-**	**348**

KEY:
NV = notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3

4.2 Hedging derivatives: breakdown by hedged portfolio and type of hedge

HEDGING TRANSACTIONS/TYPE	Fair Value							Cash flows		Foreign Investments
	Specific									
	debt securities and interest rates	equities and stock market indices	currencies and gold	loans	commodities	others	Macro	Specific	Macro	
1. Financial assets measured at fair value through other comprehensive income	-	-	-	-	X	X	X	-	X	X
2. Financial assets measured at amortised cost	37	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	4	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**37**	**-**	**-**	**-**	**-**	**-**	**4**	**-**	**-**	**-**
1. Financial liabilities	-	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	2	X	-	X
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**2**	**-**	**-**	**-**
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Portfolio of financial assets and liabilities	X	X	X	X	X	X	-	X	-	-

Exposure to derivatives mainly refers to interest rate risk hedges.

Section 5 - Adjustment of the financial liabilities subject to macro-hedging - Item 50

5.1 Value adjustment of hedged financial liabilities

As at the reporting date, there are no financial assets subject to macro-hedging.

Section 6 - Tax liabilities - Item 60

For information on tax liabilities reference is made to Section 11 of the Assets.

Section 7 - Liabilities associated to assets held for disposal - Item 70

For information on liabilities associated with assets held for disposal, reference is made to Section 12 of the Assets.

Section 8 - Other liabilities - Item 80

8.1 Other liabilities: breakdown

ITEMS	Total 31/12/2019
Tax payables to tax authorities and other tax bodies for indirect taxes	222
Temporary items Centralised Treasury management	3
Wire transfers to be settled	2
Housing contributions - Public bodies	2
Due to suppliers and expenses to be settled	146
Collection on behalf of third parties and amounts available to customers or third parties	71
Payables for guarantees issued and commitments	-
Due to employees	69
Due to social security institutions and external pension funds	49
Other work in progress	299
Accrued expenses and deferred income not attributable to own items	28
Intrinsic value of securities transactions and exchanges to be settled	-
Payables to Depositors' Guarantee Fund	-
Balance of illiquid items in the portfolio	608
Debit items in transit	1
Advances received from third parties for property disposals to be completed	-
Payables for educational, cultural, charitable and social purposes	-
Sundry creditors - other	111
Total	**1,611**

As at the reporting date, the Group did not present any significant amounts in relation to liabilities arising from contracts with customers in accordance with IFRS 15, paragraphs 116, letter a), 118, 120 and 128.

Section 9 - Provision for severance indemnity - Item 90

9.1 Provision for severance indemnity: annual changes

	Total 31/12/2019
A. OPENING BALANCES	**-**
B. INCREASES	**151**
B.1 Allocation for the year	5
B.2 Other changes	146
C. DECREASES	**14**
C.1 Payments made	12
C.2 Other changes	2
D. CLOSING BALANCES	**137**
Total	**137**

The sub-item "B2. Other changes" includes EUR 140 million relating to the opening balances of the entities falling within the scope of consolidation, including the Parent Company, arising from the first-time consolidation of the Group.

As at the reporting date, the Group recognised the provision for severance indemnity in accordance with IAS 19 Employee benefits. Therefore, item D. 'Closing balances' of the provision recorded coincides with its actuarial value (Defined Benefit Obligation - DBO).

The amount of the "Interest Cost" is included in the income statement in table "10.1 Personnel costs".

The actuarial loss was recognised in the "Valuation reserves" in accordance with IAS 19.

Finally, it should be noted that according to Law no. 296 of 27 December 2006 (2007 Finance Law), companies with at least 50 employees pay severance indemnities (TFR) accrued after 1 January 2007 on a monthly basis and obligatorily, in accordance with the choice made by the employee, to the supplementary pension funds referred to in Legislative Decree no. 252/2005 or to a specific Fund for the payment to employees in the private sector of severance indemnities pursuant to Article 2120 of the Italian Civil Code (hereinafter Treasury Fund) set up at the INPS.

9.2 Provision for severance indemnity: other information

ITEMS	Total 31/12/2019
ALLOCATION FOR THE YEAR	(5)
- Service cost related to current employment benefits	2
- Interest expense on the defined benefit obligation	2
- Profits and losses from reductions or settlements	3
- Service cost related to past employment benefits	1
- Transfers	-
- Decreases	(13)
ACTUARIAL (PROFITS) LOSSES RECOGNISED IN VALUATION RESERVES (OCI)	5
Description of the main assumptions	
- Discount rate	0.77%
- Expected inflation rate	1.20%

Description of the main actuarial assumptions for the valuation of severance indemnity

The amounts relating to the provision for severance indemnity liability are based on a special actuarial appraisal commissioned from an external actuary.

The actuarial model used as a reference for the valuation of the severance indemnity ("Projected Unit Credit Method") is based on various demographic and economic assumptions. For some of the assumptions used, where possible, explicit reference has been made to direct experience, for the others, best practice has been taken into account.

In particular, it should be noted how:

- the annual discount rate used to determine the current value of the bond was deducted, in accordance with the provisions of para. 83 of IAS 19 with reference to the IBoxx Eurozone Corporate AA index with duration 10+ recognised at the valuation date. To this end, the performance with a duration comparable to the duration of the workers' collective agreement subject to valuation was chosen;
- the annual rate of increase of the severance indemnity as provided for by Article 2120 of the Italian Civil Code is 75% of inflation plus 1.5 percentage points;
- the annual rate of salary increase has been determined on the basis of the amounts recorded by Group companies.

As a consequence of the above, the economic technical bases used are shown below:

- annual discount rate: 0.77%;
- annual rate of increase in provision for severance indemnity: 2.40%;
- annual inflation rate: 1.20%;
- annual rate of real salary increase determined on the basis of the actual data observed in relation to Group employees.

With reference to the demographic technical bases used, the relevant references are provided below:

- death: RG48 mortality tables published by the State General Accounting Office;
- disability: INPS tables separated by age and gender;
- retirement: 100% upon attainment of the AGO requirements as per Law Decree no. 4/2019.

Section 10 - Provisions for risks and charges - Item 100

10.1 Provisions for risks and charges: breakdown

ITEMS/COMPONENTS	Total 31/12/2019
1. Provision for credit risk relative to commitments and financial guarantees issued	97
2. Provision for other commitments and guarantees issued	5
3. Company pension funds	-
4. Other provisions for risks and charges	147
4.1 legal and tax disputes	45
4.2 personnel expenses	34
4.3 other	68
Total	249

The item 'Provision for credit risk relative to commitments and financial guarantees issued' includes the value of the total allocations for credit risk in respect of the commitments to disburse funds and financial guarantees issued which are subject to the impairment rules of IFRS 9 (paragraph 2.1, letter e); paragraph 5.5; appendix A), including therein the financial guarantees issued and the commitments to disburse funds which are measured at the first-time recognition value, net of the total revenues booked in compliance with IFRS 15 (see IFRS 9, paragraph 4.2.1, letters c) and d)).

The item 'Provision for other commitments and guarantees issued', on the other hand, includes the value of the total allocations in respect of other commitments and other guarantees issued, which are not subject to the impairment rules of IFRS 9 (IFRS 9, paragraph 2.1, letters e) and g)).

10.2 Provisions for risks and charges: annual changes

	Provision for other commitments and guarantees issued	Pension funds	Other provisions for risks and charges	Total
A. OPENING BALANCES	-	-	-	-
B. INCREASES	**12**	**-**	**204**	**216**
B.1 Allocation for the year	2	-	49	51
B.2 Changes due to the passing of time	-	-	-	-
B.3 Changes due to modifications in the discount rate	-	-	-	-
B.4 Other changes	10	-	155	165
C. DECREASES	**7**	**-**	**57**	**64**
C.1 Use for the year	-	-	48	48
C.2 Changes due to modifications in the discount rate	-	-	-	-
C.3 Other changes	7	-	9	16
D. CLOSING BALANCES	**5**	**-**	**147**	**152**

The item "B4. Other changes" includes EUR 147 million relating to the opening balances of the entities falling within the scope of consolidation, including the Parent Company, arising from the first-time consolidation of the Group, divided as follows:

- provisions for other commitments and other guarantees issued amounting to EUR 10 million;
- other provisions for risks and charges amounting to EUR 137 million.

It should be noted that the table above shows the annual changes in the provisions for risks and charges with the exception of those in the item "Provision for credit risk relative to commitments and financial guarantees issued", which are shown in Table A.1.4 in Part E.

10.3 Provision for credit risk relative to commitments and financial guarantees issued

	Provision for credit risk relative to commitments and financial guarantees issued			
	First stage	Second stage	Third stage	Total
Commitments to disburse funds	34	17	13	64
Financial guarantees issued	6	-	27	33
Total	**40**	**17**	**40**	**97**

As shown above, this table includes the value of the total allocations for credit risk in respect of the commitments to disburse funds and financial guarantees issued which are subject to the impairment rules of IFRS 9, including therein the financial guarantees issued and the commitments to disburse funds which are measured at the first-time recognition value, net of the total revenues booked in compliance with IFRS 15.

The breakdown of the provisions in question by stage of risk is applied in accordance with the provisions of the IFRS 9 impairment model. For more detailed information, please refer to Part A - Accounting policies in paragraph "15.5 Methods of recognition of impairment losses" and Part E - Information on risks and related hedging policies.

10.4 Provision for other commitments and guarantees issued

	Total 31/12/2019
Provision in relation to other commitments to disburse funds	4
Provision in relation to other financial guarantees issued	1
Total	**5**

As noted above, the item 'Provision for other commitments and guarantees issued' includes the value of the total allocations in respect of other commitments and other guarantees issued which are not subject to the impairment rules of IFRS 9.

10.5 Defined benefit company pension funds

The Group does not have defined benefit pension funds.

10.6 Provisions for risks and charges - other provisions

ITEMS	Total 31/12/2019
OTHER PROVISIONS FOR RISKS AND CHARGES	
1. Provision for risks on revocatory actions	1
2. Provision for charity	21
3. Personnel risks and expenses	34
4. Legal and tax disputes	45
5. Other provisions for risks and charges	46
Total	**147**

Other provisions are divided into:

- legal and tax disputes: the provision is essentially set up to deal with expected outlays on lawsuits, bankruptcy revocations and tax disputes;
- personnel expenses: the provision includes charges for leaving incentives, charges for employee seniority bonuses, determined on the basis of actuarial valuations, provisions for bonuses and others;
- other scenarios: these refer to provisions to cover embezzlement and other charges relating to different disputes.

On 16 January 2020 the financial holding company Malacalza Investimenti S.r.l. (hereinafter "Malacalza Investimenti") brought a civil action against Carige, the Interbank Deposit Protection Fund, the Voluntary Intervention Scheme and Cassa Centrale Banca, contesting the validity of the resolution to increase the share capital by EUR 700 million approved by the shareholders of Banca Carige at the Shareholders' Meeting held on 20 September 2019 and submitting a claim for damages of over EUR 480 million.

The reasons for the disputed invalidity of the shareholders' resolution consist essentially in the alleged illegitimate exclusion of option rights, failure to comply with the principle of accounting parity and a determination of the issue price of the new shares that does not comply with the criteria set out in the company's regulations.

Compensation for damages is claimed because of the allegedly hyperdilutive nature of the resolution (with a reduction of Malacalza Investimenti's shareholding from 27.555% to 2.016%), as the cancellation of the shareholders' resolution can no longer be requested since it was already carried out with the subscription of the capital increase (as a result of which, Cassa Centrale Banca acquired an 8.34% shareholding).

The first appearance hearing, originally scheduled for 19 May 2020, has been postponed due to the health emergency.

The same defendants, including Cassa Centrale Banca, were then sued in two further disputes by the shareholder Vittorio Malacalza and 42 other shareholders of Carige, with a claim for compensation totalling a further EUR 11.4 million, plus revaluation and interest.

The assumptions and the arguments underlying the claims for damages are essentially the same as those put forward by Malacalza Investimenti.

For these two further cases, the first hearings were set for 5 May 2020 and 6 May 2020 respectively, but they have also been postponed to a later date.

As a result of the assessments carried out with the support of solicitors, Cassa Centrale Banca, considering the risk of losing the case, decided not to make provisions for risks and charges.

Section 11 - Technical provisions - Item 110

The section does not contain information and therefore was not filled in.

11.1 Technical provisions: breakdown

The section does not contain information and therefore was not filled in.

11.2 Technical provisions: annual changes

The section does not contain information and therefore was not filled in.

Section 12 - Repayable shares - Item 130

12.1 Repayable shares: breakdown

The Group does not present any such cases.

Section 13 - Group equity - Items 120, 130, 140, 150, 160, 170 and 180

13.1 "Capital" and "Own shares": breakdown

As described in Part A - Accounting Policies, Section 3 - Scope and methods of consolidation, in application of Law 145 of 30 December 2018 (so-called Budget Law 2019) the Parent Company Cassa Centrale Banca and the affiliated Banks under the Cohesion Contract constitute a single consolidating entity.

In the composition of the Group's equity, the share capital is consequently made up of the Parent Company's share capital and the share capital of the affiliated Banks.

The share capital of the Parent Company, equal to EUR 952,031,808, comprises 18,158,304 ordinary shares and 150,000 preference shares, both with a nominal value of EUR 52.

As at the reporting date, the capital of the affiliated Banks belonging to the Cassa Centrale Group amounted to approximately EUR 324 million. The share capital of the affiliated Banks is, according to their Articles of Association, variable, and consists of shares that can be issued, in principle, without limit.

As at 31 December 2019, the own shares in circulation amounted to approximately EUR 869 million and are mainly attributable to the shares of Cassa Centrale Banca held by the affiliated Banks belonging to the Group.

13.2 Capital - Number of parent company shares: annual changes

ITEMS/TYPES	Ordinary	Other
A. SHARES AT START OF YEAR	**18,158,304**	**150,000**
- fully paid-up	18,158,304	150,000
- not fully paid-up	-	-
A.1 Own shares (-)	-	-
A.2 Outstanding shares: opening balances	18,158,304	150,000
B. INCREASES	**-**	**-**
B.1 New issues	-	-
- paid:	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- other	-	-
- free of charge:	-	-
- in favour of employees	-	-
- in favour of directors	-	-
- other	-	-
B.2 Sale of own shares	-	-
B.3 Other changes	-	-
C. DECREASES	**-**	**-**
C.1 Cancellation	-	-
C.2 Purchase of own shares	-	-
C.3 Company transfers	-	-
C.4 Other changes	-	-
D. OUTSTANDING SHARES: CLOSING BALANCES	**18,158,304**	**150,000**
D.1 Own shares (+)	-	-
D.2 Shares at year-end	18,158,304	150,000
- fully paid-up	18,158,304	150,000
- not fully paid-up	-	-

13.3 Capital: other information

For information on capital, please refer to point 13.1 “Capital” and “Own shares”: breakdown.

13.4 Profit reserves: other information

Group reserves amount to EUR 5,716 million and include the legal reserve, the statutory reserve, the FTA reserves and other reserves. The valuation reserves, amounting to EUR 55 million, refer mainly to:

- valuation reserves of assets measured at fair value through other comprehensive income;
- reserves for cash flow hedging that include changes in fair value of the hedging derivative for the effective portion of the hedge;
- the reserves from actuarial gains/losses IAS 19 relate to the valuation of severance indemnity.

13.5 Equity instruments: breakdown and annual changes

As at the reporting date, equity instruments amounted to EUR 6 million. There were no upward or downward movements in equity instruments during the year.

13.6 Other information

There is no other information on equity instruments other than the capital and reserves.

Section 14 - Third party minority interests - Item 190

14.1 Details on item 210 ‘Third party minority interests’

COMPANY NAMES	Total 31/12/2019
EQUITY INVESTMENTS IN CONSOLIDATED COMPANIES WITH SIGNIFICANT THIRD-PARTY INTERESTS	
1. PHOENIX INFORMATICA BANCARIA S.P.A.	4
Total	**4**

14.2 Equity instruments: breakdown and annual changes

The Section does not contain information and therefore was not filled in.

Other information

1. Commitments and financial guarantees issued

	Nominal value of commitments and financial guarantees issued			Total 31/12/2019
	First stage	Second stage	Third stage	
1. COMMITMENTS TO DISBURSE FUNDS	**9,957**	**985**	**125**	**11,067**
a) Central Banks	-	-	-	-
b) Public bodies	268	2	-	270
c) Banks	808	-	-	808
d) Other financial companies	111	22	2	135
e) Non-financial companies	7,212	704	107	8,023
f) Households	1,558	257	16	1,831
2. FINANCIAL GUARANTEES ISSUED	**1,530**	**133**	**59**	**1,722**
a) Central Banks	-	-	-	-
b) Public bodies	5	-	-	5
c) Banks	305	-	-	305
d) Other financial companies	37	1	-	38
e) Non-financial companies	834	103	53	990
f) Households	349	29	6	384

This table shows the commitments to disburse funds and the financial guarantees issued which are subject to the impairment rules of IFRS 9. Commitments to disburse funds and financial guarantees issued that are considered derivatives are excluded, as are commitments to disburse funds and financial guarantees issued that are measured at fair value.

"Commitments to disburse funds" are commitments that may give rise to credit risks that are subject to the write-down rules of IFRS 9 (e.g. margins available on credit lines granted to customers or banks).

2. Other commitments and guarantees issued

	Nominal value
	Total 31/12/2019
1. Other guarantees issued	**11**
of which: impaired credit exposures	-
a) Central Banks	-
b) Public bodies	-
c) Banks	5
d) Other financial companies	1
e) Non-financial companies	5
f) Households	-
2. Other commitments	**10**
of which: impaired credit exposures	2
a) Central Banks	-
b) Public bodies	-
c) Banks	-
d) Other financial companies	3
e) Non-financial companies	2
f) Households	5

This table shows the nominal value of other commitments and other guarantees issued which fall within the scope of IAS 37 and IFRS 4 respectively and are therefore not subject to the impairment rules of IFRS 9.

3. Asset-backed own liabilities and commitments

PORTFOLIOS	Amount 31/12/2019
1. Financial assets measured at fair value through profit or loss	6
2. Financial assets measured at fair value through other comprehensive income	1,036
3. Financial assets measured at amortised cost	9,351
4. Tangible assets	-
of which: tangible assets that constitute inventories	-

4. Breakdown of investments relating to unit-linked and index-linked policies

The Group did not make any investments relating to unit-linked and index-linked policies.

5. Management and intermediation on behalf of third parties

TYPE OF SERVICES	Amount
1. EXECUTION OF ORDERS ON BEHALF OF CUSTOMERS	**134**
a) purchases	50
1. settled	50
2. not settled	-
b) sales	84
1. settled	83
2. not settled	1
2. PORTFOLIO MANAGEMENT	**10,506**
a) individual	6,666
b) collective	3,840
3. CUSTODY AND ADMINISTRATION OF SECURITIES	75,603
a) third-party securities under custody: connected to the role as depositary bank (excluding portfolio management)	574
1. securities issued by consolidated companies	-
2. other securities	574
b) third-party securities under custody (excluding portfolio management): other	46,361
1. securities issued by consolidated companies	4,454
2. other securities	41,907
c) third-party securities deposited with third parties	43,486
d) own securities deposited with third parties	28,668
4. OTHER TRANSACTIONS	12,279

6. Financial assets which are offset or subject to framework offsetting agreements or similar agreements

TECHNICAL FORMS	Gross amount of financial assets (a)	Amount of financial liabilities offset in the financial statements (b)	Net amount of financial assets reported in the financial statements (c=a-b)	Correlated amount not offset in the financial statements		Net amount (f=c-d-e) 31/12/2019
				Financial instruments (d)	Cash deposits received as guarantee (e)	
1. Derivatives	29	-	29	4	24	(1)
2. Repos	-	-	-	-	-	-
3. Securities lending	-	-	-	-	-	-
4. Other	-	-	-	-	-	-
Total 31/12/2019	**29**	**-**	**29**	**4**	**24**	**(1)**

7. Financial liabilities which are offset or subject to framework offsetting agreements or similar agreements

TECHNICAL FORMS	Gross amount of financial liabilities (a)	Amount of financial assets offset in the financial statements (b)	Net amount of financial liabilities reported in the financial statements (c=a-b)	Correlated amount not offset in the financial statements		Net amount (f=c-d-e) 31/12/2019
				Financial instruments (d)	Cash deposits issued as guarantee (e)	
1. Derivatives	51	-	51	4	42	5
2. Repos	469	-	469	469	-	-
3. Securities lending	-	-	-	-	-	-
4. Other transactions	-	-	-	-	-	-
Total 31/12/2019	**520**	**-**	**520**	**473**	**42**	**5**

8. Securities lending transactions

The Group has not carried out securities lending transactions.

9. Information on joint operations

For the Group this scenario was not relevant.

PART C - Information on the consolidated income statement

Below are the sections concerning the consolidated income statement as at 31 December 2019.

As described in Part A - Accounting policies - A.1 - General part - Section 3 - Scope and methods of consolidation, following the establishment of the Cassa Centrale Group, the Parent Company and the affiliated Banks that joined the Group constitute a "single consolidating entity" for the purposes of preparing the consolidated financial statements.

In relation to the above, as described in detail in Section 3 - Scope and methods of consolidation, the tables in the Consolidated Explanatory Notes do not show the comparative balances for the previous year.

Section 1 - Interest - Items 10 and 20

1.1 Interest income and similar revenues: breakdown

ITEMS/TECHNICAL FORMS	Debt securities	Loans	Other transactions	Total 31/12/2019
1. Financial assets measured at fair value through profit or loss:	**1**	**3**	**1**	**5**
1.1 Financial assets held for trading	-	-	1	1
1.2 Financial assets measured at fair value	-	-	-	-
1.3 Other financial assets obligatorily measured at fair value	1	3	-	4
2. Financial assets measured at fair value through other comprehensive income	**44**	**-**	**X**	**44**
3. Financial assets measured at amortised cost:	**154**	**1,171**	**X**	**1,325**
3.1 Loans to banks	5	11	X	16
3.2 Loans to customers	149	1,160	X	1,309
4. Hedging derivatives	**X**	**X**	**1**	**1**
5. Other assets	**X**	**X**	**1**	**1**
6. Financial liabilities	**X**	**X**	**X**	**41**
Total	**199**	**1,174**	**3**	**1,417**
of which: interest income from impaired financial assets	-	79	-	79
of which: interest income from finance lease	-	15	-	15

The item "6. Financial liabilities" comprises interest income accrued on funding transactions at negative rates.

The line "of which: interest income from impaired financial assets" shows interest determined on the basis of the effective interest rate, including interest due to the passage of time. This interest relates exclusively to loans to customers. Interest income also includes interest from securities used in repo transactions.

1.2 Interest income and similar revenues: other information

1.2.1 Interest income from financial assets in foreign currency

ITEMS	Total 31/12/2019
Interest income from financial assets in foreign currency	4

1.3 Interest expenses and similar charges paid: breakdown

ITEMS/TECHNICAL FORMS	Payables	Securities	Other transactions	Total 31/12/2019
1. Financial liabilities measured at amortised cost	**(134)**	**(87)**	**-**	**(221)**
1.1 Due to central banks	-	X	X	-
1.2 Due to banks	(3)	X	X	(3)
1.3 Due to customers	(131)	X	X	(131)
1.4 Debt securities in issue	X	(87)	X	(87)
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**
3. Financial liabilities measured at fair value	**-**	**(2)**	**-**	**(2)**
4. Other liabilities and provisions	**X**	**X**	**(1)**	**(1)**
5. Hedging derivatives	**X**	**X**	**(6)**	**(6)**
6. Financial assets	**X**	**X**	**X**	**(8)**
Total	**(134)**	**(89)**	**(7)**	**(238)**
of which: interest expense on payables for leases	-	-	-	-

Items "1.2 Due to banks" and "1.3 Due to customers" also include interest on repos, even if carried out against securities recorded as assets.

1.4 Interest expenses and similar charges paid: other information

1.4.1 Interest expenses from liabilities in foreign currency

ITEMS	Total 31/12/2019
Interest expenses from liabilities in foreign currency	(2)

1.5 Differentials relative to hedging transactions

ITEMS	Total 31/12/2019
A. Positive differentials relating to hedging transactions	1
B. Negative differentials relative to hedging transactions	(6)
C. Balance (A-B)	**(5)**

Section 2 - Commissions - Items 40 and 50

2.1 Commission income: breakdown

TYPE OF SERVICES/VALUES	Total 31/12/2019
a) guarantees issued	15
b) credit derivatives	-
c) management, trading and consulting services:	241
1. trading of financial instruments	-
2. foreign currency trading	1
3. portfolio management	92
3.1. individual	52
3.2. collective	40
4. custody and administration of securities	5
5. custodian bank	-
6. placement of securities	43
7. order receipt and transmission	15
8. consulting	1
8.1. pertaining to investments	1
8.2. pertaining to financial structures	-
9. distribution of third party services	84
9.1. portfolio management	1
9.1.1. individual	1
9.1.2. collective	-
9.2. insurance products	59
9.3. other products	24
d) collection and payment services	193
e) servicing activities for securitisation operations	-
f) services for factoring operations	-
g) collection and receiving operations	-
h) activities for the management of multilateral trading systems	-
i) current account maintenance and management	251
j) other services	37
Total	**737**

As at the reporting date, the Group does not have significant amounts of commission income (other than the amounts included in the calculation of the effective interest rate) from financial assets not measured at fair value through profit or loss in accordance with IFRS 7, paragraph 20, letter c(i).

It should also be noted that the Group does not have significant amounts relating to revenues recognised during the year included in the opening balance of liabilities arising from contracts (IFRS 15, paragraph 116 b)).

2.1bis Commission income: type and timing of recognition

TYPE OF SERVICES	31/12/2019		
	At a given moment in time	Over a period of time	Total
a) guarantees issued	7	8	15
b) credit derivatives	-	-	-
c) management, trading and consulting services	202	39	241
d) collection and payment services	174	19	193
e) servicing activities for securitisation operations	-	-	-
f) services for factoring operations	-	-	-
g) collection and receiving operations	-	-	-
h) activities for the management of multilateral trading systems	-	-	-
i) current account maintenance and management	120	131	251
j) other services	28	9	37
Total	**531**	**206**	**737**

2.2 Commission expense: breakdown

SERVICES/VALUES	Total 31/12/2019
a) guarantees received	-
b) credit derivatives	-
c) management and trading services:	(18)
1. trading of financial instruments	(2)
2. foreign currency trading	-
3. portfolio management:	(12)
3.1 own portfolios	(12)
3.2 delegated to third parties	-
4. custody and administration of securities	(2)
5. placement of financial instruments	-
6. out-of-branch offer of financial instruments, products and services	(2)
d) collection and payment services	(43)
e) other services	(32)
Total	**(93)**

As at the reporting date, the Group does not have significant amounts of commission expense (other than the amounts included in the calculation of the effective interest rate) arising from financial liabilities not measured at fair value through profit or loss (IFRS 7, paragraph 20, letter c (i)).

Section 3 - Dividend and similar income - Item 70

3.1 Dividend and similar income: breakdown

ITEMS/INCOME	Total 31/12/2019	
	Dividends	Similar income
A. Financial assets held for trading	-	-
B. Other financial assets obligatorily measured at fair value	1	1
C. Financial assets measured at fair value through other comprehensive income	1	-
D. Equity investments	-	-
Total	**2**	**1**

Section 4 - Net result from trading - Item 80

4.1 Net result from trading: breakdown

TRANSACTIONS/INCOME COMPONENTS	Capital gains (A)	Trading profits (B)	Capital losses (C)	Trading losses (D)	Net result [(A+B) - (C+D)]
1. FINANCIAL ASSETS HELD FOR TRADING	**-**	**10**	**-**	**(1)**	**9**
1.1 Debt securities	-	1	-	-	1
1.2 Equities	-	3	-	(1)	2
1.3 UCITS units	-	5	-	-	5
1.4 Loans	-	-	-	-	-
1.5 Other	-	1	-	-	1
2. FINANCIAL LIABILITIES HELD FOR TRADING	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
FINANCIAL ASSETS AND LIABILITIES: EXCHANGE RATE DIFFERENCES	**X**	**X**	**X**	**X**	**3**
3. DERIVATIVE INSTRUMENTS	**17**	**4**	**(18)**	**(4)**	**2**
3.1 Financial derivatives:	17	4	(18)	(4)	2
- On debt securities and interest rates	17	4	(18)	(4)	(1)
- On equities and stock market indices	-	-	-	-	-
- On currencies and gold	X	X	X	X	3
- Other	-	-	-	-	-
3.2 Credit derivatives	-	-	-	-	-
of which: natural hedges connected to the fair value option	X	X	X	X	-
Total	**17**	**14**	**(18)**	**(5)**	**14**

Section 5 - Net result from hedging - Item 90

5.1 Net result from hedging: breakdown

INCOME COMPONENTS/VALUES	Total 31/12/2019
A. INCOME RELATED TO:	
A.1 Fair value hedging derivatives	2
A.2 Hedged financial assets (fair value)	28
A.3 Hedged financial liabilities (fair value)	1
A.4 Cash flow hedge derivatives	-
A.5 Foreign currency assets and liabilities	-
Total income from hedging (A)	**31**
B. CHARGES RELATED TO:	
B.1 Fair value hedging derivatives	(24)
B.2 Hedged financial assets (fair value)	(8)
B.3 Hedged financial liabilities (fair value)	(1)
B.4 Cash flow hedge derivatives	-
B.5 Foreign currency assets and liabilities	-
Total charges from hedging (B)	**(33)**
C. NET RESULT FROM HEDGING (A - B)	**(2)**
of which: result of net positions hedging	-

The Group avails itself of the possibility, provided for in the introduction of IFRS 9, to continue to apply in full the provisions of IAS 39 on hedge accounting (in the carved out version approved by the European Commission) for each type of hedge. As a consequence, in the table above, the row "of which: result of net positions hedging" provided for those who apply IFRS 9 also for hedging, is not valued.

Section 6 - Profit (loss) from disposal/repurchase - Item 100

6.1 Profit (loss) from disposal/repurchase: breakdown

ITEMS/INCOME COMPONENTS	Total 31/12/2019		
	Profit	Loss	Net result
FINANCIAL ASSETS			
1. Financial assets measured at amortised cost	162	(72)	90
1.1 Loans to banks	-	-	-
1.2 Loans to customers	162	(72)	90
2. Financial assets measured at fair value through other comprehensive income	64	(8)	56
2.1 Debt securities	64	(8)	56
2.2 Loans	-	-	-
Total assets (A)	**226**	**(80)**	**146**
FINANCIAL LIABILITIES MEASURED AT AMORTISED COST			
1. Due to banks	-	-	-
2. Due to customers	-	-	-
3. Debt securities in issue	-	-	-
Total liabilities (B)	**-**	**-**	**-**

For further details, please refer to the information in Part E Information on risks and related hedging policies, Section 2, 1.1 Credit risk, Subsection D Disposal transactions.

Section 7 - Net result of other financial assets and liabilities measured at fair value through profit or loss - Item 110

7.1 Net change in value of other financial assets and liabilities measured at fair value through profit or loss: breakdown of financial assets and liabilities measured at fair value

TRANSACTIONS/INCOME COMPONENTS	Capital gains (A)	Profit on sale (B)	Capital losses (C)	Loss on sale (D)	Net result [(A+B) - (C+D)]
1. FINANCIAL ASSETS	-	-	-	-	-
1.1 Debt securities	-	-	-	-	-
1.2 Loans	-	-	-	-	-
2. FINANCIAL LIABILITIES	1	-	-	-	1
2.1 Debt securities in issue	1	-	-	-	1
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	-	-	-	-	-
3. FINANCIAL ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCY: EXCHANGE RATE DIFFERENCES	X	X	X	X	-
Total	1	-	-	-	1

7.2 Net change in value of other financial assets and liabilities measured at fair value through profit or loss: breakdown of other financial assets obligatorily measured at fair value

TRANSACTIONS/INCOME COMPONENTS	Capital gains (A)	Profit on sale (B)	Capital losses (C)	Loss on sale (D)	Net result [(A+B) - (C+D)]
1. FINANCIAL ASSETS	33	8	(22)	(1)	18
1.1 Debt securities	1	-	(5)	-	(4)
1.2 Equities	2	1	-	(1)	2
1.3 UCITS units	12	7	(3)	-	16
1.4 Loans	18	-	(14)	-	4
2. FINANCIAL ASSETS: EXCHANGE RATE DIFFERENCES	X	X	X	X	-
Total	33	8	(22)	(1)	18

Trading profits (losses) and capital gains (losses) from valuations are reported with balances opened by type of financial instrument.

This item includes capital gains and losses that are derived from the fair value measurement of financial assets/liabilities that are classified in the portfolio under item 20.c of Assets.

Section 8 - Net value adjustments/write-backs due to credit risk - Item 130

8.1 Net value adjustments/write-backs due to credit risk relative to financial assets measured at amortised cost: breakdown

TRANSACTIONS/INCOME COMPONENTS	Value adjustments (1)			Write-backs (2)		Total 31/12/2019
	First and second stage	Third stage		First and second stage	Third stage	
		Write-offs	Other			
A. LOANS TO BANKS	**(14)**	**-**	**-**	**12**	**-**	**(2)**
- Loans	(3)	-	-	7	-	4
- Debt securities	(11)	-	-	5	-	(6)
of which: impaired loans acquired or originated	-	-	-	-	-	-
B. LOANS TO CUSTOMERS	**(169)**	**(55)**	**(1,039)**	**270**	**676**	**(317)**
- Loans	(146)	(55)	(1,039)	254	676	(310)
- Debt securities	(23)	-	-	16	-	(7)
of which: impaired loans acquired or originated	-	-	-	-	-	-
Total	**(183)**	**(55)**	**(1,039)**	**282**	**676**	**(319)**

Value adjustments within the column 'Third stage - Other' refer to analytical write-offs while those reported in the column 'Third stage - write-offs' derive from redemption events. In fact, due to the continuation of the economic crisis and as requested by the Bank of Italy, the Group carried out overall value adjustments to financial assets that are consistent with the current and forecast developments of risk in loan portfolios. In addition, the presence of guarantees collected by the affiliated Banks - as a guarantee of exposure - allows for additional guarantees for the recoverability of receivables. The write-backs, in the column 'First and second stage', correspond to the adjustments to performing positions.

For more detailed information pertaining to movements in net adjustments to loans, refer to Part E of these Explanatory Notes.

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

TRANSACTIONS/INCOME COMPONENTS	Value adjustments (1)			Write-backs (2)		Total 31/12/2019
	First and second stage	Third stage		First and second stage	Third stage	
		Write-offs	Other			
A. DEBT SECURITIES	**(5)**	**-**	**(1)**	**15**	**-**	**9**
B. LOANS	**-**	**-**	**-**	**-**	**-**	**-**
- To customers	-	-	-	-	-	-
- To banks	-	-	-	-	-	-
of which: impaired financial assets acquired or originated	-	-	-	-	-	-
Total	**(5)**	**-**	**(1)**	**15**	**-**	**9**

Section 9 - Profits/losses from contractual changes without derecognitions - Item 140

9.1 Profits (losses) from contractual changes: breakdown

Under this item, losses from contractual changes without derecognitions were recorded for approximately EUR 3 million.

Section 10 - Net premiums - Item 160

This section has not been filled in given that there are no insurance companies in the Group as at the reporting date.

Section 11 - Balance of other income and expenses of insurance management - Item 170

This section has not been filled in given that there are no insurance companies in the Group as at the reporting date.

Section 12 - Administrative expenses - Item 190

12.1 Personnel costs: breakdown

TYPE OF EXPENSES/SECTORS	Total 31/12/2019
1) Employees	**(814)**
a) salaries and wages	(550)
b) social security charges	(138)
c) severance indemnity	(30)
d) social security expenses	(6)
e) provision for severance indemnity	(5)
f) allocation to retirement and similar obligations:	-
- with defined contribution	-
- with defined benefit	-
g) payments to external supplementary pension funds:	(28)
- with defined contribution	(28)
- with defined benefit	-
h) costs deriving from payment agreements based on own equity instruments	-
i) other benefits in favour of employees	(57)
2) Other operating personnel	**(7)**
3) Directors and Auditors	**(28)**
4) Retired personnel	**-**
Total	**(849)**

12.2 Average number of employees by category

(Figures in units)

	Total 31/12/2019
EMPLOYEES (A+B+C)	10,811
a) executives	199
b) middle managers	2,850
c) remaining employees	7,762
Other personnel	174

The average number of employees includes employees of other companies seconded to the company and excludes employees of the company seconded to other companies. In the case of part-time employees, 50% is conventionally taken into account. The average number is calculated as the weighted average of employees where the weight is given by the number of months worked per year.

12.3 Defined benefit company pension funds: costs and revenue

For information on this point, please refer to that described in the Liabilities in the Statement of financial position, Section 9, paragraph "9.2 Provision for severance indemnity: other information".

12.4 Other benefits in favour of employees

ITEMS	Total 31/12/2019
Miscellaneous personnel costs: allocation of loyalty bonus	(1)
Miscellaneous personnel costs: insurance	(8)
Miscellaneous personnel costs: staff leaving incentives	(21)
Miscellaneous personnel costs: meal vouchers	(13)
Miscellaneous personnel costs: training courses	(4)
Miscellaneous personnel costs: other benefits	(10)
Other benefits in favour of employees	**(57)**

12.5 Other administrative expenses: breakdown

ITEMS	Total 31/12/2019
ICT expenses	**(77)**
Outsourced ICT expenses	(37)
ICT expenses other than outsourced ICT expenses	(40)
Taxes and levies (other)	**(141)**
Expenses for professional and consulting services	**(92)**
Advertising and entertainment expenses	**(30)**
Expenses related to debt collection	**(26)**
Litigation expenses not covered by allocations	**(1)**
Expenses for real estate	**(46)**
Lease fees	**(6)**
Other administrative expenses - Other	**(186)**
Total other administrative expenses	**(605)**

The sub-item “Lease fees” includes short-term rentals (contracts with a residual useful life of less than 12 months) and rentals relating to leases of modest value (less than EUR 5 thousand) for an insignificant amount.

Section 13 - Net allocations to provisions for risks and charges - Item 200

13.1 Net allocations for credit risk relative to commitments to disburse funds and financial guarantees issued: breakdown

ITEMS	Total 31/12/2019		
	Phase 1	Phase 2	Phase 3
	Allocations		
COMMITMENTS TO DISBURSE FUNDS			
Commitments to disburse funds	(9)	(5)	(27)
FINANCIAL GUARANTEES ISSUED			
Financial guarantee contracts	(3)	(1)	(15)
Total allocations (-)	**(12)**	**(6)**	**(42)**
	Reallocations		
COMMITMENTS TO DISBURSE FUNDS			
Commitments to disburse funds	6	3	28
FINANCIAL GUARANTEES ISSUED			
Financial guarantee contracts	1	2	15
Total reallocations (+)	**7**	**5**	**43**
	Net allocation		
Total	**(5)**	**(1)**	**1**

13.2 Net allocations relative to other commitments and guarantees issued: breakdown

PROVISION FOR OTHER COMMITMENTS AND GUARANTEES ISSUED	Total 31/12/2019
Allocations for other commitments to disburse funds	(1)
Allocations for other financial guarantees issued	(1)
TOTAL ALLOCATIONS	(2)
Reallocations for other commitments to disburse funds	-
Reallocations for other financial guarantees issued	-
TOTAL REALLOCATIONS	-
Net allocation	(2)

13.3 Net allocations to other provisions for risks and charges: breakdown

ITEMS	31/12/2019		
	Allocations	Reallocations	Net total
Allocations and reallocations to other provisions for risks and charges			
1. for risks on revocatory actions	(3)	-	(3)
2. for charity	-	-	-
3. for personnel risks and charges	(8)	1	(7)
4. for legal and tax disputes	(9)	12	3
5. for other risks and charges	(11)	5	(6)
Total	(31)	18	(13)

Section 14 - Net value adjustments/write-backs to tangible assets - Item 210

14.1. Net value adjustments to tangible assets: breakdown

ASSET/INCOME COMPONENTS	Depreciation (a)	Value adjustments for impairment (b)	Write-backs (c)	Net result (a + b - c)
A. TANGIBLE ASSETS				
1. For business use	(91)	(6)	-	(97)
- Owned	(65)	(6)	-	(71)
- Rights of use acquired through lease	(26)	-	-	(26)
2. Held for investment purposes	(1)	(6)	-	(7)
- Owned	(1)	(6)	-	(7)
- Rights of use acquired through lease	-	-	-	-
3. Inventories	X	(6)	-	(6)
Total	(92)	(18)	-	(110)

During the year, tangible assets classified as "assets held for sale" in accordance with IFRS 5 were measured. The result of this measurement is not significant.

Section 15 - Net value adjustments/write-backs to intangible assets - Item 220

15.1 Net value adjustments to intangible assets: breakdown

ASSET/INCOME COMPONENTS	Amortisation (a)	Value adjustments for impairment (b)	Write-backs (c)	Net result (a + b - c)
A. INTANGIBLE ASSETS				
A.1 Owned	(11)	-	-	(11)
- Generated internally by the company	-	-	-	-
- Other	(11)	-	-	(11)
A.2 Rights of use acquired through lease	-	-	-	-
Total	(11)	-	-	(11)

Section 16 - Other operating income/charges - Item 230

16.1 Other operating charges: breakdown

ITEMS	Total 31/12/2019
Amortisation of improvements to non-separable third-party assets	(5)
Charges for treasury contracts with public bodies	-
Charges for transactions and indemnities	(1)
Non-existent items and contingencies not ascribable to own items	(9)
Allowances payable and rounding down	-
Other operating charges - other	(19)
Total other operating charges	**(34)**

16.2 Other operating income: breakdown

ITEMS	Total 31/12/2019
Recovery of taxes	124
Charges to third parties for costs on deposits and current accounts	7
Recovery of insurance premiums	3
Receivable rents and payments	4
Recovery of other expenses	26
Non-existent items and contingencies not ascribable to own items	10
Badwill from Purchase Price Allocation	-
Bonuses and rounding down	1
Other operating income - other	81
Total other operating income	**256**

As at the reporting date, the Group does not have significant amounts relating to revenues recognised during the year included in the opening balance of liabilities arising from contracts (IFRS 15 para. 116 b)) and revenues recognised during the year arising from obligations fulfilled in previous years (IFRS 15 para. 116 c)).

It should be noted that the following are not of significance for the Group:

- income from sublease of assets consisting of the right of use (IFRS 16, para. 53, letter f));
- income related to variable finance lease payments not included in the measurement of the net investment in the lease (IFRS 16, para. 90, letter a)(iii));
- operating lease income arising from variable payments that are not dependent on an index or rate (IFRS 16, para. 90, letter b)).

Section 17 - Profits (losses) on equity investments - Item 250

17.1 Profits (losses) on equity investments: breakdown

INCOME COMPONENTS/VALUES	Total 31/12/2019
1) JOINTLY-CONTROLLED COMPANIES	
A. Income	**-**
1. Revaluations	-
2. Gains from disposal	-
3. Write-backs	-
4. Other Income	-
B. Charges	**-**
1. Write-downs	-
2. Value adjustments for impairment	-
3. Losses from disposal	-
4. Other charges	-
Net result	**-**
2) COMPANIES SUBJECT TO A SIGNIFICANT INFLUENCE	
A. Income	**1**
1. Revaluations	1
2. Gains from disposal	-
3. Write-backs	-
4. Other Income	-
B. Charges	**(5)**
1. Write-downs	(4)
2. Value adjustments for impairment	-
3. Losses from disposal	(1)
4. Other charges	-
Net result	**(4)**
Total	**(4)**

Section 18 - Net result of fair value measurement of tangible and intangible assets - Item 260

18.1 Net result of fair value measurement (or revalued value) or estimated realisable value of tangible and intangible assets: breakdown

ASSET/INCOME COMPONENTS	Revaluations (a)	Write-downs (b)	Exchange rate differences		Net result (a-b+c-d)
			Positive (c)	Negative (d)	
A. TANGIBLE ASSETS	-	(1)	-	-	(1)
A.1 For business use:	-	-	-	-	-
- Owned	-	-	-	-	-
- Rights of use acquired through lease	-	-	-	-	-
A.2 Held for investment purposes:	-	(1)	-	-	(1)
- Owned	-	(1)	-	-	(1)
- Rights of use acquired through lease	-	-	-	-	-
A.3 Inventories	-	-	-	-	-
B. INTANGIBLE ASSETS	-	-	-	-	-
B.1 Owned:	-	-	-	-	-
B.1.1 Generated internally by the company	-	-	-	-	-
B.1.2 Other	-	-	-	-	-
B.2 Rights of use acquired through lease	-	-	-	-	-
Total	-	(1)	-	-	(1)

Section 19 - Value adjustments to goodwill - Item 270

19.1 Value adjustments to goodwill: breakdown

INCOME COMPONENTS	Total 31/12/2019
Value adjustments to goodwill	(27)

For a description of the methods used to perform impairment tests on goodwill, see Part B Assets - Section 10 - Intangible assets.

Section 20 - Profit (loss) from disposal of investments - Item 280

20.1 Profit (loss) from disposal of investments: breakdown

No profits/losses on disposal of investments were recorded during the year.

Section 21 - Income taxes for the year on current operating activities - Item 300

21.1 Income taxes for the year on current operating activities: breakdown

	INCOME COMPONENTS/VALUES	Total 31/12/2019
1.	Current taxes (-)	(66)
2.	Changes in current taxes of previous years (+/-)	-
3.	Decrease in current taxes of the year (+)	-
3. bis	Decrease in current taxes of the year for tax credits pursuant to Law no. 214/2011 (+)	1
4.	Change in advance taxes (+/-)	2
5.	Change in deferred taxes (+/-)	3
6.	Income taxes for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(60)

21.2 Reconciliation between the theoretical fiscal charge and the effective fiscal charge in the financial statements

INCOME COMPONENTS	Tax
Profit from current operating activities, gross of tax (Item 260 of the Income Statement)	285
IRES income taxes - theoretical fiscal charge:	(101)
Effects of decreases in taxable income on IRES	92
Effects of increases in taxable income on IRES	(33)
A. EFFECTIVE FISCAL CHARGE - CURRENT IRES TAX	**(42)**
Increases in deferred tax assets	17
Decreases in deferred tax assets	(22)
Increases in deferred tax liabilities	(2)
Decreases in deferred tax liabilities	4
B. TOTAL EFFECTS OF DEFERRED IRES TAXATION	**(3)**
C. CHANGES IN CURRENT TAXES OF PREVIOUS YEARS	**1**
D. TOTAL ACCRUED IRES (A+B+C)	**(44)**
Theoretical fiscal charge for IRAP with application of nominal rate (difference between net interest and other banking income and allowable deductible costs):	(50)
Effect of decreases in value of production	35
Effect of increases in value of production	(9)
Changes in current taxes of previous years	-
E. EFFECTIVE FISCAL CHARGE - CURRENT IRAP TAX	**(24)**
Increases in deferred tax assets	9
Decreases in deferred tax assets	(2)
Increases in deferred tax liabilities -	-
Decreases in deferred tax liabilities -	1
F. TOTAL EFFECTS OF DEFERRED IRAP TAXATION	**8**
G. TOTAL ACCRUED IRAP (E+F)	**(16)**
H. IRES/IRAP SUBSTITUTE TAX FOR EXEMPTION OF MISMATCHES -	**-**
TOTAL IRES - IRAP CURRENT TAXES (A+C+E+H)	**(65)**
TOTAL IRES - IRAP ACCRUED TAXES (D+G+H)	**(60)**

Section 22 - Profit (loss) after tax from discontinued operations - Item 320

The tables of this section do not contain information and therefore were not filled in.

Section 23 - Profit (loss) for the year of minority interests - Item 340

23.1 Details of item 340 "Profit (loss) for the year of minority interests"

COMPANY NAMES	Total 31/12/2019
EQUITY INVESTMENTS IN CONSOLIDATED COMPANIES WITH SIGNIFICANT THIRD-PARTY INTERESTS	
1. PHOENIX INFORMATICA BANCARIA S.P.A.	4
Total	**4**

The item "Profit for the year of minority interests" amounts to approximately EUR 4 million, and refers to the minority interest in Phoenix Informatica Bancaria S.p.A.

Section 24 - Other information

There is no further information other than that already provided.

Section 25 - Earnings per share

25.1 Average number of ordinary shares with diluted capital

The information relating to this section is not reported in view of the particular characteristics of the Cassa Centrale Banca Credito Cooperativo Italiano Cooperative Banking Group.

25.2 Other information

There is no further information to be presented in relation to the above.

PART D - Consolidated comprehensive Income

As described in Part A - Accounting policies - A.1 - General part - Section 3 - Scope and methods of consolidation, following the establishment of the Cassa Centrale Group, the parent company and the affiliated Banks that joined the Group constitute a "single consolidating entity" for the purposes of preparing the consolidated financial statements.

In relation to the above, as described in detail in Section 3 - Scope and methods of consolidation, the "Analytic statement of consolidated comprehensive income" does not show the comparative balances for the previous year.

Analytic statement of consolidated comprehensive income

ITEMS		31/12/2019
10.	**Profit (loss) for the year**	**225**
	Other income components without reversal to the Income Statement	**11**
20.	Equities measured at fair value through other comprehensive income:	18
	a) fair value change	14
	b) transfers to other components of equity	4
30.	Financial liabilities measured at fair value through profit or loss (changes in credit rating):	-
	a) fair value change	-
	b) transfers to other components of equity	-
40.	Hedging of equities measured at fair value through other comprehensive income:	-
	a) fair value change (hedged instrument)	-
	b) fair value change (hedging instrument)	-
50.	Tangible assets	-
60.	Intangible assets	-
70.	Defined benefit plans	(8)
80	Non-current assets and groups of assets held for disposal	-
90.	Quotas of valuation reserves relative to shareholdings measured with the equity method	-
100.	Income taxes on other income components without reversal to the Income Statement	1
	Other income components reversed to the Income Statement	**2**
110.	Hedging of foreign investments:	-
	a) fair value changes	-
	b) reversal to income statement	-
	c) other changes	-
120.	Exchange rate differences:	-
	a) value changes	-
	b) reversal to income statement	-
	c) other changes	-
130.	Cash flow hedging:	-
	a) fair value changes	-
	b) reversal to income statement	-
	c) other changes	-
	of which: result of net positions	-
140.	Hedging instruments (non designated elements):	-
	a) value changes	-
	b) reversal to income statement	-
	c) other changes	-
150.	Financial assets (other than equities) measured at fair value through other comprehensive income:	1
	a) fair value changes	30
	b) reversal to income statement	(29)
	- adjustments for credit risk	(6)
	- profits/losses on sale	(23)
	c) other changes	-
160.	Non-current assets and groups of assets held for disposal:	-
	a) fair value changes	-
	b) reversal to income statement	-
	c) other changes	-
170.	Quotas of valuation reserves relative to shareholdings measured with the equity method:	-
	a) fair value changes	-
	b) reversal to income statement	-
	- impairment adjustments	-
	- profits/losses on sale	-
	c) other changes	-
180.	Income taxes on other income components with reversal to the Income Statement	1
190.	**Total other income components**	**13**
200.	**Comprehensive income (Item 10+190)**	**238**
210.	Consolidated comprehensive income pertaining to minority interests	2
220.	**Consolidated comprehensive income pertaining to the parent company**	**236**

PART E - Information on risks and related hedging policies

INTRODUCTION

The Group pays particular attention to risk management and governance in ensuring the constant evolution of its organisational/procedural controls and methodological solutions. These functions are carried out with tools to support effective and efficient governance of risk controls, also in response to changes in the reference operational and regulatory environment. As required by the regulations on the reform of cooperative credit, the outsourcing of control functions at the Parent Company by the affiliated Banks of the Cooperative Banking Group has been made operational. It is therefore the task of the Parent Company to define the guidelines for risk measurement and management.

The risk management strategy is based on a holistic view of business risks, considering both the macroeconomic scenario and the individual risk profile, stimulating the growth of the risk control culture and reinforcing a transparent and accurate representation of risks.

The risk assumption strategies are summarised in the Risk Appetite Framework (hereinafter also referred to as "RAF") adopted by the Board of Directors of the Parent Company, i.e. the reference framework that defines - consistently with the maximum risk that can be assumed, the business model and the strategic plan - the risk appetite, the tolerance thresholds, the risk limits, the risk management policies, the reference processes necessary to define and implement them. The RAF, introduced to ensure that risk-taking activities are in line with shareholders' expectations and comply with the overall regulatory and prudential framework of reference, is defined in light of the company's overall risk position and the economic/financial situation.

The framework is developed by the Parent Company and is divided into the following main areas:

- organisational, through (i) the definition of the tasks of the corporate bodies and functions involved in the RAF; (ii) the updating of organisational and governance documents with regard to the main risk profiles (credit and counterparty, concentration, interest rate, market, liquidity, operational) and references for the management of the related interrelationships (risk management policies, risk management process, internal processes for determining and assessing capital adequacy so-called ICAAP, strategic and operational planning, internal control system, incentive system, major operations, etc.) within a framework of overall consistency; (iii) the definition of the relevant information flows;
- methodological, through (i) the definition of indicators, of operational references for their evaluation and the setting of inherent thresholds; (ii) the declination of the objectives and indicators identified in the system of operational limits;
- application, through the reconnaissance of the areas of intervention on the application supports for risk management and supervisory processes (risk measurement, supervisory reporting, ICAAP, simulation/forecasting, alerting activities, reporting, etc.) and the definition of the functional requirements for the related development.

The framework defines both the general principles in terms of the company's risk appetite and the controls adopted with regard to the overall risk profile and the main specific risks.

The general principles that guide the Group's risk-taking strategy are set out below:

- the company's business model is focused on the traditional business of a commercial credit group, with a particular focus on financing small and medium-sized enterprises and households;
- the objective of the company's strategy is not to eliminate risks but to fully understand them in order to ensure their conscious assumption and management in order to guarantee the long-term solidity and continuity of the company;
- limited risk appetite; capital adequacy, income stability, solid liquidity position, attention to maintaining a positive corporate reputation, strong control over the main specific risks to which the company is exposed represent key elements on which the entire company's operations are based;
- formal and substantial compliance with the rules with the aim of not incurring sanctions and maintaining a solid relationship of trust with all company's stakeholders.

The RAF represents, therefore, the overall framework within which the overall management of the risks assumed is placed and the general principles of risk propensity are defined and the consequent articulation of the controls against the overall corporate risk and the main specific risks.

The overall risk profile is monitored by a structure of limits based on the need to ensure compliance with the required minimum levels of solvency, liquidity and profitability, even under stressful conditions.

In particular, overall risk management aims to maintain adequate levels of:

- capitalisation, with reference to Pillar I and Pillar II risks, through the monitoring of the Common Equity Tier 1 ratio, the Tier 1 ratio, the Total Capital ratio and the financial leverage indicator;
- liquidity, such as to cope with periods of tension, even prolonged ones, on the various funding supply markets with reference to both the short-term situation and the structural situation, by monitoring the limits inherent in the Liquidity Coverage ratio, stable funding, loan-collection gap;
- profitability, through the monitoring of indicators such as cost-income and ROA.

The definition of the RAF and the resulting operational limits on the main specific risks mentioned above, the use of risk assessment tools within the credit management processes and the reference control and monitoring of operational and compliance risks, capital adequacy assessment measures and risk capital measures for the assessment of company performance, are the cornerstones of the operational declination of the risk strategy defined by the Board of Directors.

In the same context, reporting to corporate bodies is defined, which aims to provide on a periodic basis summary information on the evolution of the banking Group's risk profile, taking into account the defined risk appetite. The relative system is designed to support the preparation of a holistic representation of the risk profiles to which the Group is exposed.

The definition of the RAF is based on an articulated and complex process, coordinated by the Parent Company. This process is developed in coherence with the ICAAP process and represents the framework within which the annual budget and the business plan are developed, ensuring coherence between risk taking strategies and policies on the one hand, and planning and budgeting processes on the other.

The policies and regulations common to the Group issued by the Parent Company have been adopted to strengthen the overall risk management and governance system.

The risk governance model, i.e. the set of corporate governance and management and control mechanisms aimed at tackling the risks to which the Group is exposed, is part of the broader framework of the company's internal control system, which is addressed by the Parent Company as part of the outsourcing contract, defined in accordance with the prudential supervisory provisions for banks set out in Bank of Italy Circular no. 285/2013 (Part One, Title IV, Chapter 3).

Consistently with these references, all company risks are monitored within the framework of an organisational model based on the full separation of control functions from production functions, which integrates control methodologies and processes at different levels, all of which converge with the objectives of continuously detecting, measuring and verifying the risks typical of company activities, safeguarding the integrity of company assets, protecting against losses, guaranteeing the reliability and integrity of information, and verifying the correct performance of activities in compliance with internal and external regulations.

The internal control system consists of all the rules, functions, structures, resources, processes and procedures that aim to ensure, in compliance with sound and prudent management, the achievement of the following objectives:

- verification of the implementation of company strategies and policies;
- containment of the risk within the limits defined in the adopted RAF;
- safeguarding the value of assets and protection against losses;
- effectiveness and efficiency of operating processes;
- reliability and security of company information and IT procedures;
- prevention of the risk that the Group may be involved, even involuntarily, in illegal activities (with particular reference to those connected with money laundering and terrorist financing);
- compliance of operations with the law and supervisory regulations, as well as with internal policies, regulations and procedures.

The internal control system therefore involves the entire corporate organisation (administrative bodies, structures, hierarchical levels, personnel).

***

In line with the provisions issued by the Bank of Italy, the model adopted by the Group outlines the main responsibilities of the governance and control bodies in order to ensure the overall effectiveness and efficiency of the internal control system.

A joint examination of the supervisory regulations and the Articles of Association shows that the strategic supervision function and the management function are founded within the organic and integrated action of the Board of Directors. The General Manager participates in the management function as top management of the internal structure. In the Parent Company there is the figure of the Chief Executive Officer who also incorporates the functions of the General Manager. The Chief Executive Officer is appointed by the Board of Directors by conferring certain powers and responsibilities pursuant to Article 2381, second paragraph of the Italian Civil Code. For the functions assigned to the Chief Executive Officer, reference should be made to Article 34.2 of Cassa Centrale Banca's Articles of Association.

The strategic supervision function is expressed in the guidance of the corporate management through the preparation of the strategic plan, within which the Risk Appetite Framework (RAF) is inserted through the approval of the ICAAP and the budget. This function is carried out by ensuring consistency between the internal control system and the Group's organisation within the cooperative credit "business model".

The management function, to be understood as the set of decisions that a corporate body takes for the implementation of the guidelines resolved in the exercise of the strategic supervision function, is the responsibility of the Board of Directors with the technical contribution of the Chief Executive Officer, who attends the meetings of the Board of Directors as the proposer, with advisory opinion and without voting power, and is also the recipient of Board proxies. This function is mainly carried out in the following ways:

- resolutions passed by the Board of Directors, also on the proposal of Management, in compliance with the provisions of the Articles of Association;
- resolutions of the Executive Committee, normally on the proposal of Management, in the delegated areas;
- decisions of Management and the structure in the delegated areas.

In accordance with the Articles of Association, the Chief Executive Officer is then responsible for implementing the resolutions of the Board of Directors and the Executive Committee and has the task of supervising the organisational functioning, the performance of operations and the functioning of services, ensuring that the Group is managed as a single entity.

The Chief Executive Officer, as head of personnel, ensures constant attention to the training of employees, also acting as a lever to spread the culture and techniques of risk management and control. He/she also involves the governing body for the approval of training plans and supports it in identifying training methods and content from time to time useful for the development of the directors themselves.

The Board of Statutory Auditors represents the body with control functions and, as it is responsible for corporate control, supervises the correct application of the law and the Articles of Association and, specifically, the adequacy of the internal control system and the effectiveness of the work of the corporate control functions, also making use of the information flows that they carry out.

***

The provisions in relation to the internal control system, information system and business continuity accentuate the need for a prior definition of the reference framework for carrying out banking activities in terms of risk appetite, setting a frame of reference that banking groups must apply consistently to operational contexts, size and degree of complexity. This reference framework is defined in the RAF, i.e. the system of risk objectives, and it involves the ex-ante setting of the risk/return objectives that the Group intends to achieve. The process is directed by the Parent Company, in order to ensure the necessary consistency of application at consolidated level.

The main purpose of the RAF is to ensure that the intermediary's activity develops within the risk appetite limits set by the corporate bodies.

The RAF is an obligatory reference point for the implementation, within the strategic plan, of a reasoning that leads to establishing the Group's propensity to risk and that translates into risk management policies, expressed through the definition of quantitative parameters and qualitative indications consistent with it.

This reference framework is delivered through the development of the strategic plan from an RAF perspective, with which the budget, ICAAP and operational planning are linked.

The Risk Appetite Framework (RAF) and the related risk governance policies, summarised in the strategic plan, are consistently implemented in risk management, which takes the form of an implementation method that integrates approach phases (summarised in the so-called risk management process) and operational phases for the execution of the set objectives.

It involves both the Board of Directors (for resolutions falling within its remit) and Management, which - also with the support of the heads of the operational functions involved from time to time and the second-level control function contacts for the powers for which they are responsible - prepares the proposals to be submitted to the Board of Directors, draws up its own provisions and organically oversees the operating risk management activities.

Risk management - consequently - is articulated in the set of limits, delegations, rules, procedures, resources and controls - at line, second and third level - as well as operational activities through which risk management policies are implemented.

***

The supervisory regulations require banking groups to have adequate systems of risk detection, measurement and control, or an adequate internal control system as defined above.

The controls involve the entire structure, starting from the corporate bodies and the Management and are then articulated in:

- line controls, the main objective of which is to verify the correctness of operations with respect to external/self-regulation rules;
- second-level controls (Risk Management, Compliance and Anti-Money Laundering), aimed at implementing controls on risk management, the correct application of legislation and the management of the risk of money laundering and terrorist financing;
- third level controls (Internal Audit), aimed at identifying anomalous trends in procedures and regulations and assessing the functionality of the overall internal control system.

The Internal Audit Department, which oversees the third level of control, checks the other control systems, activating periodic sessions aimed at monitoring risk variables.

Section 1 - Risks of the consolidated accounts

In this section, information is provided with reference to the companies included in the consolidated accounts.

Information of a quantitative nature

A. Credit quality

A.1 Impaired and performing credit exposures: amounts, adjustments, trend and economic distribution

A.1.1 Distribution of financial assets by portfolio and credit quality (carrying amounts)

PORTFOLIOS/QUALITY	Non-performing	Unlikely to pay	Impaired past due exposures	Performing past due exposures	Other performing exposures	Total
1. Financial assets measured at amortised cost	609	1,201	75	1,263	57,784	**60,932**
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	7,265	**7,265**
3. Financial assets measured at fair value	-	-	-	-	2	**2**
4. Other financial assets obligatorily measured at fair value	-	1	-	1	346	**348**
5. Financial assets held for disposal	-	-	-	-	-	**-**
Total 31/12/2019	**609**	**1,202**	**75**	**1,264**	**65,397**	**68,547**

With regard to forborne exposures, reference should be made to Section 2, Table A.1.5.

A.1.2 Distribution of financial assets by portfolio and credit quality (gross and net values)

PORTFOLIOS/QUALITY	Impaired				Performing			Total (net exposure)
	Gross exposure	Total value adjustments	Net exposure	Overall partial write-offs*	Gross exposure	Total value adjustments	Net exposure	
1. Financial assets measured at amortised cost	4,189	2,304	1,885	305	59,417	370	59,047	60,932
2. Financial assets measured at fair value through other comprehensive income	1	1	-	-	7,269	4	7,265	7,265
3. Financial assets measured at fair value	-	-	-	-	X	X	2	2
4. Other financial assets obligatorily measured at fair value	1	-	1	-	X	X	347	348
5. Financial assets held for disposal	-	-	-	-	-	-	-	-
Total 31/12/2019	**4,191**	**2,305**	**1,886**	**305**	**66,686**	**374**	**66,661**	**68,547**

PORTFOLIOS/QUALITY	Assets with manifestly poor credit quality		Other assets
	Cumulated capital losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	7
2. Hedging derivatives	-	-	3
Total 31/12/2019	**-**	**-**	**10**

B. Disclosure on structured entities (different from securitisation special purpose vehicles)

In accordance with IFRS 12 paragraph B21, there are defined entities structured so that voting or similar rights are not the predominant factor in determining who controls the entity.

Structured entities have all or some of the following characteristics:

- limited activities;
- a limited and well-defined social purpose;
- insufficient equity to allow the structured entity to finance its activities without subordinated financial support;
- loans by investors that create concentrations of credit risk or other risks (tranches).

B.1 Consolidated structured entities

Structured entities subject to consolidation are those over which the Cassa Centrale Group has the power over the entity's relevant activities and is exposed to the variability of their returns, by virtue of the financial instruments underwritten.

As at the reporting date, the Cassa Centrale Group consolidated the Fondo Leonida (closed-end alternative real estate investment fund) by virtue of the financial instruments subscribed (fund units), financial support to the fund and exposure to the variability of returns on the fund's relevant activities.

B.2 Structured entities not consolidated from an accounting viewpoint

B.2.1. Prudentially consolidated structured entities

Information of a qualitative nature

There are no prudentially consolidated structured entities different from those already consolidated for accounting purposes.

B.2.2. Other structured entities

Information of a qualitative nature

Exposures to non-consolidated structured entities are attributable solely to collective investment undertakings (hereinafter also referred to as "UCITS"). For detailed information on exposures to UCITS, please refer to Part B - Information on the consolidated statement of financial position, assets, section 2, table 2.5.

TYPE OF STRUCTURED ENTITY	Interest	Commissions	Dividends	Other Income	Total
UCITS	-	-	1	5	6
Special purpose vehicle	-	-	-	-	-

Section 2 - Risks of prudential consolidation

In this section, the figures are shown gross of transactions with other companies included in the scope of consolidation. These figures conventionally include, in proportion to the interest held, the assets and liabilities of the banking, financial and instrumental companies jointly controlled and consolidated proportionally for supervisory purposes. Where the contribution of the relationships between the companies belonging to the prudential consolidation and the other companies included in the scope of consolidation of the financial statements is significant, the relevant details are provided at the bottom of the information concerned.

1.1 CREDIT RISK

Information of a qualitative nature

1. GENERAL ASPECTS

The objectives and strategies of the Group's lending activities are geared towards the pursuit of an efficient relationship between the characteristics of the distribution model typical of cooperative credit, based on mutuality and localism, and effective monitoring of credit risk. The Group's lending activities are also integrated into the organisational model of the Cassa Centrale Group, which aims to ensure the application of uniform rules and criteria in the assumption and management of credit risk through progressive standardisation of instruments. To this end, the Group is subject to the guidance and coordination role of the Parent Company Cassa Centrale Banca, in particular for the specific areas highlighted in this section. In particular, such objectives and strategies are targeted at:

- the achievement of a loan growth target that is sustainable and consistent with the defined risk appetite;
- an efficient selection of individual counterparties, through a complete and accurate analysis of their ability to meet their contractual commitments, aimed at containing credit risk;
- the diversification of credit risk, by identifying loans of limited amounts as the Group's natural operating area, as well as limiting the concentration of exposures to groups of connected customers or individual lines of business;
- the verification of the persistence of the creditworthiness of the financed clients as well as the performance monitoring of the individual reports carried out, with the help of the information system, both on regular positions as well as and especially on positions with anomalies and/or irregularities.

The commercial policy on credit facilities is oriented to the financial support of the local economy and is characterised by a high propensity to entertain trust and personal relationships with families, craft workers and small-medium enterprises in their territory of reference, as well as a particular operational vocation in favour of customer-shareholders. Moreover, no less important is the support function performed by the Group in favour of certain categories of economic and social operators who, due to their legal structure, their purely local scope of action or the reduced profitability they can bring to the Group, tend to be excluded from access to ordinary bank credit.

The significant share of lending represented by residential mortgages, offered according to different types of products, is evidence of the Group's particular focus on the household sector.

The micro and small businesses and the craft segment is another sector of particular importance for the Group. In this context, the Group's strategies are aimed at establishing medium-long term credit and service relationships through the offer of targeted products and services and personal and collaborative relationships with the same customers. The conventions or partnership agreements reached with the provincial councils or with other subjects working in support of the development of the local economic fabric are also included in this perspective.

The granting of credit is mainly directed towards the lines of business most consistent with the Group's credit policies and the positive economic dynamics that historically and currently characterise the territory in which the Group operates.

2. POLICIES FOR MANAGING CREDIT RISK

2.1 Organisational factors

In carrying out its activities, the Group is exposed to the risk that receivables, for whatever reason, are not honoured by third party debtors at maturity and, therefore, losses must be recorded in the financial statements.

This risk is mainly found in the traditional activity of granting secured or unsecured loans recorded in the financial statements, as well as in similar transactions not recorded in the financial statements (mainly, or endorsement credits) and the potential causes of default lie largely in the lack of liquidity of the counterparty and to a lesser extent in reasons independent of the financial condition of the counterparty, such as country risk or operating risks. Activities other than traditional lending also further expose the Group to credit risk (e.g.: subscription of non-speculative OTC derivative contracts).

Counterparties to such transactions may default due to lack of liquidity, operational weakness, economic events or other reasons. The organisational model adopted by the Group complies with the Group Credit Regulation approved by the Parent Company on 30 January 2019. In this document, also in compliance with the regulatory provisions on Internal Controls, a precise division of roles and responsibilities between the Credit Department and the Control Functions, including the Risk Management Department, has been defined.

The geographical distribution of the Group as at 31 December 2019 is characterised by the presence of 10 territorial branches of the Parent Company and 80 affiliated Banks with approximately 1,500 branches located throughout Italy.

The Credit Department is the central body delegated to govern the entire performing credit process (granting and auditing; management and monitoring), as well as the coordination and development of credit transactions and loans in the territory.

The allocation of tasks and responsibilities within this Department aims - to the extent that is feasible - to separate activities that are in conflict of interest, particularly through an opportune ranking of authorisation profiles in the IT field.

The NPL Service Unit is the central body responsible for managing the non-performing credit process (deliberation of concessions, definition of recovery strategies, management of litigation), the process of changing the classification from performing to non-performing and vice versa, the process of defining and implementing the Group's NPL strategy and the related operational plan.

In light of the provisions on the internal control system (contained in Circular no. 285/2013, Part One, Title IV, Chapter 3), the Group has adopted an organisational structure that is functional to achieving an efficient and effective credit risk management and control process consistent with the framework addressed by the Parent Company.

In addition to line controls, as first level activities, the functions outsourced to the Parent Company in charge of second-level and third-level controls with the collaboration of their respective contact persons are responsible for measuring and monitoring risk trends and for the correctness/adequacy of management and operational processes.

Control activity over credit risk management (as well as financial and operating risks) is carried out by the risk control function (Risk Management Department)

- outsourced to the Parent Company, which makes operational use of its internal contacts at Group banks.

Specifically, the function provides a preventive contribution in the definition of the RAF and related risk management policies, in setting operational limits to the assumption of the various types of risk.

Specifically, the function:

- ensures systematic monitoring of the degree of exposure to risks, the adequacy of the RAF and the consistency between operations and the actual risks assumed by the Group with respect to the risk/return objectives and the related pre-established limits or thresholds;
- contributes to the preparation of the ICAAP report, in particular by verifying the appropriateness of the variables used and consistency with the risk objectives approved under the RAF;
- monitors compliance with regulatory requirements and prudential supervisory ratios, analysing and commenting on their characterisations and dynamics;
- formalises prior opinions on the consistency with the RAF of the most significant transactions, possibly acquiring the opinion of other functions involved;
- contributes to the organisational set up/maintenance and regulates the operational processes (credit, funding, finance, collection/payments, ICT) adopted for the management of the various types of risk, verifying the adequacy and effectiveness of the measures taken to remedy the deficiencies found;
- contributes to the definition/revision of quantitative risk measurement methodologies and, by interacting with the accounting function and referring to the system contributions for the preparation of the financial statements, contributes to a correct classification and evaluation of the company's activities.

2.2 Management, measurement and control systems

With regard to lending activities, the Credit Department and the NPL Unit ensure the supervision and coordination of the operational phases of the lending process, making decisions within the scope of their powers and carrying out the controls for which they are responsible.

The Group has adopted the Group Credit Regulation and the Group Policy for the classification and valuation of loans, issued by the Parent Company, and proceeds to:

- examine the loan portfolio by identifying problem positions, verifying their creditworthiness and consequently isolating those positions that are considered sustainable - albeit with the need for any management intervention - and those deemed insolvent;
- consequently identify the need for intervention for the positions that have been deemed sustainable, in order to be able to assess the overall capacity to support them, also in relation to the effects on the ratio of investments to deposits and capital absorption;
- activate the appraisal process and identify the depreciation percentages of the estimated value of the real estate, on which the Group intends to claim reimbursement of exposures to insolvent counterparties, with reference also to the case of executive proceedings, in accordance with the policy.

The entire credit management and control process is governed by the Group Credit Regulation, which in particular:

- defines the criteria and methodologies for assessing creditworthiness;
- defines the criteria and methodologies for the revision of the credit lines;
- defines the criteria and methods of performance monitoring, as well as the steps to be taken in the event of anomalies being detected.

With reference to transactions with related parties, the Group has adopted specific deliberative procedures aimed at controlling the risk that the proximity of certain parties to the decision-making centres of the same may compromise the impartiality and objectivity of decisions relating to the granting of loans. From this perspective, the Group is also equipped with recognition tools and an IT procedure aimed at supporting the correct and complete registration of related parties. These references have been supplemented by updating, where deemed necessary, the resolutions, regulations and proxies already in use. The Group Regulation for the management of transactions with related parties was also adopted.

In compliance with the provisions of the Group credit regulation and the Group's credit classification and assessment policy, specific procedures have been put in place for the investigation/deliberation, credit line revision and credit risk monitoring phases. Qualitative-quantitative methodologies for assessing the creditworthiness of the counterparty are used in all the above mentioned phases, based or supported by IT procedures that are periodically checked and maintained.

The investigation/deliberation and revision of the credit lines are regulated by a deliberative process in which the various competent bodies, belonging to both the central structures and the network, intervene, in accordance with the levels of delegation provided for. These phases are supported, also in order to use data from external databases, by the management procedures that allow, at any time, the verification (by all credit management functions) of the status of each position already assigned or being assigned, as well as to reconstruct the process that led to the definition of the creditworthiness of the borrower (through the recording and archiving of the decision-making process and the types of analysis carried out).

During the investigation, for requests for significant amounts of credit facilities, the evaluation, including prospective, is structured on several levels and is based mainly on technical data, as well as - as is usually the case - on personal knowledge and in-depth analysis of the specific economic and financial situation of the counterparty and its guarantors. Different types of investigation/revision have been provided for; some, simplified with formalities reduced to the essential, reserved for the investigation/revision of exposures of limited amount referring to parties who have a regular performance, others, of ordinary type, for the remaining type of practices.

The IT procedures adopted by the Group make it possible to periodically extrapolate all relationships that may show symptoms of performance anomalies. The constant monitoring of relationships provided by the procedures makes it possible, therefore, to intervene promptly when anomalous positions arise and to take appropriate measures in the event of problem loans.

The positions entrusted, as already mentioned, are also checked using the information provided by the Risk Centres.

All fiduciary positions are also subject to periodic review, carried out for each individual counterparty/economic group to which they belong by the relevant structures per credit limit.

Control of the activities carried out by the Credit Department is ensured by the Risk Management Department, which is established at the Parent Company.

In recent years, the revision of international prudential regulations as well as the evolution in the banking world have further pushed cooperative credit to develop methods and systems to control credit risk. With this in mind, a strong commitment has been maintained in the progressive development of IT tools for monitoring credit risk, which has led to the creation of an advanced system for assessing the creditworthiness of companies and the risk/return profile.

Consistently with the operational and governance specificities of the credit process, the system has been designed with a view to achieving an adequate integration between quantitative information (Financial Statements; Risk Centre; Relationship Performance; Socio-Demographic Profile) and qualitative information accumulated by virtue of the peculiar customer relationship and its roots in the territory. Therefore, this system responds to the need to give greater effectiveness and efficiency to the credit management process, especially through a more objective selection of customers and a more structured position monitoring process.

The use of the advanced system for assessing the creditworthiness and control of clients entrusted and to be entrusted has significant organisational implications that must be carefully examined and addressed as part of an overall review of the internal control system and the related organisational and regulatory structures.

For the purposes of determining the minimum capital requirement for credit risk, the Group adopts the standardised methodology and, in this context, has decided to:

- make use of rating models, developed on a statistical basis and using credit scoring methodology, for the measurement and evaluation of creditworthiness and related provisions for ordinary and interbank customers [10];
- adopt the standardised methodology for the calculation of the capital requirement for credit risk (Pillar I).

Moreover, with reference to the internal capital adequacy assessment process (ICAAP) provided for in Pillar II of the new prudential regulations and in order to determine internal capital, the Group has opted for the adoption of simplified methodologies.

In addition, stress tests were carried out in accordance with the management methods established by the Parent Company.

With reference to credit risk, stress tests are carried out as follows: in particular, the stress exercise is intended to measure the change in the exposures of the Regulatory portfolios due to the application of an adverse scenario compared to a baseline scenario.

The aggregates subjected to stress analysis are:

- gross volumes of performing loans to customers;
- rate of deterioration of performing loans to customers and related write-offs;
- coverage ratio of performing and impaired loans to customers;
- fair value of the HTCS securities portfolio.

For the identification of the two market scenarios, reference is made to the information provided by an external provider also based on the main assumptions established by the European Banking Authority for the purpose of the 2018 Stress Test.

With reference to operations on the securities markets, the Finance Departments of the Group's banks carry out valuation and control activities both during the purchase of financial instruments and at subsequent times when the composition of the segment by asset class or IAS/IFRS portfolio is periodically analysed, the level of specific risk or counterparty risk is determined and compliance with the limits and powers assigned is verified.

[10] The rating models developed are subject to annual review by the Parent Company. During the year, under the supervision of the Parent Company's Risk Management Department, credit risk models were refined and updated. For more details, see paragraph 2.3.

2.3 Methods of measuring expected losses

IFRS 9 introduced, for instruments measured at amortised cost and fair value through other comprehensive income (other than equity instruments), a model based on the expected loss concept, replacing the incurred loss approach provided by IAS 39.

The changes introduced by IFRS 9 are characterised by a prospective view which, in given circumstances, may require the immediate recognition of all expected losses over the life of a loan. In particular, unlike IAS 39, it is necessary to recognise, immediately and regardless of the presence or not of a so-called trigger event, the initial amounts of expected future losses on own financial assets, and this estimate should be continuously adjusted also in consideration of the counterparty credit risk. In order to prepare this estimate, the impairment model should not only consider past and present data, but also information relating to future events.

This forward looking approach makes it possible to reduce the impact of the losses and enable loan adjustments to be posted in proportion to the increase in risks, allowing entities to avoid overloading the income statement on the occurrence of loss events and reducing the pro-cyclical effect.

The scope of application of the new model for measuring expected losses on loans and securities subject to impairment adopted refers to financial assets (loans and debt securities), commitments to disburse funds, guarantees and financial assets not subject to measurement through FVTPL. For credit exposures falling within the scope of application [11] of the new model, the accounting standard provides for the allocation of individual relationships to one of three stages based on changes in credit quality, defined on an expected credit loss model at 12 months or full life if a significant increase in credit risk (lifetime) has occurred. In particular, there are three different categories reflecting the credit quality deterioration model from initial recognition, which make up the stage allocation:

- in stage 1, positions that do not present, at the valuation date, a significant increase in credit risk (so-called SICR) or that can be identified as low credit risk;
- in stage 2, positions that, at the reference date, present a significant increase of the credit risk or that do not present the characteristics to be identified as 'low credit risk';
- in stage 3, non-performing positions [12].

The estimate of expected loss using the Expected Credit Loss (ECL) criteria, for the classifications defined above, takes place on the basis of the allocation of each position into the three reference stages, as detailed below:

- stage 1, expected loss must be calculated on a time horizon of 12 months [13];
- stage 2, expected loss must be calculated by considering all the losses that are expected to be incurred over the entire life of the financial asset (lifetime expected loss): therefore, with respect to the calculation performed in accordance with IAS 39, there is a shift from the estimate of incurred loss over a time horizon of 12 months to an estimate that takes into consideration the entire residual life of the loan; in addition, given that IFRS 9 requires entities to also adopt forward-looking estimates for the calculation of the lifetime expected loss, it is necessary to consider the scenarios connected with macro-economic variables (e.g. GDP, unemployment rate, inflation, etc.) which, through a macro-economic statistical model, are able to estimate the forecasts over the residual duration of the loan;

[11] The application segments are ordinary customers, interbank segment and securities portfolio.
[12] Non-performing loans relate to: impaired past due and/or overrun, 'unlikely to pay' and non-performing exposures.
[13] The calculation of the expected loss for the purposes of calculating collective bad debt provisions for these exposures takes place on a 12-month point in time basis.

- stage 3, the expected loss must be calculated with a lifetime perspective, but unlike stage 2 positions, the calculation of the expected lifetime loss is carried out using an analytical valuation methodology; for certain exposures classified as non-performing or unlikely to pay of less than EUR 200,000, for impaired past due and/or overrun exposures and for off-balance sheet exposures, the calculation of the expected lifetime loss is normally carried out using a flat-rate analytical methodology.

With particular reference to positions classified as non-performing, specific analytical valuations reflect, where appropriate, a probable scenario of realisation of these receivables through the sale of the related exposures, consistent with the Group's strategy for the management of impaired receivables.

The risk parameters (PD, LGD and EAD) are calculated by the impairment models; to improve the coverage of the ratios not originally rated after 2006, the default rates made available by the Bank of Italy were used [14]. It should be underlined that the Group calculates the ECL based on the allocation stage, per individual position, with reference to cash and off-balance sheet exposures.

Ordinary customer segment

The drivers common to all the approaches identified for the construction of the PD to be used, concern:

- 12-month PD estimate developed on a statistical basis through the construction of a Group model, appropriately segmented according to the type of counterparty and the geographical area in which the Group operates;
- the inclusion of forward looking scenarios, through the application of multipliers defined in a satellite model to the PD point in time (so-called PiT) and definition of a set of possible scenarios incorporating current and future macroeconomic conditions;
- the transformation of 12-month PD into lifetime PD, in order to estimate a PD term structure along the entire residual life class of loans.

The drivers common to all the approaches identified for the construction of the LGD to be used, concern:

- a Group model, appropriately segmented according to the geographical area in which the Group operates, which consists of two parameters: the danger rate (DR) and the non-performing LGD;
- the IFRS 9 danger rate parameter is estimated from a set of transition matrices between administrative states with an annual observation horizon. These matrices were calculated in relation to a set of counterparties with a segmentation in line with that used for the development of PD models. The DR parameter, like PD, is conditioned to the economic cycle, based on possible future scenarios, so as to incorporate assumptions about future macroeconomic conditions;
- the nominal non-performing LGD parameter is calculated as the arithmetic mean of the nominal non-performing LGD, segmented by type of guarantee, and then discounted based on the average of the observed recovery times per cluster of ratios consistent with those of the nominal non-performing LGD.

The EAD IFRS 9 model adopted differs depending on the type of technical macro-form and on the stage to which the exposure belongs. For the estimation of the EAD parameter over the lifetime period of the instalment positions, it is necessary to consider the contractual repayment flows, for each year of the remaining life of the position. A further element that influences the future values of the EAD, i.e. the progressive repayment of the instalment loans on the basis of the contractual amortisation plan, is the prepayment rate (a parameter that collects the events of early and partial termination with respect to the contractual maturity date).

[14] During 2018, the Bank of Italy made available a historical series of default rates starting in 2006, broken down by a number of drivers (region, amount range, economic sector, etc.) and built on a broader definition of non-performing positions only.

The Group made provision for the allocation of the individual cash and off-balance sheet positions, in one of the 3 stages listed below, based on the following criteria:

- in stage 1, positions with generation date of less than three months from the measurement date or that do not present any of the characteristics described in the previous point;
- in stage 2, positions which, at the reference date, present at least one of the characteristics described below:
  - a significant increase in credit risk from the disbursement date has been identified, defined in accordance with the operating methods and set out in the appropriate technical documentation;
  - positions relating to counterparties that at the valuation date are classified to 'watch list', i.e. 'performing under observation';
  - positions which, at the valuation date, present an increase of 200% in the 'PD' with respect to that at origination;
  - presence of a 'forborne performing' attribute;
  - presence of past due amounts and/or overrun by more than 30 days;
  - positions (without PD lifetime at the origination date) that do not have the characteristics to be identified as low credit risk at the valuation date (i.e. performing positions that have the following characteristics at the valuation date: no PD lifetime at the origination date and rating class as at the reporting date less than or equal to 4 [15]);
- in stage 3, non-performing loans. These concern individual positions relating to counterparties classified in one of the impaired loan categories set forth by Bank of Italy Circular no. 272/2008 and subsequent updates. Falling into this category are impaired past due and/or overrun, 'unlikely to pay' and non-performing exposures.

Interbank segment

For interbank segment positions the PD parameter is provided by an external provider and extrapolated from quoted credit spreads or quoted bonds. For institutions without quoted credit spreads, the PD parameter is always provided by an external provider, but calculated on the basis of comparable logics based on external information (financial statements, external ratings, economic sector).

The LGD parameter is set prudentially by basing the regulatory level for IRB at 45%.

For EAD, similar logic is applied as for the ordinary customer model. It should be noted that a prepayment parameter has been applied to interbank positions consistent with the underlying technical forms and with the specificities of the underlying positions in this segment.

The Group has provided for the allocation of individual positions to the 3 stages, in the same way as to that provided for loans to customers. The application of the concept of low credit risk is defined on performing positions which at the valuation date have the following characteristics: no PD lifetime at the origination date and PD Point in Time less than 0.3%.

[15] The rating model has 13 classes.

Securities portfolio

The PD parameter is provided by an external provider based on two approaches:

- timeliness: the default probability term structure for each issuer is obtained from quoted credit spreads or quoted bonds;
- comparable: where market data does not allow for the use of specific credit spreads, because they are absent, illiquid or insignificant, the default probability term structure associated with the issuer is obtained using proxy methodology. This methodology provides for the reclassification of the rated issuer to a comparable issuer for which specific credit spreads are available or to a reference cluster for which a representative credit spread can be estimated.

The LGD parameter is assumed to be constant over the entire time period of the financial activity under analysis and is obtained on the basis of four factors: issuer and instrument type, instrument ranking, instrument rating and country of origin. The minimum level starts from a value of 45%, with subsequent increases to take into account the different degrees of seniority of the securities.

The Group has allocated the individual tranches for the purchase of securities in three stages.

In the first creditworthiness stage the following are placed: tranches that can be classified as low credit risk (i.e. that have PD as at the reporting date below 0.26%) and those that at the valuation date, have not experienced a significant increase in credit risk with respect to the time of purchase.

In the second stage, tranches are placed, which on the valuation date present an increase in credit risk compared to the date of purchase.

In the third and final stage, tranches are placed, for which the ECL is calculated following the application of a 100% probability (i.e. in default).

Transitory regime

With regard to the economic and equity impacts of IFRS 9, it should be noted that, on first-time adoption of the same, the main impacts arose from the application of the new accounting model of impairment based, as mentioned above, unlike the loss approach of IAS 39, on the concept of expected loss, and from the application of the rules for the transfer of exposures to the various stages of classification.

It should be noted that Cassa Centrale Banca has adhered to the option introduced by Regulation (EU) no. 2395/2017 of the European Parliament and the Council with which amendments have been made to Regulation (EU) no. 575/2013 on prudential requirements for credit institutions and investment firms (so-called CRR), relating to the introduction of a specific transitional framework, from 2018 to 2022, aimed at mitigating the impact on equity resulting from the application of the new impairment model based on the measurement of expected credit losses (ECL) introduced by IFRS 9.

The provisions in question have made it possible to reintroduce in the CET1 the impact recorded following the application of the new valuation model introduced by IFRS 9 for financial assets measured at amortised cost or at fair value through other comprehensive income.

This standard allows for dilution over five years of:

a) the incremental impact of the write-down on performing and impaired exposures recognised at the date of transition to IFRS 9 following the application of the new impairment model (static filter component);

b) any further increase in total write-downs relating only to performing exposures, recorded at each reference date with respect to the impact measured at the date of transition to the new standard (dynamic filter component).

The adjustment to CET1 results in the re-inclusion in the CET1 of the observed impact to the extent indicated below for each of the 5 years of the transitional period:

- 2018 - 95%
- 2019 - 85%
- 2020 - 70%
- 2021 - 50%
- 2022 - 25%

The application of the transitional provisions to the CET1 requires a symmetric adjustment in the determination of capital requirements for credit risk through the adjustment of exposure values determined in accordance with Article 111 para. 1 of the CRR. In particular, specific adjustments to loans for which the value of the individual exposure is reduced shall be multiplied by a scaling factor determined on the basis of the complement at 1 of the impact of the adjustment made to the CET1 on the total amount of specific value adjustments to loans.

Adherence to this option makes it possible to postpone the most significant component of the impact on equity of the application of the new impairment model introduced by IFRS 9, bringing it, particularly in the first years of the transitional framework, to levels considered absolutely non-critical for the company's solvency profile.

Organisational and process impacts

In terms of organisational and process impacts, the approach to impairment introduced by IFRS 9 required a major effort to collect and analyse data; this in particular, in order to identify the exposures that have suffered a significant increase in credit risk with respect to the date of their assumption and, consequently, must be traced back to a measurement of the expected lifetime loss, as well as the support of significant investments for the evolution of the valuation models in use and related operating processes for the incorporation of the risk parameters produced in credit operations.

The introduction of forward-looking logic in accounting valuations also determines the need to revise credit policies, for example, with reference to customer selection parameters (in light of the different sectorial or geographical risk profiles) and collateral (orienting the preference of types exposed to lower volatility and sensitivity to the economic cycle). Similarly, it appeared necessary to adjust the company's rules on the granting of credit (and related delegated powers) taking into account, among other things, the different costs of medium/long-term technical forms in a scenario in which, as mentioned above, any migration to stage 2 entails the transition to an expected lifetime loss.

With regard to credit monitoring processes and controls, adjustments and strengthening are also envisaged, based, among other things, on the implementation of automated and proactive processes and the development and/or refinement of early warning and trigger tools that make it possible to identify the early symptoms of a potential step-up and to activate the resulting initiatives in good time.

Finally, significant interventions concern second-level controls by the Risk Management Department, which is responsible, among other things, for the validation of internal risk measurement systems not used for regulatory purposes and for monitoring the substantial correctness of the indications deriving from the use of these models.

With reference to the main management control processes, in the knowledge that the cost of risk is one of the most important variables in determining current and prospective economic results, particular attention is paid to the necessary consistency of the assumptions underlying the estimates of the multi-annual plan and the annual budget (developed on the basis of expected scenarios relating to macroeconomic and market factors), the ICAAP and RAF and those taken as reference for the determination of accounting provisions.

The project activities coordinated by the relevant technical structures of Cassa Centrale Banca have allowed the improvement of the declination of the methodological solutions for the correct estimation of the risk parameters for the calculation of the ECL and the management of the staging process according to IFRS 9 standards, as well as the development of the underlying technical/instrumental support by the relevant structures.

The Group has defined the guidelines relating to the adoption of organisational and process solutions aimed at enabling the correct and integrated use of the rating system in the main business processes (during investigation, pricing, monitoring and evaluation), as well as for the implementation of the related monitoring and control system.

2.4 Techniques for mitigating credit risk

Risk mitigation techniques include those instruments that contribute to reducing the loss that the Group would incur in the event of counterparty insolvency. They include, in particular, guarantees and certain contracts that lead to a reduction in credit risk.

In accordance with the credit objectives and policies defined by the Board of Directors, the credit risk mitigation technique most commonly used by the Group is the acquisition of different types of collateral, personal and financial guarantees.

These forms of guarantee are required depending on the results of the assessment of the creditworthiness of customers and the type of loan requested by the same. As part of the credit granting and management process, the presence of mitigating factors is encouraged against counterparties with a less favourable credit rating or certain types of medium/long-term operations.

In order to limit the risks of non-existence or termination of protection, specific safeguards are provided, such as: the reinstatement of the pledge in the presence of a decrease in the initial value of the property or, for mortgage guarantees, the obligation of insurance coverage against fire damage, as well as the presence of adequate monitoring of the value of the property.

With reference to activities within securities markets, given that the composition of the portfolio is oriented towards primary issuers with high creditworthiness, no particular forms of credit risk mitigation are currently required.

The main concentration of collateral (mainly mortgages) is related to loans to retail customers (medium and long term).

In recent years, a decisive impetus has been given to the implementation of structural and process configurations suitable to ensure full compliance with the organisational, economic, legal and information requirements of prudential regulations on credit risk mitigation (hereinafter also “CRM”) techniques.

The Group has decided to use the following CRM tools:

- financial real guarantees involving cash and financial instruments, provided through agreements for the pledging and transfer of ownership and repurchase agreements;
- residential and non-residential real estate mortgages;
- other forms of real protection such as deposits in cash with third parties;
- personal guarantees represented by sureties, warranty bonds, guarantees - within the realm of authorised guarantors - from monitored intermediaries or other subjects.

Collateral

With reference to the acquisition, evaluation and management of the main forms of collateral, the company’s policies and procedures ensure that such collateral is always acquired and managed in such a way as to ensure that it is enforceable in all relevant jurisdictions and can be enforced within a reasonable time.

In this context, the Group complies with the following inherent regulatory principles:

- the non-dependence of the value of the property to a significant extent on the creditworthiness of the debtor;
- the independence of the entity appointed to estimate the property at a value not exceeding its market value;
- the presence of an insurance against the risk of damage to the property covered by the guarantee;
- the implementation of adequate monitoring of the value of the property, in order to verify the existence over time of the requirements that allow for less capital absorption on the guaranteed exposures;
- compliance with the maximum ratio between the required loan and the value of the property pledged as collateral (loan to value): 80% for residential properties and 50% for non-residential properties;
- the use of the property and the debtor’s ability to repay.

The process of monitoring the value of the property under warranty is carried out using statistical methods. Performing or impaired credit exposures are subject to statistical revaluation every six months.

For significant performing exposures (i.e. amounts in excess of EUR 3 million or 5% of the Group bank’s own funds) the valuation is in any case reviewed by an independent expert at least every 3 years.

For impaired exposures, the Policy adopted by the Group provides for a new appraisal for both residential and non-residential properties at the time of transition to impaired loans and an annual update for positions exceeding specific exposure thresholds.

With regard to financial collateral, the Group, based on the policies and processes for the management of credit risk and operational limits and proxies defined, directs the acquisition of the same exclusively to those financial assets for which the company is able to calculate the fair value on a periodic basis (i.e. whenever there is evidence that there has been a significant decrease in fair value).

The Group has also put in place specific safeguards and procedures to ensure the following aspects relevant to the prudential eligibility of the guarantees in question:

- absence of a material positive correlation between the value of the financial collateral and the creditworthiness of the debtor;
- specific safeguards to guarantee the external separation (between the depositary’s assets and the asset under guarantee) and the internal separation (between assets belonging to different parties and deposited with third parties) if the asset under guarantee is held with third parties;
- residual duration of the guarantee not less than that of the exposure.

The monitoring of financial collateral, in the case of pledging of securities, takes place through periodic monitoring of the issuer/issue rating and the fair value assessment of the financial instrument as collateral. The adjustment of guarantees for which the market value is lower than the resolution value net of discount is required.

Personal guarantees

With reference to personal guarantees, the main types of guarantors are represented by entrepreneurs and corporate partners related to the debtor as well as, in the case of loans granted in favour of sole proprietorships and/or natural persons (consumers or not), also by relatives of the debtor. Less frequently the risk of insolvency is covered by personal guarantees provided by other companies (generally companies belonging to the same economic group as the debtor), or provided by financial institutions and insurance companies.

In the case of loans to parties belonging to certain economic categories (craft workers, traders, etc.) the Group acquires specific guarantees (on first demand or subsidiary) provided by the credit consortia to which it belongs.

An exception is made for personal guarantees which meet all the requirements, provided by credit consortia registered on the special list pursuant to Article 106 of the TUB.

Where a financing proposal provides for personal guarantees from third parties, the investigation shall also extend to the latter. In particular, in relation to the type of loan guaranteed and the amount, the following is subject to verification and analysis:

- the guarantor's statement of financial position and income statement, including by consulting the appropriate databases;
- exposure to the banking system;
- the information present in the Group's information system;
- potential membership of a group and the related overall exposure.

If necessary, at the discretion of the instructor in relation to the amount of the guarantee, the investigation will be extended to the Risk Center.

If the guarantor is represented by a company, and in any case when deemed necessary in view of the risk and the amount of the loan, in addition to the information produced by the network in the form reserved for the guarantor, the creditworthiness of the guarantor shall be developed in the same way as for the applicant.

Offsetting agreements

The Group adopts bilateral offsetting agreements for contracts relating to OTC derivatives and long-term settlement transactions concluded with primary counterparties through the Parent Company which, while not giving rise to any novation, provide for the formation of a single obligation, corresponding to the net balance of all the transactions included in the agreement itself, so that, in the event of default by the counterparty due to insolvency, bankruptcy, liquidation or any other circumstance, the Group has the right to receive or the obligation to pay only the net amount of the positive and negative values at current market prices of the individual transactions offset. Regulation (EU) no. 575/2013, with reference to OTC derivatives and long-term settlement transactions, places such agreements within the framework of other bilateral offsetting agreements between an institution and its counterparty, i.e. written agreements between a bank and a counterparty under which the reciprocal credit and debit positions generated by such contracts are automatically offset so as to establish a single net balance, without any novative effects.

The effect of reducing counterparty risk (and, therefore, lower capital absorption) is recognised provided that the agreement has been communicated to the supervisory authority and the Group complies with the specific requirements set out in the regulations.

In this respect, the Group adopts a net-based counterparty risk management system in accordance with the bilateral offset provision, with no novation effect, present in contracts for OTC derivatives and long-term settlement transactions. It is planned to adopt these instruments also when absorbing capital, bearing in mind that the new contracts all pass through the Parent Company.

The legal right to offset is not legally enforceable at any time but only in the event of insolvency or bankruptcy of the counterparties. As a result, the conditions in paragraph 42 of IAS 32 for offsetting positions in the financial statements are not met as further detailed in IAS 32 in paragraph AG38.

The Group has entered into margining agreements that provide for the exchange of margins (guarantees) between the counterparties to the contract on a daily basis on the basis of the market values recorded on the reference day (i.e. the working day immediately prior to the valuation day). The value of the collateral transferred from one party to the other takes into account the net value of the outstanding positions, the value of any collateral previously lodged by either party and the security value (minimum transfer level). The system is managed by the Parent Company for exposures to affiliates, while for exposures to institutional market counterparties it is the latter that performs the role of guarantee calculation agent.

3. IMPAIRED CREDIT EXPOSURES

3.1 Management strategies and policies

The Group is organised with regulatory/IT structures and procedures for the management, classification and control of loans. Consistent with IAS/IFRS regulations, at each reporting date the presence of objective elements of impairment on each instrument or group of financial instruments is verified.

Impaired financial assets include loans which, following the occurrence of events happening after their disbursement, show objective evidence of possible impairment.

On the basis of the current regulatory framework, supplemented by internal implementing provisions, impaired financial assets are classified according to their critical status into three main categories:

- non-performing loans: credit exposures to counterparties in a state of insolvency (even if not judicially established), or in substantially comparable situations, regardless of the existence of any guarantees given to protect the exposures and the loss forecasts made;
- unlikely to pay: credit exposures, other than non-performing loans, for which it is considered unlikely that, without recourse to protective actions, such as enforcement of guarantees, the debtor will fully meet its credit obligations in principal and/or interest, regardless of the presence of any overdue and unpaid amounts/rates;
- impaired past due and/or overrun: credit exposures, other than those classified as non-performing or unlikely to pay, which are past due and/or overrun by more than 90 days and which reach or exceed the materiality threshold of 5%, in accordance with the criteria established by the Supervisory Authority in Bank of Italy Circular no. 272 of 30 July 2008 and subsequent updates.

The Classification of exposures among impaired assets is carried out both on the proposal of the proprietary structures of the commercial relationship and the central specialist functions in charge of credit control and management.

Classification is also carried out automatically if predetermined default conditions are exceeded, in particular with regard to past due and/or overrun exposures, depending on the extent and seniority of continuous overdue/overrun exposures.

Exposures classified as impaired past due and/or overrun are automatically returned to performing status when the exposures fall below the thresholds that had led to their classification as impaired.

The Parent Company plays a guiding and coordinating role in the definition and updating of regulations and processes relating to the management and recovery of impaired loans, in the preparation and implementation of the Group's NPL strategy and the related operating plan. Each Affiliated Bank is responsible for managing its impaired loans through the relevant structures that:

- monitor the aforementioned positions;
- take steps to restore the regularity of performance in order to include exposures among performing loans;
- propose to the competent decision-making bodies the granting of tolerance measures to make the reimbursement of the exposure sustainable;
- propose to the competent decision-making bodies the transfer to non-performing of insolvent counterparties;
- carry out judicial and extra-judicial activities aimed at recovering receivables classified as non-performing;
- determine the expected loss on positions and propose them to the decision-making body in charge.

The model used to determine provisions for impaired loans provides, depending on their characteristics, for the use of a specific analytical valuation or a flat-rate analytical valuation.

The amount of the adjustment to the value of each loan is determined as the difference between its carrying amount at the time of measurement (amortised cost) and the present value of expected future cash flows, calculated by applying the effective interest rate to the ratio at the time immediately prior to classification in one of the risk categories of impaired loans.

The specific analytical valuation is carried out at the time of classification among impaired credit exposures and is reviewed quarterly in accordance with the criteria and methods identified in the credit policies adopted.

The flat-rate analytical valuation is carried out and updated quarterly on the basis of the estimate of the expected loss calculated by the impairment model introduced by IFRS 9.

3.2 Write-offs

During the year, the Group adopted specific internal regulations on write-off policies. The write-off is an event that results in an accounting derecognition and may occur before the legal action for recovery of the impaired debt is completed and does not necessarily imply a waiver of the legal right to recover the debt. The write-off may cover the entire amount of an impaired exposure or a portion of it and corresponds to:

- the reversal, in full or in part, of the total value adjustments, as a contra-entry to the gross value of the impaired exposure;
- for any portion exceeding the amount of the total value adjustments, to the impairment loss of the impaired exposure recognised directly in the income statement.

Any recoveries from collections in excess of the gross value of the impaired exposure following the write-off are recognised in the income statement under contingent assets.

In general, the write-off applies to impaired exposures for which:

- the occurrence of events has been found to lead to the irretrievability of all or part of the deteriorated exposure;
- all or part of the impaired exposure was deemed reasonably unrecoverable;
- it was considered appropriate, in the context of settlement agreements with the debtor, to waive all or part of the impaired claim.

3.3 Impaired financial assets acquired or originated

In accordance with IFRS 9, loans considered impaired from the time of initial recognition are referred to as Purchased or Originated Credit Impaired Assets (POCI). These loans, if they fall within the scope of application of impairment pursuant to IFRS 9, are measured by setting aside - from the date of initial recognition - provisions to cover losses covering the entire residual life of the loan (ECL lifetime). Since these are impaired loans, they will be initially booked as part of stage 3.

In this regard, it should be noted that the acquisition or origination of impaired financial assets is not part of the Group's typical business model, so the above mentioned cases are to be considered residual.

4. FINANCIAL ASSETS SUBJECT TO COMMERCIAL RENEGOTIATIONS AND FORBORNE EXPOSURES

The category of 'forborne non-performing exposures' does not constitute a separate and additional category of impaired exposures to those previously mentioned (non-performing, unlikely to pay and impaired past due and/or overrun exposures), but only a sub-set of each of them, which includes cash exposures and commitments to disburse funds that are forborne ('forborne exposures'), if both of the following conditions are met:

a) the debtor is in a situation of economic-financial hardship that does not allow him/her to fully comply with the contractual commitments in his/her debt agreement and that puts him/her in a state of 'credit deterioration' (classification in one of the categories of impaired exposures: non-performing, unlikely to pay, impaired past due and/or overrun), and

b) the Group agrees to amend the terms and conditions of that agreement, or to refinance it in full or in part, to enable the debtor to comply with it (there would have been no such forbearance if the debtor had not been in a state of hardship).

Forborne exposures to debtors in a condition of economic-financial hardship that has not reached a state of 'credit impairment' are instead classified in the category of 'forborne performing exposures' and are included among the 'other performing exposures', or among the 'performing past due exposures' if they meet the requirements for this classification.

In terms of the Group's internal regulations, once it has been ascertained that a concession measure meets the requirements of forbearance, the forborne exposure attribute involves:

- forborne performing if both of the following conditions occur:
  - the debtor was classified as ordinary performing or under observation before the forbearance was granted;
  - the debtor was not reclassified as an impaired counterparty as a result of the forbearance granted;
- forborne non-performing if at least one of the following conditions occurs:
  - the debtor was classified as impaired prior to the granting of the forbearance;
  - the debtor has been reclassified among impaired exposures, due to the forbearance granted, including the assumption that (in addition to other regulatory cases), as a result of the valuation made, significant impairment losses will emerge.

In order for a credit exposure classified as forborne non-performing to change to forborne performing, the following conditions must be met simultaneously:

- at least 1 year has passed since the attribution of the forborne non-performing attribute (so-called care period);

- absence of the conditions to classify the debtor as impaired;
- absence of overdue payments on all the debtor's existing relationships with the respective Group banks;
- the debtor's presumed ability, on the basis of documentary evidence, to fully meet its contractual obligations under the repayment terms determined by the forbearance; this prospective ability to repay is deemed to have occurred when both of the following conditions are met:
    - the debtor has reimbursed, through the regular payments made on the renegotiated terms, an amount equal to the amount that had expired (or was subject to derecognition) at the time of granting the forbearance;
    - the debtor has complied with the post-forbearance payment terms over the last 12 months.

A credit exposure classified as forborne performing becomes forborne non-performing when even one of the following conditions occurs:

- the conditions for the classification of the counterparty as impaired loans are met;
- the credit exposure was previously classified as impaired with a forborne non-performing attribute and subsequently, if the conditions were met, the financed counterparty was brought back under observation (with the simultaneous transfer of the line in question to forborne performing), but: i) one of the credit lines of the financed counterparty has matured, during its stay in forborne performing, more than 30 days past due; or ii) the counterparty holding the line in question, during its stay in forborne performing, is subject to further forbearance measures.

For a credit exposure classified as forborne performing to lose this attribute, resulting in a return to only an ordinary performing or performing under observation status, the following conditions must be met simultaneously:

- at least 2 years have passed since the assignment of the forborne performing attribute (so-called probation period);
- the debtor has made, after the application of the forbearance, regular payments of principal or interest on the credit line subject to the forbearance for a total amount equal to at least 5% of the residual principal debt recorded at the time of application of the forbearance; these payments must have been made at such times and in such a way as to ensure full compliance with the contractual obligations for a period, even if not continuous, equal to at least half of the probation period;
- the debtor does not have any past due loan exceeding 30 days in relation to any of the relationships existing with the respective Group bank at the end of the probation period.

Information of a quantitative nature

A. CREDIT QUALITY

A.1. Impaired and performing credit exposures: amounts, adjustments, trend and economic distribution

A.1.1 Prudential consolidation - Distribution of financial assets by maturity bands (carrying amounts)

PORTFOLIOS/RISK STAGES	First stage			Second stage			Third stage		
	From 1 day to 30 days	From over 30 days up to 90 days	Over 90 days	From 1 day to 30 days	From over 30 days up to 90 days	Over 90 days	From 1 day to 30 days	From over 30 days up to 90 days	Over 90 days
1. Financial assets measured at amortised cost	402	-	-	537	222	102	90	84	1,092
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
3. Financial assets held for disposal	-	-	-	-	-	-	-	-	-
Total 31/12/2019	**402**	**-**	**-**	**537**	**222**	**102**	**90**	**84**	**1,092**

A.1.2 Prudential consolidation - Financial assets, commitments to disburse funds and financial guarantees issued: changes in total value adjustments and total allocations

DESCRIPTIONS/RISK STAGES	Total value adjustments									
	First stage assets					Second stage assets				
	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for disposal	of which: individual write-downs	of which: collective write-downs	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for disposal	of which: individual write-downs	of which: collective write-downs
INITIAL TOTAL ADJUSTMENTS	-	-	-	-	-	-	-	-	-	-
Increases from financial assets acquired or originated	10	-	-	-	10	1	-	-	-	1
Derecognitions other than write-offs	(22)	-	-	(1)	(21)	(25)	-	-	(1)	(24)
Net value adjustments/write-backs due to credit risk (+/-)	-	(10)	-	(2)	(8)	(8)	-	-	-	(8)
Contractual changes without derecognitions	-	-	-	-	-	3	-	-	-	3
Changes in estimation methodology	-	-	-	-	-	-	-	-	-	-
Write-offs not recognised directly in the income statement	-	-	-	-	-	(2)	-	-	(1)	(1)
Other changes	111	14	-	7	118	302	-	-	13	289
FINAL OVERALL ADJUSTMENTS	**99**	**4**	**-**	**4**	**99**	**271**	**-**	**-**	**11**	**260**
Collection recoveries in relation to financial assets subject to write-offs	-	-	-	-	-	-	-	-	-	-
Write-offs recognised directly in the income statement	-	-	-	-	-	-	-	-	-	-

DESCRIPTIONS/RISK STAGES	Total value adjustments						Total allocation for commitments to disburse funds and financial guarantees issued			Total
	Third stage assets					Of which: impaired financial assets acquired or originated				
	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for disposal	of which: individual write-downs	of which: collective write-downs		First stage	Second stage	Third stage	
INITIAL TOTAL ADJUSTMENTS	-	-	-	-	-	-	-	-	-	-
Increases from financial assets acquired or originated	2	-	-	2	-	-	1	-	-	14
Derecognitions other than write-offs	(298)	-	-	(287)	(11)	-	(1)	-	(3)	(349)
Net value adjustments/write-backs due to credit risk (+/-)	553	-	-	500	53	-	8	1	9	553
Contractual changes without derecognitions	1	-	-	1	-	-	-	-	-	4
Changes in estimation methodology	-	-	-	-	-	-	-	-	-	-
Write-offs not recognised directly in the income statement	(795)	-	-	(754)	(41)	-	-	-	-	(797)
Other changes	2,841	1	-	2,702	140	-	32	16	34	3,351
FINAL OVERALL ADJUSTMENTS	**2,304**	**1**	**-**	**2,164**	**141**	**-**	**40**	**17**	**40**	**2,776**
Collection recoveries in relation to financial assets subject to write-offs	1	-	-	1	-	-	-	-	-	-
Write-offs recognised directly in the income statement	(27)	-	-	(22)	(4)	-	-	-	-	-

With regard to trade receivables, assets arising from contracts and receivables implicit in leasing contracts, it should be noted that the Group does not use the simplified method, as required by IFRS 9, para. 5.5.15, for the valuation to cover losses.

The item "Other changes" also includes the positive opening balances relating to the entities falling within the scope of consolidation, including the Parent Company Cassa Centrale Banca, arising from the first-time consolidation of the Group, broken down as follows:

- financial assets measured at amortised cost, which are included in the first stage, amounting to EUR 124 million;
- financial assets measured at fair value through other comprehensive income in the first stage amounting to EUR 16 million:
  - of which individual write-downs in the first stage amounting to EUR 7 million;
  - of which collective write-downs in the first stage amounting to EUR 133 million;
- financial assets measured at amortised cost, which are included in the second stage, amounting to EUR 331 million:
  - of which individual write-downs in the second stage of EUR 10 million;
  - of which collective write-downs in the second stage of EUR 321 million;

- financial assets measured at amortised cost, which are included in the third stage, amounting to EUR 2,933 million;
- financial assets measured at fair value through other comprehensive income in the third stage amounting to EUR 1 million:
  - of which individual write-downs in the third stage of EUR 2,792 million;
  - of which collective write-downs in the third stage of EUR 142 million;
- total allocations for commitments to disburse funds and financial guarantees issued in the first stage amounting to EUR 36 million;
- total allocations for commitments to disburse funds and financial guarantees issued in the second stage amounting to EUR 15 million;
- total allocations for commitments to disburse funds and financial guarantees issued in the third stage amounting to EUR 41 million.

A.1.3 Prudential consolidation - Financial assets, commitments to disburse funds and financial guarantees issued: transfers between the various stages of credit risk (gross and nominal values)

PORTFOLIOS/RISK STAGES	Gross value/nominal value					
	Transfers between first stage and second stage		Transfers between second stage and third stage		Transfers between first stage and third stage	
	From first stage to second stage	From second stage to first stage	From second stage to third stage	From third stage to second stage	From first stage to third stage	From third stage to first stage
1. Financial assets measured at amortised cost	4,377	1,342	351	183	337	25
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
3. Financial assets held for disposal	-	-	-	-	-	-
4. Commitments to disburse funds and financial guarantees issued	812	209	20	18	51	5
Total 31/12/2019	**5,189**	**1,551**	**371**	**201**	**388**	**30**

A.1.4 Prudential consolidation - Cash and off-balance-sheet credit exposures to banks: gross and net values

TYPES OF EXPOSURES/VALUES	Gross exposure		Total value adjustments and total allocations	Net exposure	Overall partial write-offs*
	Impaired	Performing			
A. CASH CREDIT EXPOSURES					
a) Non-performing	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
b) Unlikely to pay	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
c) Impaired past due exposures	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
d) Performing past due exposures	X	-	-	-	-
- of which: forborne exposures	X	-	-	-	-
e) Other performing exposures	X	1,808	10	1,798	-
- of which: forborne exposures	X	-	-	-	-
Total (A)	**-**	**1,808**	**10**	**1,798**	**-**
B. OFF-BALANCE-SHEET CREDIT EXPOSURES					
a) Impaired	-	X	-	-	-
b) Performing	X	1,167	4	1,163	-
Total (B)	**-**	**1,167**	**4**	**1,163**	**-**
Total (A+B)	**-**	**2,975**	**14**	**2,961**	**-**

*Value to be displayed for information purposes

A.1.5 Prudential consolidation - Cash and off-balance-sheet credit exposures to customers: gross and net values

TYPES OF EXPOSURES/VALUES	Gross exposure		Total value adjustments and total allocations	Net exposure	Overall partial write-offs*
	Impaired	Performing			
A. CASH CREDIT EXPOSURES					
a) Non-performing	1,960	X	1,351	609	305
- of which: forborne exposures	375	X	235	140	29
b) Unlikely to pay	2,144	X	942	1,202	-
- of which: forborne exposures	1,152	X	481	671	-
c) Impaired past due exposures	87	X	12	75	-
- of which: forborne exposures	9	X	2	7	-
d) Performing past due exposures	X	1,322	58	1,264	-
- of which: forborne exposures	X	81	8	73	-
e) Other performing exposures	X	63,909	306	63,603	-
- of which: forborne exposures	X	808	47	761	-
Total (A)	**4,191**	**65,231**	**2,669**	**66,753**	**305**
B. OFF-BALANCE-SHEET CREDIT EXPOSURES					
a) Impaired	186	X	41	145	-
b) Performing	X	11,633	55	11,578	-
Total (B)	**186**	**11,633**	**96**	**11,723**	**-**
Total (A+B)	**4,377**	**76,864**	**2,765**	**78,476**	**305**

*Value to be displayed for information purposes

A.1.6 Prudential consolidation - Cash credit exposures to banks: trend in gross impaired exposures

As at the reporting date, there were no impaired cash credit exposures to banks.

A.1.6bis Prudential consolidation - Cash credit exposures to banks: trend in gross forborne exposures broken down by credit quality

As at the reporting date, there were no impaired cash credit exposures to banks.

A.1.7 Prudential consolidation - Cash credit exposures to customers: trend in gross impaired exposures

DESCRIPTIONS/CATEGORIES	Non-performing	Unlikely to pay	Impaired past due exposures
A. INITIAL GROSS EXPOSURE	**-**	**-**	**-**
- of which: exposures transferred but not derecognised	-	-	-
B. INCREASES	**3,510**	**3,166**	**293**
B.1 transfers from performing exposures	78	437	57
B.2 transfers from impaired financial assets acquired or originated	-	-	-
B.3 transfers from other categories of impaired exposures	408	85	7
B.4 contractual changes without derecognitions	-	2	-
B.5 other increases	3,024	2,642	229
C. DECREASES	**1,550**	**1,022**	**206**
C.1 transfers to performing exposures	-	163	43
C.2 write-offs	358	45	1
C.3 collections	285	407	36
C.4 gains from disposal	223	7	-
C.5 losses from disposal	62	5	-
C.6 transfers to other categories of impaired exposures	7	376	117
C.7 contractual changes without derecognitions	-	4	1
C.8 other decreases	615	15	8
D. GROSS FINAL EXPOSURE	**1,960**	**2,144**	**87**
- of which: exposures transferred but not derecognised	15	37	2

The item "B.5 other increases" includes the opening balances relating to the entities falling within the scope of consolidation, including the Parent Company, arising from the first-time consolidation of the Group, broken down as follows:

- non-performing exposures amounting to EUR 2,973 million;
- unlikely to pay exposures amounting to EUR 2,478 million;
- impaired past due exposures amounting to EUR 221 million.

The item "C.8 other decreases" includes the gross amount of the exposure sold exceeding the sum of the realisable value in the context of a transaction for the sale of impaired loans to third parties during the year, mainly attributable to the sale of the so-called. Buonconsiglio 2 non-performing loans.

A.1.7bis Prudential consolidation - Cash credit exposures to customers: trend in gross forborne exposures broken down by credit quality

DESCRIPTIONS/QUALITY	Forborne exposures: impaired	Forborne exposures: performing
A. INITIAL GROSS EXPOSURE	**-**	**-**
- of which: exposures transferred but not derecognised	-	-
B. INCREASES	**2,138**	**1,443**
B.1 transfers from non-forborne performing exposures	37	182
B.2 transfers from forborne performing exposures	107	X
B.3 transfers from forborne impaired exposures	X	91
B.4 transfers from non-forborne impaired exposures	78	12
B.5 other increases	1,916	1,158
C. DECREASES	**602**	**554**
C.1 transfers to non-forborne performing exposures	X	296
C.2 transfers to forborne performing exposures	91	X
C.3 transfers to forborne impaired exposures	X	107
C.4 write-offs	72	1
C.5 collections	232	139
C.6 gains from disposal	34	-
C.7 losses from disposal	7	-
C.8 other decreases	166	11
D. GROSS FINAL EXPOSURE	**1,536**	**889**
- of which: exposures transferred but not derecognised	24	13

The item “B.5 other increases” includes the opening balances relating to the entities falling within the scope of consolidation, including the Parent Company, arising from the first-time consolidation of the Group, broken down as follows:

- forborne impaired exposures amounting to EUR 1,819 million;
- forborne performing exposures amounting to EUR 1,079 million.

A.1.8 Prudential consolidation - Impaired cash credit exposures to banks: trend in total value adjustments

As at the reporting date, there were no impaired cash credit exposures to banks.

A.1.9 Prudential consolidation - Impaired cash credit exposures to customers: trend in total value adjustments

DESCRIPTIONS/CATEGORIES	Non-performing		Unlikely to pay		Impaired past due exposures	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. INITIAL GROSS ADJUSTMENTS	**-**	**-**	**-**	**-**	**-**	**-**
- of which: exposures transferred but not derecognised	-	-	-	-	-	-
B. INCREASES	**2,727**	**436**	**1,533**	**741**	**55**	**15**
B.1 value adjustments from impaired financial assets acquired or originated	-	X	-	X	-	X
B.2 other value adjustments	523	93	394	170	15	1
B.3 losses from disposal	62	7	-	-	-	-
B.4 transfers from other categories of impaired exposures	195	74	19	11	1	1
B.5 contractual changes without derecognitions	-	-	-	-	-	-
B.6 other increases	1,947	262	1,120	560	39	13
C. DECREASES	**1,376**	**201**	**591**	**260**	**43**	**13**
C.1 value write-backs from valuations	152	23	240	110	8	2
C.2 value write-backs due to collection	118	29	56	22	9	1
C.3 gains from disposal	90	11	4	3	-	-
C.4 write-offs	357	44	42	22	1	-
C.5 transfers to other categories of impaired exposures	5	3	191	74	19	9
C.6 contractual changes without derecognitions	-	-	-	-	-	-
C.7 other decreases	654	91	58	29	6	1
D. FINAL OVERALL ADJUSTMENTS	**1,351**	**235**	**942**	**481**	**12**	**2**
- of which: exposures transferred but not derecognised	1	-	7	2	-	-

The item “B.6 other increases” includes the opening balances relating to the entities falling within the scope of consolidation, including the Parent Company, arising from the first-time consolidation of the Group, broken down as follows:

- non-performing exposures of EUR 1,873 million, of which EUR 252 million relating to forborne exposures;
- unlikely to pay exposures of EUR 991 million, of which EUR 500 million relating to forborne exposures;
- impaired past due exposures of EUR 32 million, of which EUR 12 million relating to forborne exposures.

A.2 Classification of exposures on the basis of external and internal ratings

A.2.1 Prudential consolidation - Distribution of financial assets, commitments to disburse funds and financial guarantees issued by external rating classes (gross values)

EXPOSURES	External rating classes						Without rating	Total
	Class 1	class 2	class 3	class 4	class 5	class 6		
A. FINANCIAL ASSETS MEASURED AT AMORTISED COST	**179**	**158**	**13,091**	**758**	**18**	**54**	**49,369**	**63,627**
- First stage	179	158	13,080	757	18	51	38,114	**52,357**
- Second stage	-	-	11	1	-	2	7,067	**7,081**
- Third stage	-	-	-	-	-	1	4,188	**4,189**
B. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	**119**	**63**	**4,719**	**145**	**8**	**1**	**2,215**	**7,270**
- First stage	119	63	4,718	145	8	-	2,213	**7,266**
- Second stage	-	-	1	-	-	-	2	**3**
- Third stage	-	-	-	-	-	1	-	**1**
C. FINANCIAL ASSETS HELD FOR DISPOSAL	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- First stage	-	-	-	-	-	-	-	**-**
- Second stage	-	-	-	-	-	-	-	**-**
- Third stage	-	-	-	-	-	-	-	**-**
Total (A+B+C)	**298**	**221**	**17,810**	**903**	**26**	**55**	**51,584**	**70,897**
of which: impaired financial assets acquired or originated	-	-	-	-	-	-	-	**-**
D. COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES ISSUED								
- First stage	61	-	1	-	-	-	11,428	**11,490**
- Second stage	10	-	-	-	-	-	1,108	**1,118**
- Third stage	2	-	-	-	-	-	181	**183**
Total (D)	**73**	**-**	**1**	**-**	**-**	**-**	**12,717**	**12,791**
Total (A+B+C+D)	**371**	**221**	**17,811**	**903**	**26**	**55**	**64,301**	**83,688**

The Group adopts the assessments of the Moody's rating agency on the reported portfolios.

MOODY'S	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6
Global long-term rating scale	Aaa, Aa	A	Baa	Ba	B	Caa, Ca, C
Global short-term rating scale	P-1	P-2	P-3	NP		

A.2.2 Prudential consolidation - Distribution of financial assets, commitments to disburse funds and financial guarantees issued by internal rating classes (gross values)

As at the reporting date, the Group does not use internal ratings in the calculation of capital requirements.

A.3 Distribution of secured credit exposures by type of guarantee

A.3.1 Prudential consolidation - Cash and off-balance-sheet secured credit exposures to banks

	Gross exposure	Net exposure	Collateral (1)				Personal guarantees (2)									Total (1)+(2)
							Credit derivatives					Credit commitments				
								Other derivatives								
			Real estate - mortgages	Real estate - Financing for leases	Securities	Other collateral	CLN	Central counterparties	Banks	Other financial companies	Other subjects	Public bodies	Banks	Other financial companies	Other subjects	
1. SECURED CASH CREDIT EXPOSURES:	**4**	**4**	**-**	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2**	**-**	**-**	**1**	**4**
1.1 totally secured	4	4	-	1	-	-	-	-	-	-	-	2	-	-	1	**4**
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
1.2 partially secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
2. SECURED OFF-BALANCE-SHEET CREDIT EXPOSURES:	**3**	**3**	**-**	**-**	**-**	**3**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3**
2.1 totally secured	3	3	-	-	-	3	-	-	-	-	-	-	-	-	-	**3**
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
2.2 partially secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**

A.3.2 Prudential consolidation - Cash and off-balance-sheet secured credit exposures to customers

			Collateral (1)				Personal guarantees (2)									
							Credit derivatives					Credit commitments				
								Other derivatives								
	Gross exposure	Net exposure	Real estate - Mortgages	Real estate - Financing for leases	Securities	Other collateral	CLN	Central counterparties	Banks	Other financial companies	Other subjects	Public bodies	Banks	Other financial companies	Other subjects	Total (1)+(2)
1. SECURED CASH CREDIT EXPOSURES:	**38,031**	**35,649**	**25,076**	**384**	**159**	**709**	**-**	**-**	**-**	**-**	**-**	**1,504**	**85**	**357**	**6,673**	**34,947**
1.1 totally secured	35,928	33,780	24,666	384	127	578	-	-	-	-	-	1,133	53	283	6,481	**33,705**
- of which impaired	3,571	1,701	1,457	26	1	10	-	-	-	-	-	16	1	15	167	**1,693**
1.2 partially secured	2,103	1,869	410	-	32	131	-	-	-	-	-	371	32	74	192	**1,242**
- of which impaired	341	120	79	-	1	5	-	-	-	-	-	4	-	4	11	**104**
2. SECURED OFF-BALANCE-SHEET CREDIT EXPOSURES:	**4,497**	**4,468**	**46**	**-**	**18**	**106**	**-**	**-**	**-**	**-**	**-**	**31**	**8**	**45**	**3,908**	**4,162**
2.1 totally secured	3,838	3,812	34	-	14	74	-	-	-	-	-	21	5	36	3,642	**3,826**
- of which impaired	95	75	1	-	-	2	-	-	-	-	-	-	-	1	75	**79**
2.2 partially secured	659	656	12	-	4	32	-	-	-	-	-	10	3	9	266	**336**
- of which impaired	15	13	-	-	-	1	-	-	-	-	-	-	-	-	7	**8**

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

	Credit exposure derecognised	Gross value	Total value adjustments	Carrying amount	
					of which obtained during the year
A. TANGIBLE ASSETS	**72**	**54**	**4**	**50**	**1**
A.1. For business use	4	5	1	4	1
A.2. For investment purposes	35	18	3	15	-
A.3. Inventories	33	31	-	31	-
B. EQUITIES AND DEBT SECURITIES	**-**	**-**	**-**	**-**	**-**
C. OTHER ASSETS	**-**	**-**	**-**	**-**	**-**
D. NON-CURRENT ASSETS AND GROUPS OF ASSETS HELD FOR DISPOSAL	**2**	**2**	**-**	**2**	**1**
D.1. Tangible assets	2	2	-	2	1
D.2. Other assets	-	-	-	-	-
Total 31/12/2019	**74**	**56**	**4**	**52**	**2**

As at the reporting date, the Group does not have any guarantees on assets that are not readily convertible into cash that are deemed to be significant (see IFRS 7 para. 38, letter b)).

B. DISTRIBUTION AND CONCENTRATION OF CREDIT EXPOSURES

B.1 Prudential consolidation - Distribution by sector of cash and off-balance-sheet credit exposures to customers

EXPOSURES/COUNTERPARTIES	Public bodies		Financial companies		Financial companies (of which: insurance companies)		Non-financial companies		Households	
	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments
A, CASH CREDIT EXPOSURES										
A,1 Non-performing	-	-	3	16	-	-	408	932	198	403
- of which: forborne exposures	-	-	*1*	*1*	-	-	*103*	*169*	*36*	*65*
A,2 Unlikely to pay	-	-	9	8	-	-	753	681	440	253
- of which: forborne exposures	-	-	*3*	*5*	-	-	*410*	*333*	*258*	*143*
A,3 Impaired past due exposures	-	-	-	1	-	-	26	4	49	7
- of which: forborne exposures	-	-	-	-	-	-	*3*	*1*	*4*	*1*
A,4 Performing exposures	25,373	14	1,403	44	32	-	17,918	169	20,173	137
- of which: forborne exposures	-	-	*2*	-	-	-	*417*	*33*	*415*	*22*
Total (A)	**25,373**	**14**	**1,415**	**69**	**32**	**-**	**19,105**	**1,786**	**20,860**	**800**
B, OFF-BALANCE-SHEET CREDIT EXPOSURES										
B,1 Impaired exposures	-	-	1	1	-	-	126	36	18	4
B,2 Performing exposures	275	-	135	33	-	-	8,984	12	2,184	10
Total (B)	**275**	**-**	**136**	**34**	**-**	**-**	**9,110**	**48**	**2,202**	**14**
Total (A+B) 31/12/2019	**25,648**	**14**	**1,551**	**103**	**32**	**-**	**28,215**	**1,834**	**23,062**	**814**

B.2 Prudential consolidation - Distribution by territory of cash and off-balance-sheet credit exposures to customers

EXPOSURES/ GEOGRAPHIC AREAS	Italy North West		Italy North East		Italy Centre		Italy South and the Islands	
	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments
A, CASH CREDIT EXPOSURES								
A,1 Non-performing	169	317	276	658	78	171	86	204
A,2 Unlikely to pay	256	205	711	575	112	83	121	78
A,3 Impaired past due exposures	10	2	25	3	16	3	23	3
A,4 Performing exposures	8,967	73	22,477	149	27,842	98	3,719	43
Total (A)	**9,402**	**597**	**23,489**	**1,385**	**28,048**	**355**	**3,949**	**328**
B, OFF-BALANCE-SHEET CREDIT EXPOSURES								
B,1 Impaired exposures	29	5	90	29	15	4	11	3
B,2 Performing exposures	2,778	6	6,748	11	865	35	964	3
Total (B)	**2,807**	**11**	**6,838**	**40**	**880**	**39**	**975**	**6**
Total (A+B) 31/12/2019	**12,209**	**608**	**30,327**	**1,425**	**28,928**	**394**	**4,924**	**334**

B.3 Prudential consolidation - Distribution by territory of cash and off-balance-sheet credit exposures to banks

EXPOSURES/ GEOGRAPHIC AREAS	Italy North West		Italy North East		Italy Centre		Italy South and the Islands	
	Net exposures	Overall value adjustments	Net exposures	Overall value adjustments	Net exposures	Overall value adjustments	Net exposures	Overall value adjustments
A. CASH CREDIT EXPOSURES								
A.1 Non-performing	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-
A.3 Impaired past due exposures	-	-	-	-	-	-	-	-
A.4 Performing exposures	287	5	492	3	782	1	35	1
Total (A)	287	5	492	3	782	1	35	1
B. OFF-BALANCE-SHEET CREDIT EXPOSURES								
B.1 Impaired exposures	-	-	-	-	-	-	-	-
B.2 Performing exposures	358	1	390	-	266	3	93	-
Total (B)	358	1	390	-	266	3	93	-
Total (A+B) 31/12/2019	645	6	882	3	1,048	4	128	1

B.4 Large exposures

ITEMS	Total 31/12/2019
A) AMOUNT OF LARGE EXPOSURES	
a1) carrying amount	27,797
a2) weighted value amount	631
B) NUMBER OF POSITIONS OF LARGE EXPOSURES	4

C. SECURITISATION TRANSACTIONS

Securitisation transactions are not recognised, in which banks in the same prudential consolidation are the originator and the total liabilities issued (e.g. ABS securities, loans in the warehousing phase) by the special purpose vehicles are subscribed at the time of issue by one or more companies in the same prudential consolidation.

Information of a qualitative nature

1. "Own" securitisation transactions

Securitisation of loans allows the procurement of significant financial assets as an alternative to direct debt, with the possibility of reducing risk assets for the purposes of solvency ratios, without removing the originator from the management of the relationship with the customer.

The transaction, therefore, is characterised by the use of a funding instrument on international markets to finance the Group's loans and is part of the expectations of supporting the development of the local economy, in line with the company's strategic guidelines.

Below is information on own securitisations carried out during 2019.

"Buonconsiglio 2" securitisation

During 2019, the Group participated in a securitisation of multi-originator loans pursuant to Law 130/1999, involving non-performing loans arising from contracts with customers resident in Italy (so-called Buonconsiglio 2).

More specifically, the transaction involved the assignment without recourse of portfolios of non-performing loans with a total gross carrying amount of approximately EUR 649 million (secured and/or unsecured), mainly provided by banks belonging to the Group.

The arranger was Banca IMI S.p.A. while Centrale Credit Solutions S.r.l. (a company of the Cassa Centrale Group) has taken on the role of coordinator. In addition, the transaction involved the creation of a special purpose vehicle set up pursuant to Law no. 130/1999, called Nepal S.r.l., in which the Group does not hold interests, nor do its employees hold corporate roles. The servicer of the operation is Guber Banca S.p.A.

With the aim of improving the financial structure of the operation, the creation of a REOCo (real estate owned company), set up in the form of a limited liability company, has also been provided to maximise the value of the properties used to guarantee the recovery of exposures.

The transaction was carried out mainly with the aim of improving the quality of the assets, as non-performing assets will be derecognised from the originators' financial statements. Following a specific technical analysis, it emerged that the transaction described meets the criteria for the derecognition of assets from the Group's financial statements in accordance with IFRS 9.

The transaction was carried out by means of several related contracts, the outline of which are shown below:

- assignment without recourse, by the originator banks, of a portfolio of non-performing loans identified en bloc;
- acquisition of loans by the assignee/issuer - the special purpose vehicle Nepal S.r.l. - and issue by the latter of ABS securities characterised by a different degree of redeemability in order to raise financial resources;
- full subscription of class A - senior securities by the originator banks;

- subscription of class B - junior securities by third-party institutional investors (95%) and, in part (5%), by individual originators.

As indicated, the special purpose vehicle financed the purchase of loans by issuing bonds divided into classes. The securities have not been rated. The characteristics of the two types of securities issued are as follows:

Class A securities (senior securities)
3-month Euribor variable-rate bonds, plus a spread of 2.35% per annum, for a total value of approximately EUR 127 million and maturing in January 2037.

Class B securities (junior securities)
Fixed-rate bonds (8% p.a.) and variable return (residual after payment of senior items) for a total value of approximately EUR 54 million and maturing in January 2037.

On 12 December 2019, the aforementioned senior and junior securities were subscribed pro-rata by the originator banks in proportion to the price received by each and the remaining portion of the junior securities was subscribed by a third-party institutional investor.

The securities subscribed by the Group amount to approximately EUR 108 million for seniors and EUR 2 million for juniors.

The different types of securities have been given a different degree of subordination in the definition of payment priorities, both for principal and interest.

The securities will be redeemed in pass through mode. At each payment date, the principal shares for the redemption of the assets are allocated primarily to the redemption of senior securities. The second tranche of securities (junior) is subordinate to the reimbursement to the previous one. This type of securities does not have a predetermined coupon and is remunerated only in the presence of residual funds, after having repaid the senior securities and covered all expenses for the period (senior costs, class A interest, class B interest, etc.).

The reimbursement of the principal of Class B securities is therefore last in the hierarchy of payments, both in the event of early repayment and in the event of natural redemption of the securities.

2. Third party securitisation transactions

As at the reporting date, the Group held about EUR 27 million in securities arising from the third party securitisation transactions described below.

These are unrated securities issued by the special purpose vehicle Lucrezia Securitisation S.r.l. as part of the interventions of the Institutional Guarantee Fund:

- the securities "EUR 211,368,000 Asset-Backed Notes due October 2026", with ISIN code IT0005216392, were issued by the special purpose vehicle on 3 October 2016, following the securitisation of the portfolios of non-performing loans acquired as part of the crisis resolution intervention of Banca Padovana in A.S. and BCC Irpina in A.S., they have a 10-year maturity and pay interest quarterly in arrears;
- the securities "EUR 78,388,000 Asset-Backed Notes due January 2027" with ISIN code IT0005240749, were issued by the special purpose vehicle on 27 January 2017, following the securitisation of the portfolios of non-performing loans acquired as part of the intervention for the BCC Crediveneto resolution, they have a 10-year maturity and pay interest quarterly in arrears;
- the securities "EUR 32,461,000 Asset-Backed Notes due October 2027" with ISIN code IT0005316846, were issued by the special purpose vehicle on 1 December 2017, following the securitisation of the portfolios of non-performing loans acquired as part of the intervention for the BCC Teramo resolution, they have a 10-year maturity and pay interest quarterly in arrears.

The assets underlying these securities are composed of impaired loans, largely fully secured by properties. These securities are included under item 40. Financial assets measured at amortised cost, sub-item "b) Loans to customers" of the consolidated statement of financial position.

As far as the economic aspects are concerned, the securities involved the recognition of interest income at an annual rate of 1%.

It should be noted that in relation to the above securitisation transactions, the Group does not play any role as servicer and does not hold any interest in the special purpose vehicle.

Moreover, in compliance with the provisions on organisational requirements in the same prudential provisions, with regard to the assumption of positions towards the transactions in question, the Group must comply with the obligations of due diligence and monitoring.

In accordance with the above mentioned due diligence and monitoring requirements for the Group, other than the assignor or the promoter, which takes positions as regards securitisation, the following should be noted.

As the Investor Group, before taking positions in each securitisation transaction and for as long as they are held in the portfolio, an analysis is carried out on each transaction and the exposures underlying it, in order to gain full knowledge of the risks to which the Group is exposed or would be exposed.

In particular, the Group has verified:

- the maintenance by the assignor, on an ongoing basis, of the net economic interest;
- the provision of relevant information to perform due diligence;
- the structural characteristics of the securitisation that can have a significant impact on the performance of positions towards securitisation (e.g. contractual clauses, priority in redemptions, rules for the allocation of cash flows and related triggers, credit enhancement instruments, liquidity facilities, definition of default used, rating, historical analysis of the performance of similar positions);
- the risk characteristics of the assets underlying the securitisation positions;
- the communications made by the assignor/promoter regarding the due diligence carried out on the securitised assets, the quality of any collateral covering them, etc..

With reference to monitoring, in accordance with the provisions on the need for information to be assessed regularly at least once a year, as well as in the presence of significant changes in the performance of the transaction, the Group has put in place processes and procedures for the acquisition of information on the assets underlying each transaction with reference to:

- nature of exposures, incidence of positions past due for more than 30, 60, 90 days;
- default rates;
- early repayments;
- exposures subject to enforcement procedures;
- nature of the collateral;
- creditworthiness of debtors;
- sectoral and geographical diversification;
- frequency of distribution of loan to value rates.

In relation to the above, periodic information flows have been agreed centrally with the servicer, to be made available to Group banks that have subscribed to securities of this type, to ensure their compliance with the regulatory requirement that they must be "constantly aware of the composition of the portfolio of securitised exposures" pursuant to Article 253 of the CRR.

The periodic flows received from the Institutional Guarantee Fund are transmitted to all Group banks and supplement the Investor Report produced by the special purpose vehicle.

Information of a quantitative nature

C.1 Prudential consolidation - Exposures deriving from primary "own" securitisation operations subdivided by type of securitised asset and type of exposure

TYPE OF SECURITISED ASSETS/EXPOSURES	Cash exposures					
	Senior		Mezzanine		Junior	
	Carrying amount	Value adjustments/ write-backs	Carrying amount	Value adjustments/ write-backs	Carrying amount	Value adjustments/ write-backs
A. Subject of full derecognition from the financial statements	**149**	**-**	**-**	**-**	**3**	**-**
IMPAIRED ASSETS	**149**	**-**	**-**	**-**	**3**	**-**
- Non-performing	149	-	-	-	3	-
- Unlikely to pay	-	-	-	-	-	-
- Past due	-	-	-	-	-	-
PERFORMING ASSETS	**-**	**-**	**-**	**-**	**-**	**-**
B. Subject of partial derecognition from the financial statements	**-**	**-**	**-**	**-**	**-**	**-**
IMPAIRED ASSETS	**-**	**-**	**-**	**-**	**-**	**-**
- Non-performing	-	-	-	-	-	-
- Unlikely to pay	-	-	-	-	-	-
- Past due	-	-	-	-	-	-
PERFORMING ASSETS	**-**	**-**	**-**	**-**	**-**	**-**
C. Not derecognised from the financial statements	**-**	**-**	**-**	**-**	**-**	**-**
IMPAIRED ASSETS	**-**	**-**	**-**	**-**	**-**	**-**
- Non-performing	-	-	-	-	-	-
- Unlikely to pay	-	-	-	-	-	-
- Past due	-	-	-	-	-	-
PERFORMING ASSETS	**-**	**-**	**-**	**-**	**-**	**-**

Off-balance-sheet

As at 31 December 2019 the scenario was not present.

C.2 Prudential consolidation - Exposures deriving from primary "third party" securitisation operations subdivided by type of securitised asset and type of exposure

For cash

TYPE OF UNDERLYING ASSETS/ EXPOSURES	Cash exposures					
	Senior		Mezzanine		Junior	
	Carrying amount	Value adjustments/ write-backs	Carrying amount	Value adjustments/ write-backs	Carrying amount	Value adjustments/ write-backs
Impaired assets	59	(9)			1	
- Non-performing	59	(9)			1	
- Unlikely to pay						
- Past due						
Performing assets						

Off-balance-sheet

As at 31 December 2019 the scenario was not present.

C.3 Prudential consolidation - Interest in securitisation special purpose vehicles

As at 31 December 2019 the scenario was not present.

C.4 Prudential consolidation - Unconsolidated securitisation special purpose vehicles

SECURITISATION NAME/SPV NAME	Amounts at 31/12/2019						Difference between exposure to risk of loss and carrying amount (E=D-C)
	Accounting portfolios of assets	Total assets (A)	Accounting portfolios of liabilities	Total liabilities (B)	Net carrying amount (C=A-B)	Maximum exposure to risk of loss (D)	
Buonconsiglio I - Marmarole SPV S.r.l.	NPLs	137	Senior and junior notes	143	(6)		6
Buonconsiglio II - Nepal S.r.l.	NPLs	172	Senior and junior notes	181	(9)		9
Lucrezia Securitisation S.r.l. - Padovana/Irpina	NPLs	59	Senior Notes	145	(86)		86
Lucrezia Securitisation S.r.l. - Crediveneto	NPLs	32	Senior Notes	55	(23)		23
Lucrezia Securitisation S.r.l. - Castiglione	NPLs	7	Senior Notes	32	(25)		25
Dominato Leonense S.r.l.	Performing loans	74	Senior and junior notes	69	5		(5)
Claris Lease 2015 S.r.l.	Performing loans	165	Senior, Mezzanine and junior notes	177	(12)		12

C.5 Prudential consolidation - Servicer activities - own securitisations: collections of securitised receivables and reimbursements of securities issued by the securitisation special purpose vehicle

SERVICER	SPECIAL PURPOSE VEHICLE	Securitised assets		Receivables collected during the year		Share % of securities redeemed					
		Figure as at: 31/12/2019				Figure as at: 31/12/2019					
						Senior		Mezzanine		Junior	
		Impaired	Performing	Impaired	Performing	Impaired assets	Performing assets	Impaired assets	Performing assets	Impaired assets	Performing assets
Claris Leasing S.p.A.	Claris Lease 2015 S.r.l.	8	157		44	3	19				

C.6 Prudential consolidation– Consolidated securitisation special purpose vehicles

As at 31 December 2019 the scenario was not present.

D. DISPOSAL TRANSACTIONS

A. Financial assets sold and not fully derecognised

Information of a qualitative nature

With regard to the qualitative nature of these assets and related liabilities, please refer to Table D.1. Prudential consolidation - Financial assets sold and recognised in full and associated financial liabilities: carrying amounts.

Information of a quantitative nature

D.1. Prudential consolidation - Financial assets sold and recognised in full and associated financial liabilities: carrying amounts

	Financial assets sold and recognised in full				Associated financial liabilities		
	Carrying amount	of which: subject of securitisation transactions	of which: subject of repurchase agreements	of which impaired	Carrying amount	of which: subject of securitisation transactions	of which: subject of repurchase agreements
A. FINANCIAL ASSETS HELD FOR TRADING	-	-	-	X	-	-	-
1. Debt securities	-	-	-	X	-	-	-
2. Equities	-	-	-	X	-	-	-
3. Loans	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
B. OTHER FINANCIAL ASSETS OBLIGATORILY MEASURED AT FAIR VALUE	-	-	-	-	-	-	-
1. Debt securities	-	-	-	-	-	-	-
2. Equities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
C. FINANCIAL ASSETS MEASURED AT FAIR VALUE	-	-	-	-	-	-	-
1. Debt securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
D. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	**40**	-	**40**	-	**30**	-	**30**
1. Debt securities	40	-	40	-	30	-	30
2. Equities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
E. FINANCIAL ASSETS MEASURED AT AMORTISED COST	**938**	-	**860**	**3**	**852**	**1**	**850**
1. Debt securities	860	-	860	-	850	-	850
2. Loans	78	-	-	3	2	1	-
Total 31/12/2019	**978**	-	**900**	**3**	**882**	**1**	**880**

The transactions shown above are mainly related to repos.

D.2. Prudential consolidation - Financial assets sold and partially recognised and associated financial liabilities: carrying amounts

As at the reporting date, the Group did not hold financial assets attributable to this scenario.

D.3. Prudential consolidation - Disposals with liabilities with reimbursement exclusively on assets sold and not fully derecognised: fair value

	Recognised in full	Partially recognised	Total
A. FINANCIAL ASSETS HELD FOR TRADING	-	-	-
1. Debt securities	-	-	-
2. Equities	-	-	-
3. Loans	-	-	-
4. Derivatives	-	-	-
B. OTHER FINANCIAL ASSETS OBLIGATORILY MEASURED AT FAIR VALUE	-	-	-
1. Debt securities	-	-	-
2. Equities	-	-	-
3. Loans	-	-	-
C. FINANCIAL ASSETS MEASURED AT FAIR VALUE	-	-	-
1. Debt securities	-	-	-
2. Loans	-	-	-
D. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	40	-	40
1. Debt securities	40	-	40
2. Equities	-	-	-
3. Loans	-	-	-
E. FINANCIAL ASSETS MEASURED AT AMORTISED COST (FAIR VALUE)	944	-	944
1. Debt securities	866	-	866
2. Loans	78	-	78
Total financial assets	984	-	984
Total associated financial liabilities	882	-	X
Net value 31/12/2019	102	-	984

D.4 Prudential consolidation - Covered bond transactions

As at the reporting date, the Group had no covered bond transactions.

B. Financial assets sold and fully derecognised with recognition of continuing involvement

As at the reporting date, the Group had not sold any financial assets that had been fully derecognised, and the related continuing involvement should be recognised in the financial statements.

C. Financial assets sold and fully derecognised

Information of a qualitative nature

Transfer transactions to mutual funds with allocation of the relevant units to the assignor

During the year, a small number of affiliated Banks carried out limited sales to mutual investment funds. These transactions were structured on specific positions relating to impaired loans mainly related to mortgage contracts and loans granted to customers belonging to the corporate, SME and private sector. It should also be noted that no guarantees or related credit lines have been issued. The gross value of the sold receivables is approximately EUR 16 million. As at the reporting date, the loans assigned have been derecognised.

Non-performing loans assigned without recourse

During October 2019, the Group participated in an assignment without recourse of non-performing loans.

The transaction was coordinated by Centrale Credit Solutions S.r.l. (company of the Cassa Centrale Group) and has as its object a portfolio of loans classified as non-performing, mortgage and unsecured, sold by 35 credit institutions (33 of which belong to the Cassa Centrale Group and 2 independent).

The sale is part of the strategy implemented by the Cassa Centrale Group in recent years to reduce impaired exposures.

The portfolio sold includes loans from mortgage and loan contracts granted to customers in the corporate, SME and private sector.

The gross book value of loans assigned by the Group amounted to EUR 345 million.

The transaction was completed through the special purpose vehicle Etna SPV S.r.l., set up and made available by Zenith Service, which in the transaction carries out the role of master servicer. Zenith has also performed services of data gathering and remediation on the portfolio. WhiteStar Asset Solutions Italia will provide portfolio management services for the portfolio acquired through the aforementioned securitisation vehicle.

20% of the sale price was paid on the date of conclusion of the contract while the remaining part will be paid on a deferred basis by 31 July 2020 (so-called deferred price).

As at the reporting date, the loans assigned have been derecognised and a loan from the vehicle Etna SPV S.r.l. was recorded for the remaining deferred price.

It should also be noted that during the year a number of affiliated Banks carried out assignments without recourse of non-performing loans other than the previous one. These transactions were structured on specific positions relating to impaired loans mainly related to mortgage contracts and loans granted to customers belonging to the corporate, SME and private sector. The gross value of the sold receivables is approximately EUR 84 million. As at the reporting date, the loans assigned have been derecognised.

E. PRUDENTIAL CONSOLIDATION - CREDIT RISK MEASUREMENT MODELS

As at the reporting date, the Group does not use internal portfolio models to measure credit risk exposure. For more specific considerations, please refer to paragraph "2.2 Management, measurement and control systems" (Section 2 - Risks of prudential consolidation).

1.2 MARKET RISKS

1.2.1 Interest rate risk and price risk - regulatory trading book

Information of a qualitative nature

A. General aspects

The Finance and Treasury Committee of the Parent Company defines the investment choices relating to the trading book within the periodic strategy documents for the management of the proprietary portfolio approved by the Board of Directors of the Parent Company.

During the year, the proprietary portfolio management strategy established that the trading book activity was limited to financial instruments held for intermediation with banking and non-banking customers and to derivatives entered into for hedging risks (such as, for example, forward foreign exchange transactions for intermediation with customers or derivatives linked to the fair value option).

B. Management processes and measurement methods relative to interest rate and price risk

Interest rate risk - Regulatory trading book

The measurement of interest rate risk on the regulatory trading book is supported by the daily reports provided by the Risk Management Department of the Parent Company, which highlights the value at risk of the investment (VaR). This is calculated using RiskMetrics' applications and parametric methodology, over a ten-day period and with a 99% confidence interval, taking into account the volatilities and correlations between the various risk factors that determine the market risk exposure of the invested portfolio (including interest rate risk, equity risk, foreign exchange risk and inflation risk). The calculation of volatilities and correlations is made by assuming logarithmic variations in yields under the assumption of normal distribution of the same. The estimation of volatility is made starting from historical market data updated daily, then giving more weight to the most recent observations thanks to the use of the exponential moving average with a decay factor of 0.94, obtaining an indicator more responsive to market conditions, and using a length of the basic historical series equal to 1 year of findings. The exponential moving average approach is also used for correlation estimation.

To support the definition of the structure of its internal limits, important strategic choices, or specific analyses, simulations of purchases and sales of financial instruments within its asset allocation are available, obtaining an updated calculation of the new risk exposure in terms of both VaR and effective duration.

The monitoring of market risk exposure is also carried out by weekly verification of the various models available over a time period of 10 days and a confidence interval of 99% (in addition to the parametric method described above, the historical simulation, carried out by assuming a future distribution of risk factor yields equal to that shown at historical level over a given time period, and in particular the Montecarlo method, which uses a procedure for simulating risk factor yields based on past volatility and correlation data, generating 10,000 random scenarios consistent with the market situation).

Additional risk statistics derived from VaR (such as marginal VaR, incremental VaR and conditional VaR), measures of sensitivity of income instruments (effective duration) and analyses linked to the evolution of correlations between the various risk factors present are monitored through reporting.

The analyses are available at different levels of detail: on the entire trading book and within the latter on groupings by type of instrument (equities, funds, fixed-rate and variable-rate government securities, supranational securities and corporate securities), up to the individual securities present.

Of particular importance is also the backtesting of the VaR model used daily, carried out on the entire portfolio of securities owned by comparing the VaR - calculated at 99% and over the daily time period - with the actual changes in the theoretical market value of the portfolio.

Weekly stress tests are available on the theoretical market value of the own securities portfolio through which changes in the theoretical countervalue of the trading book and the various groupings of instruments (equities, funds, fixed-rate and variable-rate government securities, supranational securities and corporate securities) present in it are studied with respect to certain market scenarios. As part of risk management strategies, various scenarios on the bond and equity front are monitored for a complete and improved analysis of the portfolio.

The reports described are monitored by the Risk Management and Finance Departments of the Parent Company and presented to the Risk Management Committee, which periodically assesses the Group's exposure to market risk.

In addition, an automatic email alert is active if the attention thresholds and/or limits in the Financial Risk Management Policy are exceeded.

The risk measurement model described is not utilised to determine capital requirements but represents a tool to support management and internal control of the risk.

Price risk - Regulatory trading book

In line with the section on interest rate risk - regulatory trading book, the measurement of price risk on the regulatory trading book is supported by the reports provided by the Risk Management Department of the Parent Company, which highlights the value at risk of the investment (VaR). This is calculated using RiskMetrics' applications and parametric methodology, over a 10-day period and with a 99% confidence interval, taking into account the volatilities and correlations between the various risk factors that determine the market risk exposure of the invested portfolio (interest rate risk, equity risk, foreign exchange risk and inflation risk).

The risk measurement model described is not utilised to determine capital requirements but represents a tool to support management and internal control of the risk.

Information about the VaR calculations for the securities component of the regulatory trading book during the course of 2019 is reported below:

(Amounts rounded to nearest Euros)

VaR 31/12/2019	VaR average	VaR minimum	VaR maximum
0	801,203	4,361	3,239,132

As at 31 December 2019 there were no longer any securities in the trading book, according to the strategic guidelines established by the Parent Company.

Information of a quantitative nature

1. Regulatory trading book: distribution by residual duration (re-pricing date) of financial assets and liabilities in cash as well as financial derivatives

TYPE/RESIDUAL DURATION	On demand	Up to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	From over 5 years to 10 years	Beyond 10 years	Indefinite duration
1. CASH ASSETS	-	-	-	-	-	-	-	-
1.1 Debt securities	-	-	-	-	-	-	-	-
- with option of advance reimbursement	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. CASH LIABILITIES	-	-	-	-	-	-	-	-
2.1 Borrowing reverse repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. FINANCIAL DERIVATIVES								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	600	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other								
+ Long positions	-	-	1	-	-	-	-	-
+ Short positions	-	1	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ Long positions	1	3	2	3	23	19	12	-
+ Short positions	2	3	2	3	22	19	12	-
- Other derivatives								
+ Long positions	40	400	61	19	65	17	14	-
+ Short positions	32	203	51	13	83	105	128	-

2. Regulatory trading book: distribution of exposures in equities and stock market indices for the main countries of the listed market

As at the reporting date, the Group did not hold financial assets attributable to this scenario.

3. Regulatory trading book: internal models and other methodologies for sensitivity analysis

The measurement of price risk on the banking book is supported by reports provided by the Risk Management Department of the Parent Company, which highlights the value at risk of the investment (VaR). This is calculated using RiskMetrics' applications and parametric methodology, over a ten-day period and with a 99% confidence interval, taking into account the volatilities and correlations between the various risk factors that determine the market risk exposure of the invested portfolio (including interest rate risk, equity risk, foreign exchange risk and inflation risk).

VaR measurement is available on a daily basis for monitoring and operational assessments carried out by the Risk Management Department and the Finance Department of the Parent Company and is calculated on different degrees of detail that, in addition to the total portfolio, consider the banking book, the individual accounting categories, the various groupings by type of instrument (equities, funds, fixed-rate and variable-rate government securities, supranational securities and corporate securities), up to the individual securities present.

The risk measurement model described is not utilised to determine capital requirements but represents a tool to support management and internal control of the risk.

1.2.2 INTEREST RATE RISK AND PRICE RISK - BANKING BOOK

Information of a qualitative nature

A. General aspects, management processes and measurement methods for interest rate and price risk

Interest rate risk - Banking book

Primary sources of interest rate risk

The sources of the interest rate risk to which the Group is exposed can be identified mainly in the lending, funding and finance processes, since the banking book consists mainly of loans and the various forms of funding from customers.

In particular, 'fair value' interest rate risk is derived from fixed-rate items while interest rate risk from cash flows is derived from variable-rate items.

However, items on demand generally include asymmetrical behaviours, depending on whether one considers liability or asset items; the former - being characterised by greater stability - primarily refer to fair value risk while the second are more sensitive to markets changes and therefore ascribable to cash flow risk.

Internal management processes and measurement methods for interest rate risk

The Group has put in place appropriate mitigation and control measures aimed at avoiding the possibility of positions exceeding a certain level of objective risk.

These mitigation and control measures are codified in the corporate regulations aimed at designing monitoring processes based on position limits and systems of attention thresholds in terms of internal capital, which trigger the activation of appropriate corrective actions.

With regard to this point, the following are defined:

- policies and procedures for managing interest rate risk that are consistent with the nature and complexity of the activity carried out;
- measurement metrics consistent with the risk measurement methodology adopted by the Group, on the basis of which an early warning system has been defined that allows for the timely identification and activation of appropriate corrective measures;
- operational limits and internal procedural provisions which aim to maintain exposure within limits that are consistent with the managerial policy and with the alert thresholds pursuant to prudential regulations.

From an organisational point of view, the Group has identified the Finance Department of the Parent Company and the affiliated Banks as the structures responsible for overseeing this process of managing interest rate risk on the banking book.

The monitoring of interest rate risk exposure on the banking book is carried out on a quarterly basis.

As regards the methodology for measuring risk in terms of changes in the economic value and quantification of the corresponding internal capital, the Board of Directors of each Affiliated Bank uses the simplified algorithm described in Annex C, Title III, Chapter 1, Section III of Bank of Italy Circular no. 285/2013.

The methodology is used to estimate the change in the economic value of the banking book in the case of a hypothetical change in interest rates of +/- 200 basis points.

The application of the aforementioned simplified methodology is based on the following logical steps:

- **definition of the banking book:** composed of a group of assets and liabilities which are not part of the regulatory trading book;
- **determination of "relevant currencies":** the currencies whose measured weight - as a quota of total assets or liabilities of the banking book - is greater than 5%. Each relevant currency defines a group of positions. Currencies whose weight is less than 5% are grouped together;
- **classification of financial assets and liabilities in time periods:** fourteen time periods are defined. Assets and liabilities with a fixed rate are classified on the basis of their residual useful life, while those with variable rates are classified on the basis of the date of renegotiation of the interest rate. Except for specific classification rules provided for certain assets and liabilities, assets and liabilities are included in the schedule according to the criteria set out in Bank of Italy Circular no. 272/2008 and subsequent updates "Manual for filling out the Accounts Matrix". Non-performing, unlikely to pay and impaired past due and/or overrun positions should be recognised in the relevant residual maturity bands on the basis of the recovery forecasts of the underlying cash flows made by the bank for the purposes of the latest available financial statement valuations: in this regard, it is specified that, in the presence of impaired exposures subject to forbearance measures (forborne non-performing), reference is made to the flows and maturities agreed upon during the renegotiation/refinancing of the relationship. Also with regard to forborne performing exposures, these are allocated to time bands on the basis of the new conditions agreed (relating to amounts, repricing dates in the case of variable-rate exposures and new maturities in the case of fixed-rate exposures). Impaired exposures for which there are no cash flow recovery forecasts are typically allocated within the various time period sectors on the basis of a proportional allocation, utilising - as a basis for the allocation - the distribution of the recovery forecasts - for the other impaired exposures - within the various brackets of residual life (given the same type of impairment);
- **weighting of net positions for each bracket:** within each bracket, asset and liability positions are offset, obtaining a net position. The net position for each bracket is multiplied by the corresponding weighting factor. Weighting factors per bracket are calculated as a product of the approximated duration - modified in relation to the bracket - and a hypothetical change in rates. In the case of downward scenarios, a non-negative interest rate constraint is guaranteed;
- **sum of the net weighted positions for the various brackets:** the net weighted position of the individual aggregates approximates the change in present value of the items denominated in the currency of the aggregate in the event of the assumed rate shock;
- **aggregation within the various currencies:** positive positions relative to individual 'relevant currencies' as well as the aggregate value of the 'non-relevant currencies' are summed together. The value which is obtained represents the change in company economic value in the case of the forecasted scenario.

For the purpose of quantifying internal capital under ordinary conditions, the Group applied a parallel shift in the rate curve of +/- 200 bps, similarly to the scenario envisaged by the Supervisory Body for conducting the so-called supervisory test.

The Group determines the riskiness indicator, represented by the ratio between internal capital, quantified against the assumed interest rate scenario, and the value of equity. The Supervisory Body sets the attention threshold at 20%.

For internal management purposes, the Group monitors compliance with the 20% threshold on a quarterly basis. In the event of a reduction in the economic value of the Group of more than 20% of its equity, the Group shall take appropriate action.

With reference to the conduct of stress tests in the area of interest rate risk on the banking book, these are carried out by the Group on a quarterly basis.

Additional stress scenarios were then defined as follows for comparison purposes:

- percentile method: the starting point is the detection, on the various nodes of the curve, of the annual percentage changes recorded over the last six years. The observations are sorted in ascending order and for the various nodes of the curve the 1st and the 99th percentile are identified. These values are taken as a reference to determine the downward and upward shocks using the modified duration provided for in Bank of Italy Circular no. 285/2013 and subsequent updates. In the downward scenario, the non-negativity constraint is applied, by taking the positioning of the detected curve at the reference period;
- short rates up and down: scenarios of interest rates falling or rising on the short part of the curve are assumed; the rises and falls are gradually decreasing or increasing along the curve, starting from +/-250 points (duration on demand) and reaching 0 points (duration over 20 years). The weighting percentages to be applied are determined on the basis of the amended duration provided for in Bank of Italy Circular no. 285/2013 and subsequent updates. In the downward scenario, the non-negativity constraint is applied, by taking the positioning of the detected curve at the reference period;
- steepener-flattener: scenarios are assumed in which the curve increases or decreases its slope; in the case of steepener, shocks are negative on the first part of the curve in a decreasing manner (-163 basis points from the duration on demand) and then become positive on the remainder (+90 basis points in the duration over 20 years). The flattener scenario is constructed in the opposite manner: it starts with positive shocks on the initial part of the curve (+200 basis points of the duration on demand) and ends with negative shocks on the remaining part (-59 basis points of the duration over 20 years). The weighting percentages to be applied are determined on the basis of the amended duration provided for in Bank of Italy Circular no. 285/2013 and subsequent updates. In both scenarios the non-negativity constraint is applied, by taking the positioning of the detected curve at the reference period.

In addition to the monitoring activities for interest rate risk through the methodology described above, the Group implements operational management activities by availing itself of the support offered by the monthly Asset Liability Management (hereinafter also "ALM") reports available.

Within the analysis, assessment of the impact on capital for various cases of rate shocks is illustrated in the sensitivity report; the latter estimates the impact of parallel shifts in the yield curve of +/- 100 and +/- 200 basis points on the present value of assets, liabilities and derivatives.

This impact is further broken down by individual type of asset and liability in order to highlight their contribution to overall sensitivity and to understand the various levels of reactivity of items with fixed, variable and mixed rates.

Particular attention is paid to the analysis of the prospective effects deriving from the time distribution of fixed-rate items together with the distribution of indexed masses subject to minimum or maximum rates for the different ranges of the reference parameter.

A more sophisticated control and management of the Institute's overall exposure to rate risk is achieved through the measurements offered in the dynamic ALM reports. In particular, variability of the interest margin and of Equity is analysed for the different scenarios of changing interest rates and Group growth across a time period of 12 months. The simulation assumes that the bank maintains constant assets under management during the 12-month period of analysis with gradual changes in interest rates of +/-100 basis points, thereby isolating the variability of the margin and Equity in different environments.

It should be noted that during the year the Parent Company developed a new procedure for the management of interest rate risk. The data feed activities of the procedure that will be fully operational during 2020 have been prepared. The first analyses were carried out and subsequently shared within the Group.

The calculation logic of the new procedure is described below:

- value sensitivity analysis: the engine calculates the difference between discounted cash flow using a shock-free curve and discounted cash flow using a shock curve. Reports are processed individually (except for items on demand which are normally aggregated) using their specific financial characteristics;
- margin sensitivity analysis: the engine calculates the difference in interest margin against the interest rate shock scenario assuming the reinvestment of flows maturing or revising the rate (indexed ratios) to forward rates over a predefined time period (e.g. 12 months);
- options treatment (implicit): options (implicit and of different nature) are evaluated with the Black with shift model to take into account the negativity of the rates;
- treatment of behavioural models: the calculation engine allows for the behavioural models (if specifically parametrised) to be taken into account in the analysis (both value and margin); normally those for items on demand and those for the advance payment of loans are used.

Price risk - Banking book

In line with the section on interest rate risk - regulatory trading book, the measurement of price risk on the banking book is supported by the reports provided by the Risk Management Department of the Parent Company, which highlights the value at risk of the investment (VaR). This is calculated using RiskMetrics' applications and parametric methodology, over a ten-day period and with a 99% confidence interval, taking into account the volatilities and correlations between the various risk factors that determine the market risk exposure of the invested portfolio (including interest rate risk, equity risk, foreign exchange risk and inflation risk).

VaR measurement is available on a daily basis for monitoring and operational assessments carried out by the Risk Management Department and the Finance Department of the Parent Company and is calculated on different degrees of detail that, in addition to the total portfolio, consider the banking book, the individual accounting categories, the various groupings by type of instrument (equities, funds, fixed-rate and variable-rate government securities, supranational securities and corporate securities), up to the individual securities present.

The risk measurement model described is not utilised to determine capital requirements but represents a tool to support management and internal control of the risk.

Information about the VaR calculations for the securities component of the banking book during the course of 2019 is reported below:

(Amounts rounded to nearest Euros)

VaR 31/12/2019	VaR average	VaR minimum	VaR maximum
215,278,821	357,063,633	215,278,821	672,280,794

Control over the reliability of the model is implemented through theoretical backtesting activities which verify daily changes in the market value of the banking book, as calculated by the model with an estimate of the expected loss for the day. In the most recent year of data collection, deviations were primarily due to sudden fluctuations in market factors linked in particular to geo-political tensions at international level or monetary policy expectations.

The year 2019 saw a continuation, with respect to VaR, of the quantification of issuer risk for Italian government securities, understood as VaR relating only to the risk factor expressed as the spread between the Italian and German government securities.

With regard to stress tests, the outcomes of simulations of the impact of different shock scenarios on the theoretical value of the portfolio on 31 December 2019 is reported below. The shocks replicate parallel movements of +/-25 and +/-50 basis points for the primary rate curves that were used in the valuation of securities within the owned portfolio.

(Amounts rounded to nearest Euros)

Theoretical value as at 31/12/19	Shock value changes -25 bps	Shock value changes +25 bps	Shock value changes -50 bps	Shock value changes +50 bps
26,183,707,105	190,586,572	(187,017,362)	395,405,757	(370,671,998)

Information of a quantitative nature

1. Banking book: distribution by residual duration (re-pricing date) of financial assets and liabilities

TYPE/RESIDUAL DURATION	On demand	Up to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	From over 5 years to 10 years	Beyond 10 years	Indefinite duration
1, CASH ASSETS	**11,798**	**19,796**	**3,809**	**2,880**	**18,342**	**8,037**	**3,850**	**-**
1,1 Debt securities	16	1,236	1,925	1,474	14,344	5,683	1,471	-
- with option of advance reimbursement	-	75	-	113	20	80	94	-
- other	16	1,161	1,925	1,361	14,324	5,603	1,377	-
1,2 Loans to banks	339	625	73	67	60	-	3	-
1,3 Loans to customers	11,443	17,935	1,811	1,339	3,938	2,354	2,376	-
- current accounts	4,736	63	41	73	133	11	3	-
- other loans	6,707	17,872	1,770	1,266	3,805	2,343	2,373	-
- with option of advance reimbursement	1,262	8,794	755	437	1,399	1,012	1,051	-
- other	5,445	9,078	1,015	829	2,406	1,331	1,322	-
2, CASH LIABILITIES	**46,283**	**2,914**	**3,413**	**3,118**	**8,196**	**150**	**100**	**-**
2,1 Due to customers	45,425	1,632	638	884	1,288	72	97	-
- current accounts	41,318	76	65	84	203	36	-	-
- other payables	4,107	1,556	573	800	1,085	36	97	-
- with option of advance reimbursement	-	-	-	-	-	-	-	-
- other	4,107	1,556	573	800	1,085	36	97	-
2,2 Due to banks	381	470	2,102	1,267	3,252	-	-	-
- current accounts	281	14	-	-	-	-	-	-
- other payables	100	456	2,102	1,267	3,252	-	-	-
2,3 Debt securities	477	812	673	967	3,656	78	3	-
- with option of advance reimbursement	-	53	67	40	100	5	-	-
- other	477	759	606	927	3,556	73	3	-
2,4 Other liabilities	-	-	-	-	-	-	-	-
- with option of advance reimbursement	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-

TYPE/RESIDUAL DURATION	On demand	Up to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	From over 5 years to 10 years	Beyond 10 years	Indefinite duration
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	6	360	361	652	3,161	840	447	-
+ Short positions	781	4,616	258	60	54	36	22	-
- Other derivatives								
+ Long positions	15	343	27	15	33	1	-	-
+ Short positions	12	52	52	16	111	95	97	-
4, OTHER OFF-BALANCE-SHEET OPERATIONS								
+ Long positions	91	8	4	8	8	2	10	-
+ Short positions	116	2	-	3	7	-	-	-

2. Banking book: internal models and other methodologies for sensitivity analysis

For managerial purposes, the Group also utilises the quantitative results contained in the monthly ALM reporting.

On the basis of dynamic ALM analyses with constant volumes as at 31 December 2019 - and given a scenario of a variation in interest rates of +/-100 basis points distributed over a time period of one year and uniformly across the entire rates curve (short, medium and long-term) - the effects on the interest margin and on the equity are reported in relation to the banking book with a specification of the percentage impact compared to equity/regulatory capital:

(Figures in thousands of euro)

	Increase 100 bps		Decrease 100 bps	
	Impact on interest margin	Change in Equity	Impact on interest margin	Change in Equity
Banking book: securities (absolute values)	69,459	(760,701)	(17,016)	304,959
as percentage of Regulatory Capital/Equity	1.07%	(11.68%)	(0.26%)	4.68%
Banking book: loans (absolute values)	284,305	(1,076,553)	(65,237)	623,085
as percentage of Regulatory Capital/Equity	4.39%	(16.53%)	(1.01%)	9.57%
Liabilities (absolute values)	(624,441)	1,768,079	174,043	(1,032,833)
as percentage of Regulatory Capital/Equity	(9.65%)	27.14%	2.69%	(15.86%)

1.2.3 EXCHANGE RATE RISK

Information of a qualitative nature

A. General aspects, management processes and measurement methods for exchange rate risk

In line with the section on interest rate risk - regulatory trading book, the measurement of exchange rate risk relating to foreign currency income instruments held is supported by the reports provided by the Risk Management Department of the Parent Company, which highlights the value at risk of the investment (VaR). This is calculated using RiskMetrics' applications and parametric methodology, over a ten-day period and with a 99% confidence interval, taking into account the volatilities and correlations between the various risk factors that determine the market risk exposure of the invested portfolio (including interest rate risk, equity risk, foreign exchange risk and inflation risk).

VaR measurement is available on a daily basis for monitoring carried out by the Risk Management Department and the Finance Department and is calculated on different degrees of detail that, in addition to the total portfolio, consider the banking book and trading book, the individual accounting categories, the various groupings by type of instrument (equities, funds, fixed-rate and variable-rate government securities, supranational securities and corporate securities), and the individual securities present.

The risk measurement model described is not utilised to determine capital requirements but represents a tool to support management and internal control of the risk.

B. Exchange rate risk hedging activities

Exchange rate risk hedging activities are implemented through a careful policy of essentially balancing booked foreign currency positions. To this end, during 2019, the Group has put in place hedging transactions of exchange rate risk using outright derivative instruments.

Information of a quantitative nature

1. Distribution of assets, liabilities and derivatives by currency

ITEMS	Currency					
	USD	GBP	JPY	CAD	CHF	OTHER CURRENCIES
A. FINANCIAL ASSETS	**99**	**2**	**4**	**1**	**13**	**4**
A.1 Debt securities	35	-	-	-	-	1
A.2 Equities	2	-	-	-	-	-
A.3 Loans to banks	44	2	1	1	5	3
A.4 Loans to customers	18	-	3	-	8	-
A.5 Other financial assets	-	-	-	-	-	-
B. OTHER ASSETS	**5**	**3**	**-**	**1**	**3**	**3**
C. FINANCIAL LIABILITIES	**183**	**6**	**1**	**2**	**14**	**3**
C.1 Due to banks	10	-	1	-	2	-
C.2 Due to customers	91	6	-	2	12	3
C.3 Debt securities	75	-	-	-	-	-
C.4 Other financial liabilities	7	-	-	-	-	-
D. OTHER LIABILITIES	**1**	**-**	**-**	**-**	**-**	**-**
E. FINANCIAL DERIVATIVES	**-**	**-**	**-**	**-**	**-**	**-**
- Options	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-
+ Long positions	64	4	-	2	-	1
+ Short positions	23	1	5	2	1	2
Total assets	**168**	**9**	**4**	**4**	**16**	**8**
Total liabilities	**207**	**7**	**6**	**4**	**15**	**5**
Imbalance (+/-)	**(39)**	**2**	**(2)**	**-**	**1**	**3**

2. Internal models and other methodologies for sensitivity analysis

The Group's overall exposure to exchange rate risk is very limited: the effects of changes in exchange rates on net interest and other banking income, net profit for the year and equity, as well as the results of scenario analyses, are not reported.

1.3 DERIVATIVES AND HEDGING POLICIES

1.3.1 Derivatives held for trading

A. Financial derivatives

A.1 Financial derivatives held for trading: notional values at the end of the period

UNDERLYING ASSETS/TYPE OF DERIVATIVES	Total 31/12/2019			
	Over the counter			Organised markets
	Central counterparties	Without central counterparties		
		With offsetting agreements	Without offsetting agreements	
1. DEBT SECURITIES AND INTEREST RATES	-	913	(241)	-
a) Options	-	111	-	-
b) Swaps	-	802	(241)	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. EQUITIES AND STOCK MARKET INDICES	-	-	610	-
a) Options	-	-	610	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. CURRENCIES AND GOLD	-	72	(1)	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	72	(1)	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. COMMODITIES	-	-	-	-
5. OTHER	-	-	-	-
Total	-	985	368	-

The item "Equities and stock market indices" as at 31 December 2019 refers to the call option agreement, under which the Interbank Deposit Protection Fund and the Voluntary Intervention Scheme grant Cassa Centrale Banca an irrevocable option to purchase the ordinary shares of Banca Carige S.P.A. - Cassa di Risparmio di Genova e Imperia for a nominal value of EUR 610.2 million, held by the latter following the execution of the share capital increase. This option will be exercisable between 1 July 2020 and 31 December 2021.

A.2 Financial derivatives held for trading: Gross positive and negative fair value - breakdown by product

DERIVATIVE TYPES	Total 31/12/2019			
	Over the counter			Organised markets
	Central counterparties	Without central counterparties		
		With offsetting agreements	Without offsetting agreements	
1. POSITIVE FAIR VALUE				
a) Options	-	-	-	-
b) Interest rate swaps	-	25	(18)	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
2. NEGATIVE FAIR VALUE				
a) Options	-	-	-	-
b) Interest rate swaps	-	26	(1)	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	1	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	-	27	(1)	-

A.3 OTC financial derivatives held for trading: notional amounts, gross positive and negative fair value by counterparty

UNDERLYING ASSETS	Central counterparties	Banks	Other financial companies	Other subjects
Contracts not part of offsetting agreements				
1) DEBT SECURITIES AND INTEREST RATES				
- notional value	X	1	-	49
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
2) EQUITIES AND STOCK MARKET INDICES				
- notional value	X	-	610	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) CURRENCIES AND GOLD				
- notional value	X	-	-	11
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
4) COMMODITIES				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) OTHER				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-

UNDERLYING ASSETS	Central counterparties	Banks	Other financial companies	Other subjects
Contracts that are part of offsetting agreements				
1) DEBT SECURITIES AND INTEREST RATES				
- notional value	-	622	-	-
- positive fair value	-	7	-	-
- negative fair value	-	24	-	-
2) EQUITIES AND STOCK MARKET INDICES				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) CURRENCIES AND GOLD				
- notional value	-	59	-	3
- positive fair value	-	-	-	-
- negative fair value	-	1	-	-
4) COMMODITIES				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) OTHER				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

With reference to the valuation of the call option granted to Cassa Centrale Banca on share packages of Banca Carige S.P.A. - Cassa di Genova e Imperia, held by the Interbank Deposit Protection Fund (FITD) and the Voluntary Intervention Scheme (SVI), it should be noted that the instrument has a very specific connotation as it is strictly functional to the rescue operation of Banca Carige S.P.A. - Cassa di risparmio di Genova e Imperia. The same option is not listed on active markets and cannot be sold by Cassa Centrale Banca to third parties outside the Group without the prior consent of FITD and SVI. Based on the above considerations and taking into account that the call option cannot assume negative values, the directors of Cassa Centrale Banca have prudentially opted for a valuation of the call option as at 31 December 2019 equal to zero, which corresponds to the minimum value of the range of values of the valuation made by a leading consulting firm.

A.4 Residual life of OTC financial derivatives: notional values

UNDERLYING/RESIDUAL LIFE	Up to 1 year	From 1 to 5 years	Beyond 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	172	124	376	672
A.2 Financial derivatives on equities and stock market indices	-	610	-	610
A.3 Financial derivatives on currencies and gold	71	1	-	72
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31/12/2019	**243**	**735**	**376**	**1,354**

B. Credit derivatives

As at the reporting date, the Group had not entered into any transactions in credit derivatives. This section shall therefore not be filled in.

1.3.2 ACCOUNTING HEDGES

Information of a qualitative nature

A. Fair value hedging

Objectives and strategies underlying fair value hedging transactions, types of derivative contracts utilised for hedging and nature of the hedged risk.

The purpose of fair value hedging is to immunise changes in the fair value of funding and loans caused by movements in the interest rate curve. The main types of derivatives used are interest rate swaps. The assets and liabilities covered, identified in detail (specific hedges), are mainly loans to customers.

The Group has also implemented hedging transactions in order to hedge against changes in fair value; the fair value option provisions are used to book these operations. The main types of derivatives used are interest rate swaps. The assets and liabilities covered are mainly loans to customers.

The Group has adopted organisational and instrumental controls in accordance with the regulations governing the fair value option.

The Group has equipped itself with the necessary organisational controls for an informed management of hedging transactions and related risks through the adoption of the Group's Hedge Accounting Policy.

B. Cash flow hedging

Objectives and strategies underlying cash flow hedging transactions, types of derivative contracts utilised and nature of the hedged risk.

The Group does not engage in cash flow hedging transactions, i.e. hedges of the exposure to variability in cash flows associated with variable-rate financial instruments.

C. Hedging of foreign investments

During 2019, the Group did not carry out any foreign investment hedging transactions.

D. Hedging instruments

The Group does not hold financial instruments attributable to this scenario.

E. Covered elements

The Group does not hold financial instruments attributable to this scenario.

Information of a quantitative nature

A. Financial hedging derivatives

A.1 Financial hedging derivatives: notional values at the end of the period

UNDERLYING ASSETS/TYPE OF DERIVATIVES	Total 31/12/2019			
	Over the counter			Organised markets
	Central counterparties	Without central counterparties		
		With offsetting agreements	Without offsetting agreements	
1. DEBT SECURITIES AND INTEREST RATES	-	388	3	-
a) Options	-	-	-	-
b) Swaps	-	388	3	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. EQUITIES AND STOCK MARKET INDICES	-	-	-	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. CURRENCIES AND GOLD	-	-	-	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. COMMODITIES	-	-	-	-
5. OTHER	-	-	-	-
Total	-	388	3	-

A.2 Financial hedging derivatives: Gross positive and negative fair value - breakdown by product

DERIVATIVE TYPES	Positive and negative fair value				Change in the value used to detect the ineffectiveness of the hedging
	Total 31/12/2019				Total 31/12/2019
	Over the counter			Organised markets	
	Central counterparties	Without central counterparties			
		With offsetting agreements	Without offsetting agreements		
POSITIVE FAIR VALUE					
a) Options	-	-	-	-	-
b) Interest rate swaps	-	2	-	-	-
c) Cross currency swaps	-	-	-	-	-
d) Equity swaps	-	-	-	-	-
e) Forwards	-	-	-	-	-
f) Futures	-	-	-	-	-
g) Other	-	-	-	-	-
Total	-	2	-	-	-
NEGATIVE FAIR VALUE					
a) Options	-	-	-	-	-
b) Interest rate swaps	-	25	-	-	-
c) Cross currency swaps	-	-	-	-	-
d) Equity swaps	-	-	-	-	-
e) Forwards	-	-	-	-	-
f) Futures	-	-	-	-	-
g) Other	-	-	-	-	-
Total	-	25	-	-	-

A.3 OTC financial hedging derivatives: notional amounts, gross positive and negative fair value by counterparty

UNDERLYING ASSETS	Central counterparties	Banks	Other financial companies	Other subjects
Contracts not part of offsetting agreements				
1) DEBT SECURITIES AND INTEREST RATES				
- notional value	X	2	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
2) EQUITIES AND STOCK MARKET INDICES				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) CURRENCIES AND GOLD				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
4) COMMODITIES				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) OTHER				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-

UNDERLYING ASSETS	Central counterparties	Banks	Other financial companies	Other subjects
Contracts that are part of offsetting agreements				
1) DEBT SECURITIES AND INTEREST RATES				
- notional value	-	388	-	-
- positive fair value	-	2	-	-
- negative fair value	-	25	-	-
2) EQUITIES AND STOCK MARKET INDICES				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) CURRENCIES AND GOLD				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) COMMODITIES				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) OTHER	-	-	-	-
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual life of OTC financial hedging derivatives: notional values

UNDERLYING/RESIDUAL LIFE	Up to 1 year	From 1 to 5 years	Beyond 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	63	137	191	391
A.2 Financial derivatives on equities and stock market indices	-	-	-	-
A.3 Financial derivatives on currencies and gold	-	-	-	-
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31/12/2019	**63**	**137**	**191**	**391**

B. Credit hedging derivatives

As at the reporting date, the Group had not entered into any transactions in credit derivatives. This section shall therefore not be filled in.

C. Non-derivative hedging instruments

As at the reporting date, the Group had not carried out any transactions attributable to this scenario. This section shall therefore not be filled in.

D. Hedged instruments

D.1 Fair value hedging

	Specific hedges: carrying amount	Specific hedges - net positions: carrying amount of assets or liabilities (before offsetting)	Specific hedging			Macro hedging: Carrying amount
			Cumulated changes in the fair value of the hedged instrument	Derecognition of hedging: residual cumulated changes in fair value	Changes in the value used to detect the ineffectiveness of the hedging	
A. Assets						
1. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - HEDGING OF:	-	-	-	-	-	-
1.1 Debt securities and interest rates	-	-	-	-	-	X
1.2 Equities and stock market indices	-	-	-	-	-	X
1.3 Currencies and gold	-	-	-	-	-	X
1.4 Loans	-	-	-	-	-	X
1.5 Other	-	-	-	-	-	X
2. FINANCIAL ASSETS MEASURED AT AMORTISED COST - HEDGING OF:	**34**	**34**	-	-	-	**158**
1.1 Debt securities and interest rates	34	34	-	-	-	X
1.2 Equities and stock market indices	-	-	-	-	-	X
1.3 Currencies and gold	-	-	-	-	-	X
1.4 Loans	-	-	-	-	-	X
1.5 Other	-	-	-	-	-	X
Total 31/12/2019	**34**	**34**	-	-	-	**158**
B. Liabilities						
1. FINANCIAL LIABILITIES MEASURED AT AMORTISED COST - HEDGING OF:	**11**	**11**	-	-	-	**17**
1.1 Debt securities and interest rates	11	11	-	-	-	X
1.2 Currencies and gold	-	-	-	-	-	X
1.3 Other	-	-	-	-	-	X
Total 31/12/2019	**11**	**11**	-	-	-	**17**

D.2 Hedging of cash flows and foreign investments

As at the reporting date, the Group had not carried out any transactions attributable to this scenario.

E. Effects of equity hedging transactions

E.1. Reconciliation of equity components

As at the reporting date there were no cash flow hedge valuation reserves deemed significant.

1.3.3 OTHER INFORMATION ON DERIVATIVES (TRADING AND HEDGING)

A. Financial and credit derivatives

A.1 OTC financial and credit derivatives: net fair values by counterparties

	Central counterparties	Banks	Other financial companies	Other subjects
A, FINANCIAL DERIVATIVES				
1) Debt securities and interest rates				
- notional value	-	1,013	-	49
- positive net fair value	-	10	-	-
- negative net fair value	-	48	-	-
2) Equities and stock market indices				
- notional value	-	-	610	-
- positive net fair value	-	-	-	-
- negative net fair value	-	-	-	-
3) Currencies and gold				
- notional value	-	59	-	13
- positive net fair value	-	-	-	-
- negative net fair value	-	1	-	-
4) Commodities				
- notional value	-	-	-	-
- positive net fair value	-	-	-	-
- negative net fair value	-	-	-	-
5) Other				
- notional value	-	-	-	-
- positive net fair value	-	-	-	-
- negative net fair value	-	-	-	-

	Central counterparties	Banks	Other financial companies	Other subjects
B, CREDIT DERIVATIVES				
1) Purchase of protection				
- notional value	-	-	-	-
- positive net fair value	-	-	-	-
- negative net fair value	-	-	-	-
2) Sale of protection				
- notional value	-	-	-	-
- positive net fair value	-	-	-	-
- negative net fair value	-	-	-	-

1.4 LIQUIDITY RISK

Information of a qualitative nature

A. General aspects, management processes and measurement methods for liquidity risk

Liquidity risk is defined as the possibility that the Group may not be able to meet its payment commitments due to the inability to raise new funds and/or sell its assets on the market (funding liquidity risk), or that it may be forced to incur very high costs to meet these commitments (market liquidity risk). The funding liquidity risk, in turn, can be distinguished between: (i) mismatching liquidity risk, consisting of the risk associated with the different time profile of cash inflows and outflows determined by the misalignment of the maturities of financial assets and liabilities on (and off) the balance sheet; (ii) contingency liquidity risk, i.e. the risk that unexpected events may require a higher amount of cash and cash equivalents than estimated as necessary; and (iii) margin calls liquidity risk, i.e. the risk that the Group, in the event of adverse changes in the fair value of financial instruments, is contractually required to restore the reference margins by means of collateral/cash margins.

In this regard, it should be noted that the Delegated Regulation of the European Commission (EU) no. 61/2015 introduced the Liquidity Coverage Requirement (LCR) for credit institutions (hereinafter also "DR-LCR"). The LCR is a short-term rule aimed at ensuring the availability of liquid assets by individual banks that allow them to survive in the short to very short term in the event of acute stress, without recourse to the market. The indicator compares the liquid assets available to the Group with net cash outflows (difference between gross outflows and inflows) expected over a thirty-day time period, the latter developed taking into account a predefined stress scenario. The DR-LCR entered into force on 1 October 2015 and, after a phasing-in from 1 January 2018, a 100% requirement must be met. The DR-LCR integrates and, in part, amends the provisions of Regulation (EU) no. 575/2013 (CRR) which provides only for obligations of a reporting nature.

Liquidity risk can be generated by various factors both internal and external to the Group. The sources of liquidity risk can therefore be distinguished in the following macro-categories:

- endogenous: represented by negative events specific to the Group (e.g. deterioration of the Group's creditworthiness and loss of confidence on the part of creditors);
- exogenous: when the origin of the risk can be traced back to negative events not directly controllable by the Group (political crises, financial crises, catastrophic events, etc.) that cause situations of liquidity tension in the markets;

- combinations of the above.

The identification of the factors from which liquidity risk is generated is carried out by means of the following:

- the analysis of the time distribution of cash flows of financial assets and liabilities and off-balance sheet transactions;
- the identification of:
  - items that do not have a defined due date (on demand and revocation items);
  - financial instruments that incorporate optional components (explicit or implicit) that may change the entity and/or the time distribution of cash flows (e.g. early redemption options);
  - financial instruments that by their nature determine variable cash flows depending on the performance of specific underlying assets (e.g. derivatives);
- the analysis of the level of seniority of financial instruments.

The processes in which the Group's liquidity risk arises are mainly represented by the Finance/Treasury, Funding and credit processes.

The internal regulation of liquidity risk management meets the requirements set out in the supervisory provisions and guarantees consistency between the management measurements and the regulatory ones.

The Group adopts a liquidity risk management and governance system which, in accordance with the provisions of the Supervisory Authorities and on the basis of the guidelines defined by the Parent Company, pursues the objectives of:

- being liquid at all times and, therefore, to remain in a position to meet its payment obligations in situations of both normal business and stress;
- financing its activities at the best current and prospective market conditions.

To this end, in its function as a strategic supervisory body, the Board of Directors of the Parent Company and of each Affiliated Bank defines the strategies, policies, responsibilities, processes, risk objectives, tolerance thresholds and limits to exposure to liquidity risk (operating and structural), as well as instruments for liquidity risk management - under both normal business conditions and stress conditions - by formalising its internal regulations on liquidity risk management and governance.

The Group's liquidity is managed by the Finance Department of the Parent Company and the affiliated Banks in accordance with the aforementioned strategic guidelines. To this end, it makes use of the commitment forecasts made through internal procedures where information on forecast cash requirements and availability can be found. The organisational controls of liquidity risk are defined in terms of line controls and activities of the control functions at level II and III. Liquidity risk is controlled by the Risk Management Department of the Parent Company, which makes use of its representative at the affiliated Banks to check the availability of sufficient liquidity reserves to ensure solvency in the short term and diversification of sources of funding and, at the same time, to maintain a substantial balance between average maturities of lending and funding in the medium/long term.

The Group intends to pursue a dual objective:

- the management of operating liquidity aimed at verifying the Group's ability to meet expected and unforeseen short-term (up to 12 months) cash payment commitments;
- structural liquidity management aimed at maintaining an adequate ratio between total liabilities and medium/long-term assets (over 12 months).

The Group has structured its control of short-term operating liquidity on two levels:

- the first level provides for intra-day and daily supervision of the treasury position;
- the second level provides for monthly monitoring of the overall operating liquidity position.

With reference to the monthly monitoring of the overall operating liquidity position, the Group uses the analysis reports available monthly prepared by the Parent Company.

Monthly measurement and monitoring of the operating liquidity position is carried out by means of the following methods:

- the LCR indicator, for the 30-day liquidity position, as determined on the basis of the DR-LCR and transmitted (according to the template developed by the EBA) on a monthly basis to the Supervisory Authority;
- the management liquidity indicator over various maturities of up to 12 months, consisting of the ratio between liquid assets and net cash flows calculated using management metrics in the normal course of business;
- its liquidity position by means of the time to survival indicator, designed to measure the ability to cover the liquidity imbalance generated by inertial operations of balance sheet items;
- a set of synthetic indicators designed to highlight vulnerabilities in the Group's liquidity position with regard to the various relevant risk factors, such as the concentration of redemptions, the concentration of funding, and dependence on interbank funding;
- analysis of the level of asset encumbrance and quantification of readily monetised assets.

The Group's exposure to unexpected cash outflows mainly relates to:

- items that do not have a defined maturity (primarily current accounts and unrestricted deposits);
- liabilities at maturity (certificates of deposit, term deposits) which, at the request of the depositor, can be repaid early;
- its own bonds, for which the Group operates in order to guarantee liquidity on the secondary market;
- commitments to exchange collateral arising from margining agreements relating to OTC derivative transactions;
- the margins available on the credit lines granted.

With reference to the management of structural liquidity, the Group uses the analysis reports available monthly prepared by the Parent Company.

Maturity transformation indicators measure the duration and consistency of loans to customers, funding from customers at maturity and available capital in order to judge the consistency and sustainability over time of the Group's financial structure.

The net stable funding ratio, consisting of the ratio between stable sources of funding and medium/long-term assets, is measured quarterly by means of the percentages provided by the Basel Committee in its October 2014 document.

In order to assess its vulnerability to exceptional but plausible liquidity stress situations, the Group calculates and monitors the LCR indicator as determined on the basis of the DR-LCR and transmitted (according to the template developed by the EBA) on a monthly basis to the Supervisory Authority. Periodic scenario stress tests are also conducted. The latter, conducted according to a qualitative approach based on the company's experience and the indications provided by the regulations and supervisory guidelines, cover two scenarios of liquidity, market/systemic and Group-specific crises. In particular, the Group performs the stress analysis by extending the scenario covered by the LCR regulation, with the aim of assessing the impact of additional load tests.

The results of the analyses carried out are periodically documented to the Board of Directors.

On the basis of the guidelines defined by the Parent Company, crisis, system/market early warning indicators have been identified, i.e. a set of qualitative and quantitative measurements useful for identifying signs of a potential increase in exposure to liquidity risk. These indicators represent, together with the results of liquidity risk measurement, an important information element for the activation of liquidity risk mitigation measures.

With regard to the Contingency Funding Plan (hereinafter also referred to as the "CFP"), i.e. the organisational and operational procedures to be implemented to deal with situations of alert or liquidity crisis, it should be noted that management is centralised at the Parent Company; it follows that in the event of any critical issues regarding the liquidity profile encountered at the level of individual banks belonging to the Group, it is the Parent Company that intervenes using the resources available to the entire Group. The CFP is therefore only activated if there is a problem with the consolidated values of the Cassa Centrale Group. The Group's CFP defines the statuses of non-ordinary operations and the processes and tools for their activation/management (roles and responsibilities of the corporate bodies and organisational units involved, systemic and specific crisis early warning indicators, procedures for monitoring and activating non-ordinary operations, crisis management strategies and tools).

Traditionally, the Group has had a significant amount of liquid resources due to both the composition of its liquidity buffer, consisting mainly of high-quality financial instruments eligible for refinancing operations with the Eurosystem, and the adoption of funding policies aimed at favouring direct retail funding.

The composition of the portfolio owned by the Group, consisting mainly of financial instruments with the above characteristics, is the main instrument for mitigating liquidity risk.

The use of collateralised funding from the ECB and other leading market counterparties, also on behalf of Group banks and customer banks, amounted to EUR 2.6 billion at year end.

As at the reporting date, the total amount of free cash reserves, understood as high-quality liquid assets calculated for the purposes of determining the Liquidity Coverage Ratio (LCR), stood at EUR 17.8 billion.

Information of a quantitative nature

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

ITEMS/TIME PERIOD BRACKETS	On demand	From over 1 day to 7 days	From over 7 days to 15 days	From over 15 days to 1 month	From over 1 month to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	Beyond 5 years	Indefinite duration
CASH ASSETS	**5,153**	**168**	**370**	**1,209**	**2,682**	**3,048**	**4,722**	**28,043**	**23,793**	**-**
A.1 Government securities	-	3	92	117	620	1,207	1,405	14,648	6,775	-
A.2 Other debt securities	18	3	2	11	21	12	205	225	588	-
A.3 UCITS units	223	-	-	-	-	-	-	-	-	-
A.4 Loans	4,912	162	276	1,081	2,041	1,829	3,112	13,170	16,430	-
- Banks	317	5	8	507	97	72	67	59	3	-
- Customers	4,595	157	268	574	1,944	1,757	3,045	13,111	16,427	-
CASH LIABILITIES	**45,769**	**370**	**356**	**888**	**1,108**	**3,582**	**3,447**	**8,303**	**260**	**-**
B.1 Deposits and current accounts	45,300	47	54	132	269	451	742	1,303	39	-
- Banks	293	1	-	33	8	73	60	60	-	-
- Customers	45,007	46	54	99	261	378	682	1,243	39	-
B.2 Debt securities	110	48	124	89	409	514	1,056	4,276	48	-
B.3 Other liabilities	359	275	178	667	430	2,617	1,649	2,724	173	-
OFF-BALANCE-SHEET OPERATIONS										
C.1 Financial derivatives with exchange of capital										
- Long positions	68	67	13	18	30	23	25	728	65	-
- Short positions	65	58	82	53	32	15	3	1	-	-
C.2 Financial derivatives without exchange of capital										
- Long positions	91	5	-	40	15	39	36	240	26	-
- Short positions	27	21	-	75	23	35	16	112	27	-
C.3 Deposits and loans to be received										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- Long positions	133	4	-	6	21	29	60	23	103	-
- Short positions	377	1	-	-	-	-	2	7	-	-
C.5 Financial guarantees issued	1	-	-	-	-	-	1	2	27	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

2. Securitisation transactions

- **Cassa Centrale Finance 3 Transaction**

  With the aim of increasing the amount of financial assets eligible for refinancing transactions with the Eurosystem and, therefore, to strengthen their liquidity position, the Group's current affiliated Banks implemented a multi-originator securitisation transaction with the support of Cassa Centrale Banca in 2009.

  The transaction, called Cassa Centrale Finance 3, involved the issue of senior securities in a single tranche by the special purpose vehicle Cassa Centrale Finance 3 S.r.l., for a total amount of EUR 368.5 million.

  The transaction also provided for the simultaneous repurchase by the originator banks of all the liabilities issued by the special purpose vehicle. The Group has therefore subscribed 65% of these liabilities, amounting to EUR 247 million for senior securities and EUR 30 million for junior securities, corresponding to its share of the liabilities issued by the vehicle for all the assets sold.

- **BCC SME Finance 1 Transaction**

  With the aim of increasing the amount of financial assets eligible for refinancing transactions with the Eurosystem and, therefore, to strengthen their liquidity position, the Group's current affiliated Banks implemented a multi-originator securitisation transaction with the support of Cassa Centrale Banca in 2012.

  The transaction, called BCC SME Finance 1, involved the issue of senior securities in a single tranche by the special purpose vehicle BCC SME Finance 1 S.r.l., for a total amount of EUR 1,533 million.

  The transaction also provided for the simultaneous repurchase by the originator banks of all the liabilities issued by the special purpose vehicle. The Group has therefore subscribed 56% of these liabilities, amounting to EUR 866 million for senior securities and EUR 371 million for junior securities, corresponding to its share of liabilities issued by the vehicle for all of the assets sold.

1.5 OPERATING RISKS

Information of a qualitative nature

A. General aspects, management processes and measurement methods for operating risk

Operating risk, as defined by prudential regulations, is the "risk of sustaining losses deriving from the inadequacy or dysfunction of procedures, human resources and internal systems or those caused by exogenous events".

This definition includes legal risk (i.e. the risk of suffering losses resulting from violations of laws or regulations, contractual or non-contractual liability or other disputes), but does not consider reputational and strategic risk.

Operating risk therefore refers to different types of events that are not individually relevant and are quantified jointly for the entire risk category.

Operating risk - which is inherent in the performance of banking activities - is generated across all company processes. In general, the primary sources of operating risk are internal fraud, external fraud, workplace employment and safety reports, professional obligations with respect to clients or the nature and characteristics of products as well as damages from external events and the breakdown of IT systems and deficiencies in the handling of transactions or process management, as well as losses due to positions with commercial counterparties and suppliers.

The following subcategories of risk are significant in terms of operating risks, as set out in the same supervisory instructions:

- IT risk, i.e. the risk of incurring economic losses, reputation and market share losses in relation to the use of Information and Communication Technology (ICT);
- outsourcing risk, i.e. the risk associated with the choice to outsource the performance of one or more business activities to third-party suppliers.

Given that it is a transversal risk across processes, operating risk can be controlled and mitigated through currently effective regulations (regulations, executive provisions, proxies) which operate primarily for the purposes of prevention. Specific line controls are then set up on the basis of these regulations as a verification and additional system for monitoring this type of risk.

Currently effective regulations are also applied to IT procedures with the aim of constantly monitoring the correct assignment of authorisation as well as compliance with functional subdivisions on the basis of company roles.

Regulations and line controls are governed by the Board of Directors, implemented by the Management and updated, as a rule, by specialist managers.

With reference to organisational controls, the establishment of the Compliance function is important, outsourced to the Parent Company, which is responsible for monitoring and controlling compliance with regulations and which provides support to the process of preventing and managing the risk of being subject to judicial or administrative sanctions as well as the risk of reporting significant losses following the violation of external regulations (laws or regulations) or internal ones (Articles of Association, codes of conduct, corporate governance codes). The Compliance Department also operates through its own representatives identified within the individual Group banks.

The operating risk management process consists of the following steps:

- **identification and assessment**, which includes the detection, collection and classification of quantitative and qualitative information relating to operating risk; these risks are constantly and clearly identified, reported and relayed to top management;
- **measurement**, which includes the activity of determining operating risk exposure based on information collected at the identification stage;
- **monitoring and control**, which includes activities concerning the regular monitoring of the operating risk profile and exposure to significant losses, through the provision of a regular information flow that promotes active risk management;
- **risk management**, which includes activities aimed at containing operating risk consistently with the established risk appetite, implemented by intervening on significant risk factors or through their transfer, through the use of insurance coverage or other instruments;
- **reporting,** activities aimed at preparing information to be transmitted to corporate bodies (including control bodies) and to all corporate structures involved, regarding the risks assumed or assumable.

During the year, the Group, under the coordination of the Parent Company, implemented a framework for the recognition of operating loss events and the related economic effects.

Finally, there are the third level controls carried out by the Internal Audit Department of the Parent Company, which periodically reviews the functionality of the control system as part of the various corporate processes.

As part of the overall assessment, with specific reference to the risk component linked to the outsourcing of business processes/activities, it should be noted that the Group mainly uses the services offered by the Parent Company and its instrumental companies. These circumstances constitute a mitigation of the risks assumed by the Group in outsourcing important control or operational functions.

With regard to all the existing outsourcing profiles, the procedures have been activated to ascertain the correct performance of the supplier's activities by preparing, according to the different types, different levels of contractual protection and control with regard to the list of outsourcing of important operational functions and corporate control functions.

The Group internally maintains the expertise required to effectively control the outsourced important operational functions (hereinafter also "IOF") and to manage the risks associated with outsourcing, including those arising from potential conflicts of interest of the service provider. In this context, an internal contact representative has been identified within the organisation for each of the outsourced activities, with adequate professional requirements, responsible for monitoring the level of services provided by the outsourcer and set out in the respective outsourcing contracts and for reporting to corporate bodies on the status and performance of the outsourced functions.

With reference to the regulatory measurement of the prudential requirement for operating risks, the Group, in view of its organisational, operational and dimensional profiles, has approved the application of the Basic Indicator Approach (BIA).

On the basis of this methodology, the capital requirement for operating risks is measured by applying the regulatory coefficient of 15% to the average of the last three data recordings - on an annual basis - of an indicator of the volume of corporate operations (so-called relevant indicator, referring to the year-end situation).

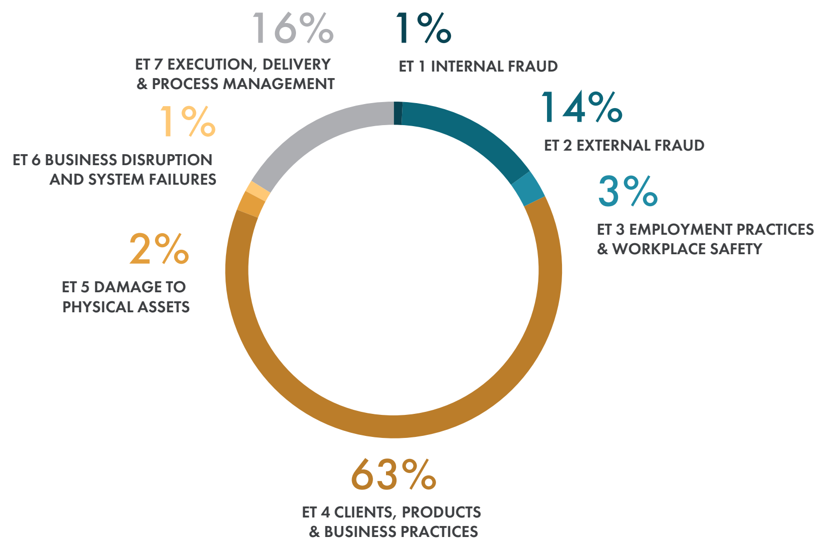
If one of the observations shows that the relevant indicator is negative or zero, this figure shall not be taken into account in the calculation of the three-year average.

YEAR	Amount
Year T	1,981
Year T-1	1,961
Year T-2	1,824
RELEVANT INDICATOR AVERAGE LAST 3 YEARS	**1,922**
CAPITAL REQUIREMENT (15% OF THE AVERAGE)	**288**

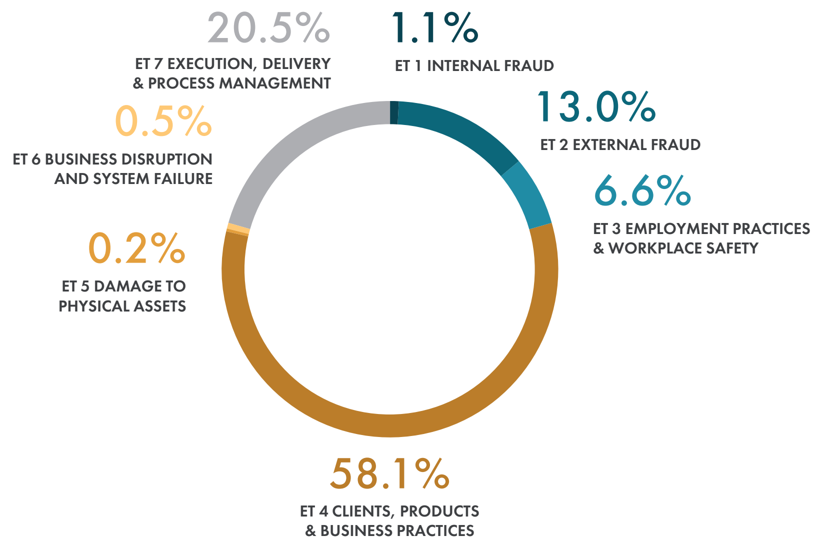
Information of a quantitative nature

With regard to quantitative information, a structured loss data collection process was launched during the year at all Group banks. Below is the distribution by event type.

Number of events with operating loss accounted in 2019



Net operating losses accounted 2019



Operating losses are mainly concentrated in the event type "Customers, products and professional practices" (63% of frequencies and 58% of total impacts detected), followed by "Execution, delivery and management of processes" (16% of frequencies and 20% of total impacts detected) and "External fraud" (14% of frequencies and 13% of total impacts detected).

SECTION 3 - RISKS OF INSURANCE COMPANIES

The section is not applicable and therefore was not filled in.

SECTION 4 - RISKS OF OTHER COMPANIES

No other significant risks were noted for the remaining companies included in the scope of consolidation, given they do not belong to the Group nor insurance companies.

PART F - Consolidated information on equity

Section 1 - Consolidated equity

A. Information of a qualitative nature

One of the consolidated strategic priorities of the Group is represented by the amount and movements of its capital assets. Capital is, in fact, the first safeguard against the risks associated with banking business and the main reference parameter for the assessments conducted by the supervisory authority and the market on the solvency of the intermediary. It makes a positive contribution to the formation of operating income, makes it possible to meet the Group's technical and financial fixed assets, accompanies the growth in size and represents a decisive element in the development phases.

The Group's equity is determined by the sum of the share capital, the share premium reserve, profit reserves, valuation reserves, equity instruments, own shares and the profit for the year, for the portion to be allocated to the reserve, as indicated in Part B of this section.

The notion of capital that the Group uses in its valuations can be traced back to the notion of "Own Funds" as established by Regulation (EU) no. 575/2013 (CRR), divided into the following components:

- tier 1 capital, consisting of Common Equity Tier 1 capital (CET 1) and Additional Tier 1 capital (AT1);
- tier 2 capital - (T2).

The capital thus defined, which is the main control over corporate risks in accordance with prudential supervisory regulations, is in fact the best reference for effective management, both strategically and in terms of current operations, as it is a financial resource capable of absorbing the possible losses produced by the Group's exposure to all the risks assumed, assuming a role of guarantee towards depositors and creditors in general.

Supervisory regulations require the use of internal methodologies to measure the Group's overall capital adequacy, both currently and prospectively and in the event of stress, in order to ensure that the financial resources available are adequate to cover all risks even in adverse economic conditions; this with reference not only to the risks of the so-called "Pillar I" (represented by credit and counterparty risks - measured according to the category of debtor counterparties, the duration and type of transactions and the personal and collateral received - market risks on the trading book and operating risk), but also to additional risk factors - so-called "Pillar II" risks - that impact on the business activity (such as, for example, concentration risk, interest rate risk on the banking book, etc.).

The monitoring of current and prospective capital adequacy is therefore developed in a dual sense:

- regulatory capital against Pillar I risks;
- total internal capital against Pillar II risks, for the purposes of the ICAAP process.

In order to ensure proper capital dynamics under normal operating conditions, the Group mainly relies on self-financing, i.e. the strengthening of reserves through the allocation of net profits. The Group allocates a large part of its net profit for the year to indivisible reserves. Compliance with capital adequacy is also pursued through careful dividend distribution policies of the limited available component of profit, careful investment management, in particular lending, depending on the riskiness of the counterparties and the related absorption, and through strengthening plans based on the issue of subordinated liabilities or additional equity instruments that can be included in the relevant own funds aggregates.

With the aim of maintaining a constantly adequate capital position, the Group has equipped itself with processes and tools to determine the level of internal capital adequate to face any type of risk taken on, as part of an assessment of exposure, current, prospective and in a stressful situation that takes into account the company's strategies, development objectives and the evolution of the reference context.

Every year, as part of the process of defining the budget objectives, a careful check is carried out on the compatibility of the projections: depending on the expected dynamics of the statement of financial position and income statement aggregates, if required, the initiatives necessary to ensure capital balance and the availability of financial resources consistent with the Group's strategic and development objectives are already identified and activated at this stage.

Verification of compliance with supervisory requirements and the consequent adequacy of capital are implemented on a quarterly basis. The elements which are audited primarily include ratios pertaining to the financial structure of the Group (loans, problem receivables, fixed assets, total assets) and the degree of hedging of risks.

Further, specific analyses for the purposes of the prior assessment of capital adequacy are carried out, if necessary, with a view to extraordinary transactions, such as mergers and acquisitions, disposals of assets.

For the minimum capital requirements, reference is made to the mandatory parameters established by the current supervisory provisions (Article 92 of the CRR) according to which:

- the Group's Common Equity Tier 1 capital (CET 1) must meet at least the requirement of 4.5% of total risk weighted assets ("CET1 capital ratio");
- tier 1 capital must represent at least 6% of total Tier 1 weighted assets ("Tier 1 capital ratio");
- total own funds must amount to at least 8% of total weighted assets ("total capital ratio").

The Group is also subject to the additional prudential limits to business operations envisaged for cooperative credit banks, as indicated in Bank of Italy Circular no. 285/2013 and subsequent updates.

As at the reporting date, the Group presents:

- a ratio of Common Equity Tier 1 - CET1 - to risk-weighted assets (CET 1 ratio) of 19.72%;
- a ratio of Tier 1 capital to risk-weighted assets (Tier 1 capital ratio - Tier 1 ratio) of 19.74%;
- a ratio of own funds to risk-weighted assets (total capital ratio) of 19.81%.

The amount of own funds is not only fully sufficient on all three binding capital levels, but also adequate to cover the Capital Conservation Buffer.

Moreover, the Group banks fully comply with the prudential limits to business operations specifically set for cooperative credit banks.

The Group has drawn up and maintains its Recovery Plan in line with the relevant regulatory provisions and in line with the RAF adopted.

B. Information of a quantitative nature

B.1 Consolidated accounting capital: breakdown by type of company

ITEMS OF EQUITY	Prudential consolidation	Insurance companies	Other companies	Eliminations and consolidation adjustments	Total
1. Share capital	1,277	-	-	-	1,277
2. Share premium	75	-	-	-	75
3. Reserves	5,715	-	87	(87)	5,715
4. Equity instruments	6	-	-	-	6
5. (Own shares)	(869)	-	-	-	(869)
6. Valuation reserves:	55	-	3	(3)	55
- Equities measured at fair value through other comprehensive income	3	-	-	-	3
- Hedging of equities measured at fair value through other comprehensive income	-	-	-	-	-
- Financial assets (other than equities) measured at fair value through other comprehensive income	29	-	3	(3)	29
- Tangible assets	4	-	-	-	4
- Intangible assets	-	-	-	-	-
- Hedging of foreign investments	-	-	-	-	-
- Cash flow hedging	-	-	-	-	-
- Hedging instruments [non designated elements]	-	-	-	-	-
- Exchange rate differences	-	-	-	-	-
- Non-current assets and groups of assets held for disposal	-	-	-	-	-
- Financial liabilities measured at fair value through profit or loss (changes in credit rating)	-	-	-	-	-
- Actuarial gains (losses) from defined benefit plans	(23)	-	-	-	(23)
- Quotas of valuation reserves relative to shareholdings measured with the equity method	1	-	-	-	1
- Special revaluation laws	41	-	-	-	41
7. Profit (Loss) for the year (+/-) of the group and pertaining to minority interests	225	-	10	(10)	225
Total	**6,484**	**-**	**100**	**(100)**	**6,484**

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

ASSETS/VALUES	Total 31/12/2019					
	Prudential consolidation		Insurance companies		Other companies	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	38	(9)	-	-	-	-
2. Equities	19	(16)	-	-	3	-
3. Loans	-	-	-	-	-	-
Total	**57**	**(25)**	**-**	**-**	**3**	**-**

ASSETS/VALUES	Total 31/12/2019			
	Eliminations and consolidation adjustments		Total	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	-	-	38	(9)
2. Equities	(3)	-	19	(16)
3. Loans	-	-	-	-
Total	**(3)**	**-**	**57**	**(25)**

B.3 Valuation reserves for financial assets measured at fair value through other comprehensive income: annual changes

	Debt securities	Equities	Loans
1. OPENING BALANCES	**-**	**-**	**-**
2. POSITIVE CHANGES	**153**	**33**	**-**
2.1 Fair value increases	107	13	-
2.2 Value adjustments for credit risk	6	X	-
2.3 Reversals of negative reserves to the income statement: from sale	47	X	-
2.4 Transfers to other components of equity (equities)	-	7	-
2.5 Other changes	(7)	13	-
3. NEGATIVE CHANGES	**124**	**30**	**-**
3.1 Fair value decreases	22	8	-
3.2 Write-backs for credit risk	11	-	-
3.3 Reversals of positive reserves to the income statement: from sale	24	X	-
3.4 Transfers to other components of equity (equities)	-	3	-
3.5 Other changes	67	19	-
4. CLOSING BALANCES	**29**	**3**	**-**

The item "2.5. Other changes" also includes the opening balances relating to the entities falling with the scope of consolidation, including the Parent Company Cassa Centrale Banca, arising from the first-time consolidation of the Group, broken down as follows:

- negative reserves on debt securities of EUR 47 million;
- negative reserves on equities of EUR 17 million.

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

ITEMS	Total 31/12/2019
1. OPENING BALANCES	**-**
2. POSITIVE CHANGES	**(13)**
2.1 Actuarial gains (losses) from defined benefit plans	-
2.2 Other changes	(13)
2.3 Business combinations	-
3. NEGATIVE CHANGES	**10**
3.1 Actuarial losses from defined benefit plans	7
3.2 Other changes	2
3.3 Business combinations	1
4. CLOSING BALANCES	**(23)**

The item "2.2. Other changes" includes EUR 16 million relating to the negative opening balances of the entities falling within the scope of consolidation, including the Parent Company, arising from the first-time consolidation of the Group.

Section 2 - Regulatory capital and adequacy ratios

With regard to the contents of this section, reference should be made to the information on own funds and capital adequacy contained in the disclosure to the public (so-called Third Pillar), prepared in accordance with Regulation (EU) no. 575/2013 of 26 June 2013 (CRR).

PART G - Business combinations regarding companies or branches

Section 1 - Transactions implemented during the year

1.1 Business combinations

During the year, no business combinations regarding companies or branches were carried out, as regulated by IFRS 3.

Establishment of the Cooperative Banking Group

With reference to the establishment of the Cassa Centrale Group, which took place on 1 January 2019, the following is a summary of the considerations that led to the transaction being considered outside the scope of IFRS 3.

As already mentioned in Part A - Accounting policies of these Consolidated Explanatory Notes, control over the affiliated Banks is essentially due to the control exercised by the Parent Company over these banks pursuant to Article 2359 of the Italian Civil Code, in accordance with the provisions of the "Cohesion Contract".

In light of this peculiarity of the Cooperative Banking Group, the Italian legislator, with Law no. 145 of 30 December 2018, "State Budget for the 2019 financial year and multi-annual budget for the three-year period 2019-2021" (hereinafter also referred to as the "2019 Budget Law), in transposing into Italian law Article 2, paragraph 2, letter b) of Directive 86/635/EEC on the treatment of the consolidated accounts of central bodies for the purposes of the consolidated financial statements (so-called Central bodies), introduced the obligation to prepare consolidated financial statements to the group consisting of the Central Body and its affiliates (so-called "single consolidating entity").

Therefore, as a result of the transposition into Italian law of Article 2, paragraph 2, letter b) of Directive 86/635/EEC, which states that in the case of cooperative banking groups, the entity required to prepare consolidated financial statements (reporting entity) is represented by the aggregation of the central body and the affiliated Banks (so-called "single consolidating entity"), it is considered that the rules of IFRS 10 Consolidated Financial Statements apply only for the purposes of identifying the scope of consolidation of the reporting entity. That is, only for the purposes of assessing the existence of situations of control between the reporting entities and third parties (e.g. the subsidiaries of the Parent Company or the individual affiliated Banks).

Recognition of the reporting entity nature within the sole consolidating entity also implies that IFRS 3 (Business Combinations) would apply only to the accounting of business combinations involving the latter and third parties (e.g. in the case of acquisition of new subsidiaries).

The provisions of Article 37-bis, paragraph 1, letter a) of Legislative Decree no. 385/1993 (so-called *Testo Unico Bancario* (Consolidated Banking Act - TUB), according to which the Cohesion Contract ensures the existence of a situation of control as defined by international accounting standards, must also be interpreted in light of the subsequent amendments made to national accounting regulations by the 2019 Budget Law. In this context, on the one hand, the 2019 Budget Law defines the procedures with which to comply with the consolidation obligations in the case of Central Bodies, on the other hand, the TUB's provisions are important in order to circumscribe the Central Body's governance powers over its affiliates.

Having said this, the consolidation between the "Central Body" and the affiliated Banks, which together constitute a single consolidating entity (or even a "single reporting entity"), is carried out in continuity with the previous accounting values (prior to the operation to set up the Cooperative Banking Group) after derecognising the intercompany balances and results, as well as after derecognising the shares issued by Cassa Centrale Banca held by the same affiliated Banks from the Group's equity, consisting of the combination of the equity of Cassa Centrale Banca and the affiliated Banks.

Mergers between Cooperative Credit Banks belonging to the Group

During the year, a number of business combinations between Cooperative Credit Banks belonging to the Group were carried out, which did not, however, have any effect on the consolidated financial statements (as they are outside the scope of application of IFRS 3).

Following the establishment of the Group, the following 3 business combinations between affiliated Banks took place. Such transactions pursue objectives of stability, efficiency and competitiveness. During 2019 the number of affiliated Banks reached 80. Details of the business combinations subsequent to the creation of the Group are provided below:

- Banca Prealpi - Banca S. Biagio del Veneto Orientale: effective 1 July 2019, Veneto Region;
- CR Adamello Brenta - CR di Pinzolo - CR Val Rendena: effective 1 July 2019, Trentino-Alto Adige region;
- CR Alta Vallagarina - CR di Lizzana: effective 1 July 2019, Trentino-Alto Adige region.

During the year, the departure of Assicura Group S.r.l. was also completed, as a result of the merger of the company into Assicura Agenzia S.r.l., the incorporating company wholly owned by the incorporated company and therefore a reverse merger.

From an accounting point of view, since these are business combinations between entities under common control, the above transactions are excluded from the scope of IFRS 3 (see IFRS 3.2(c) and IFRS 3 B1-B4). In fact, for this type of transaction, in the absence of an accounting standard of reference, the "Assirevi's preliminary IFRS guidelines" (OPI) no. 1 and no. 2. are applied - as is now consolidated practice in the banking sector.

The documents already mentioned, for business combinations that have the nature of a reorganisation and which, therefore, do not have a significant influence on the future cash flows of the net assets transferred, provide for the application, in the financial statements of the acquiring entity, of the principle of "continuity of values".

This principle implies the recognition in the statement of financial position of values equal to those that would have resulted if the companies involved in the combination had always been combined. The net assets of the acquired and the acquiring entity shall therefore be recognised at the carrying amounts they had in their respective accounts before the transaction. The income statement shall be the sum of the income statements of the two integrated entities from the effective date of the transaction.

Section 2 - Transactions implemented after the close of the year

After the end of the financial year and up to the date of approval of the draft consolidated financial statements by the Board of Directors of the Parent Company, the following transactions were carried out:

- Reorganisation of the service companies belonging to the Group;
- Mergers between cooperative credit banks belonging to the Group.

Reorganisation of the service companies belonging to the Group

With the objective of reorganising the corporate structure of the entities of the Cassa Centrale Group operating in the ICT and back office services sector, the merger by incorporation into Phoenix Informatica Bancaria S.p.A., with effect from 1 January 2020 (renamed Allitude S.p.A.), a company of the Cassa Centrale Group operating in the ICT sector, of the following companies, was completed:

- Servizi Bancari Associati S.p.A. (hereinafter also "SBA");
- Centro Sistemi Direzionali S.r.l. (hereinafter also "CSD");
- Informatica Bancaria Trentina S.r.l. (hereinafter also "IBT");
- Informatica Bancaria Finanziaria S.p.A. (hereinafter also "IBFIN").

The integration operation, which will also see the incorporation of two more companies in 2020, was carried out in line with the established objectives and deadlines that saw the start-up of the new structure, Allitude S.p.A. (formerly Phoenix Informatica Bancaria S.p.A.) from 1 January 2020.

This has led to the creation of a single reference IT services (ICT) and banking company in order to guarantee efficiency and develop operational synergies and build specialist centres, including territorial ones, always at the service of the business development of the Group and the Banks.

From an accounting point of view, since this is a business combination between entities under common control, the transaction is excluded from the scope of IFRS 3 (see IFRS 3.2(c) and IFRS 3 B1-B4). In fact, for this type of transaction, in the absence of an accounting standard of reference, the "Assirevi's preliminary IFRS guidelines" (OPI) no. 1 and no. 2. are applied - as is now consolidated practice in the banking sector.

The documents already mentioned, for business combinations that have the nature of a reorganisation and which, therefore, do not have a significant influence on the future cash flows of the net assets transferred, provide for the application, in the financial statements of the acquiring entity, of the principle of "continuity of values".

This principle implies the recognition in the statement of financial position of values equal to those that would have resulted if the companies involved in the combination had always been combined. The net assets of the acquired and the acquiring entity shall therefore be recognised at the carrying amounts they had in their respective accounts before the transaction. The income statement shall be the sum of the income statements of the two integrated entities from the effective date of the transaction.

Mergers between cooperative credit banks belonging to the Group

With effect from 1 January 2020, the merger by incorporation of Cassa Rurale di Lavis (incorporated) into Cassa Rurale di Trento (incorporating) was implemented. From the accounting point of view, since this is a business combination between entities under common control, the transaction is excluded from the scope of IFRS 3 and therefore recognised on a going concern basis.

Section 3 - Retrospective adjustments

No adjustments relating to business combinations were recorded during the year.

PART H - Transactions with related parties

The Cassa Centrale Group, in compliance with the procedures provided for by sector regulations, has adopted the Group Regulation for the management of transactions with related parties.

The aforementioned Regulation, which takes into account the provisions of Bank of Italy Circular no. 263 of 27 December 2006 and subsequent updates, is intended to govern the identification, approval and execution of transactions with related parties carried out by the Group, as well as the organisational structure and internal control system that the Group uses in order to preserve the integrity of decision-making processes in transactions with related parties, ensuring constant compliance with the prudential limits and decision-making procedures established by the aforementioned Bank of Italy Circular.

For more strictly accounting purposes, the provisions of IAS 24 - Related party disclosures also apply; under the Cassa Centrale Group's internal regulations, the following are identified as related parties:

Natural persons:

- executives with strategic responsibilities (including Directors) of the entity preparing the financial statements:
  - executives with strategic responsibilities are those which retain powers and responsibilities, directly or indirectly, pertaining to the planning, management and control of the Company's activities;
- the immediate family members of "executives with strategic responsibilities":
  - close family members of a person are those family members who are expected to influence, or be influenced by, that person in their dealings with the entity, including:
    - the children and the spouse (even if legally separated) or cohabitant of that person;
    - the children of that person's spouse or cohabitant;
    - the dependants of that person or of that person's spouse or cohabitant;
    - the brothers, sisters, parents, grandparents and grandchildren - even if not living together - of that person;
- person who has significant influence over the entity preparing the financial statements.

Legal persons:

- entity who has significant influence over the entity preparing the financial statements;
- entity over which a person identified in the previous paragraph (natural persons) has significant influence or is one of the executives with strategic responsibilities of the same (or one of its parent companies);

- entity that has control or joint control over the entity which drafts the financial statements;
- entity controlled or jointly controlled by one of the entities referred to in the previous point (natural persons);
- the companies/BCC belonging to the Cassa Centrale Group (controlled and directly and/or indirectly jointly controlled);
- associates and joint ventures and their subsidiaries;
- entity that is part of a joint venture of another entity and the entity that prepares the financial statements is an associate of the other entity;
- plan of benefits relative to the post-employment period for employees of the Group or a related entity.

1. Information on compensation of executives with strategic responsibilities

Executives with strategic responsibilities are those which retain powers and responsibilities, directly or indirectly, pertaining to the planning, management and control of the Company's activities.

The following table shows, in accordance with the requirements of IAS 24 para. 17, the amount of compensation paid during the year to the members of the Management and Control Bodies as well as the compensation relating to other Executives with strategic responsibilities that fall within the notion of related party.

	MANAGEMENT BODIES		CONTROL BODIES		OTHER MANAGERS		TOTAL AS AT 31/12/2019	
	Amount pertinent	Amount paid	Amount pertinent	Amount paid	Amount pertinent	Amount paid	Amount pertinent	Amount paid
Salaries and other short-term benefits	19	18	7	7	34	34	60	59
Benefits relative to the post-employment period (social security, insurance, etc.)	1	1	-	-	7	6	8	7
Other long-term benefits	-	-	-	-	1	1	1	1
Compensation for termination of employment	-	-	-	-	2	1	2	1
Payments in shares	-	-	-	-	-	-	-	-
Total	**20**	**19**	**7**	**7**	**44**	**42**	**71**	**68**

2. Information on transactions with related parties

The table below provides information on the statement of financial position and income statement transactions with related parties during the period. It should be noted that transactions with related parties consolidated on a line-by-line basis are not included in this disclosure, as they are eliminated at consolidated level.

	Assets	Liabilities	Guarantees issued	Guarantees received	Revenues	Costs
Associates	90	53	2	18	13	21
Directors and Executives	114	130	21	137	1	8
Other related parties	282	396	74	329	72	23
Total	**486**	**579**	**97**	**484**	**86**	**52**

It should be noted that "Other related parties" include the close relatives of Directors, Statutory Auditors and other Executives with strategic responsibilities, as well as subsidiaries, joint ventures and associates of the same parties or their close relatives.

Relations and transactions implemented with related parties relate to ordinary credit and service activities, they are normally developed during the year according to the needs or benefits of the parties, in the common interest of the parties. The conditions applied to individual relationships and transactions with such counterparties do not differ from current market conditions, or are aligned, if the conditions are met, with the conditions applied to employees.

Transactions with related parties do not have a significant incidence on the financial situation, economic result and cash flows of the Group.

PART I - Payment agreements based on own equity instruments

This section is not filled in given that the Group has not entered into any payment agreements based on own equity instruments.

PART L - Segment reporting

Since the Group is not listed nor is an issuer of widely distributed securities, it is not required to complete the segment reporting pursuant to IFRS 8.

PART M - Information on leasing

Section 1 - Lessee

Qualitative information

With reference to the qualitative aspects of the first-time adoption of IFRS 16, reference should be made to the paragraph "Transition to IFRS 16" included in Part A - Accounting Policies, Section 5 - Other matters, a) Newly applied accounting standards in 2019" of these Explanatory Notes.

Quantitative information

All the quantitative information relating to the rights of use acquired through lease, payables for leases and the related income statement components have already been presented in other sections of these Explanatory Notes.

Specifically:

- information on rights of use acquired through lease is provided in Part B - Information on the consolidated statement of financial position, Assets, section 9 - Tangible assets and section 10 - Intangible assets;
- information on payables for leases is provided in Part B - Information on the consolidated statement of financial position, Liabilities, Section 1 - Financial liabilities measured at amortised cost;
- the information on interest expense on payables for leases and other charges related to rights of use acquired through lease, profits and losses deriving from sale and leaseback transactions and income deriving from sub-lease transactions, can be found in Part C - Information on the consolidated income statement, in the respective sections.

Reference is therefore made to the considerations set out in the aforementioned information parts.

As at 31 December 2019, there were no commitments formally undertaken by the Group on lease contracts not yet entered into, considered significant.

With reference to the costs relating to short-term leases, accounted for in accordance with paragraph 6 of IFRS 16, reference should be made to Part C - Information on the income statement.

Section 2 - Lessor

Qualitative information

The leasing activities carried out within the Group are mainly provided by Claris Leasing S.p.A.; the latter, as lessor, carries out leasing activities exclusively of a financial nature.

The credit risk to which the company is exposed in the granting of finance lease transactions is, due to the nature of the transaction carried out, mitigated by the presence of the asset of which the lessor retains ownership until the final purchase option is exercised.

However, for greater protection and in correlation with the economic, equity and financial structure of the customer, guarantees ancillary to the main obligation are frequently required, both of a real nature (in this case the pledge) and of a personal nature (in this case the surety); atypical guarantees are also collected, such as a commitment to take over or a commitment to repurchase.

Quantitative information

1. STATEMENT OF FINANCIAL POSITION AND INCOME STATEMENT INFORMATION

For information on the statement of financial position and income statement on financing for leases, please refer to the sections of the Explanatory Notes in the previous section.

2. FINANCE LEASE

2.1 Classification by time brackets of payments to be received and reconciliation with financing for leases recorded under assets

The following table shows the breakdown of payments to be received for leases by time brackets.

TIME BRACKETS	Total 31/12/2019
	Payments to be received for leases
Up to 1 year	123
From over 1 year to 2 years	88
From over 2 years to 3 years	76
From over 3 years to 4 years	68
From over 4 years to 5 years	59
Over 5 years	260
Total payments to be received for leases	**674**
TOTAL PAYMENTS TO BE RECEIVED FOR LEASES	
Financial income not accrued (-)	69
Residual value not guaranteed (-)	-
Financing for leases	**605**

2.2 Other information

There is no further information to be provided in this section.

3. OPERATING LEASE

As at the reporting date, there were no such circumstances. This subsection does not contain any evaluation and is therefore omitted.

Annexes to the financial statements of the Cassa Centrale Group

Annex A) Audit and non-audit fees

Type of services	Fees (EUR million)
Auditing	3.7
Certification services	0.3
Other services	0.3
Total	**4.3**

It should be noted that the fees indicated do not include VAT and out-of-pocket expenses, while they include any balance of audit expenses relating to the 2018 financial statements.

03

Cassa Centrale Banca report and financial statements

Cassa Centrale Banca report on operations

Operating performance of Cassa Centrale Banca

Performance indicators

The main performance and risk indicators for the year ended 31 December 2019 are shown below.

	31/12/2019	31/12/2018	% change
STRUCTURAL RATIOS			
Loans to customers* / Total assets	13.9%	15.2%	(8.6%)
Direct funding / Total assets	27.3%	39.9%	(31.6%)
Equity / Total assets	13.2%	15.9%	(17.0%)
Net loans / Direct funding	50.7%	38.0%	33.4%
Loans to banks / Total Assets	38.0%	28.9%	31.5%
Financial assets / Total assets	40.3%	47.1%	(14.4%)
PROFITABILITY RATIOS			
Net profit / Equity (ROE)	2.7%	2.9%	(6.9%)
Net profit / Total assets (ROA)	0.4%	0.5%	(20.0%)
Cost / Income*	70.9%	63.6%	11.5%
Interest margin / Net interest and other banking income	21.7%	18.1%	19.9%
Net commissions / Net interest and other banking income	53.2%	55.5%	(4.1%)
Net interest and other banking income / Total assets	1.7%	1.7%	0.0%

* Loans to customers include loans and advances to customers at amortised cost and fair value, thus differing from the exposures to customers shown in the financial statements.
** Indicator calculated as the ratio of operating costs to net interest and other banking income.

Loans to banks account for about 38% of Cassa Centrale Banca's assets. The high proportion of total assets reflects the Parent Company's typical business, which turns to the interbank market through treasury operations in order to carry out brokerage activities on behalf of the subsidiary banks.

Financial assets accounted for 40.3% of total assets, down from 2018. Loans to customers amount to 13.9%, highlighting the particular role played by Cassa Centrale Banca, which operates mainly with affiliated Banks.

The ratio of net loans to direct funding from customers at the end of 2019 was 50.7%. The latter accounts for 27.3% of total assets, confirming the high proportion of loans to banks and the securities component in the composition of Cassa Centrale Banca's assets.

Cassa Centrale Banca has a high level of solidity thanks to shareholders' equity which represents 13.2% of assets.

Looking at profitability ratios, ROE stood at 2.7% (slightly down from 2.9% in 2018), while ROA [16], calculated as the ratio of net profits to the financial statements total, was 0.4%.

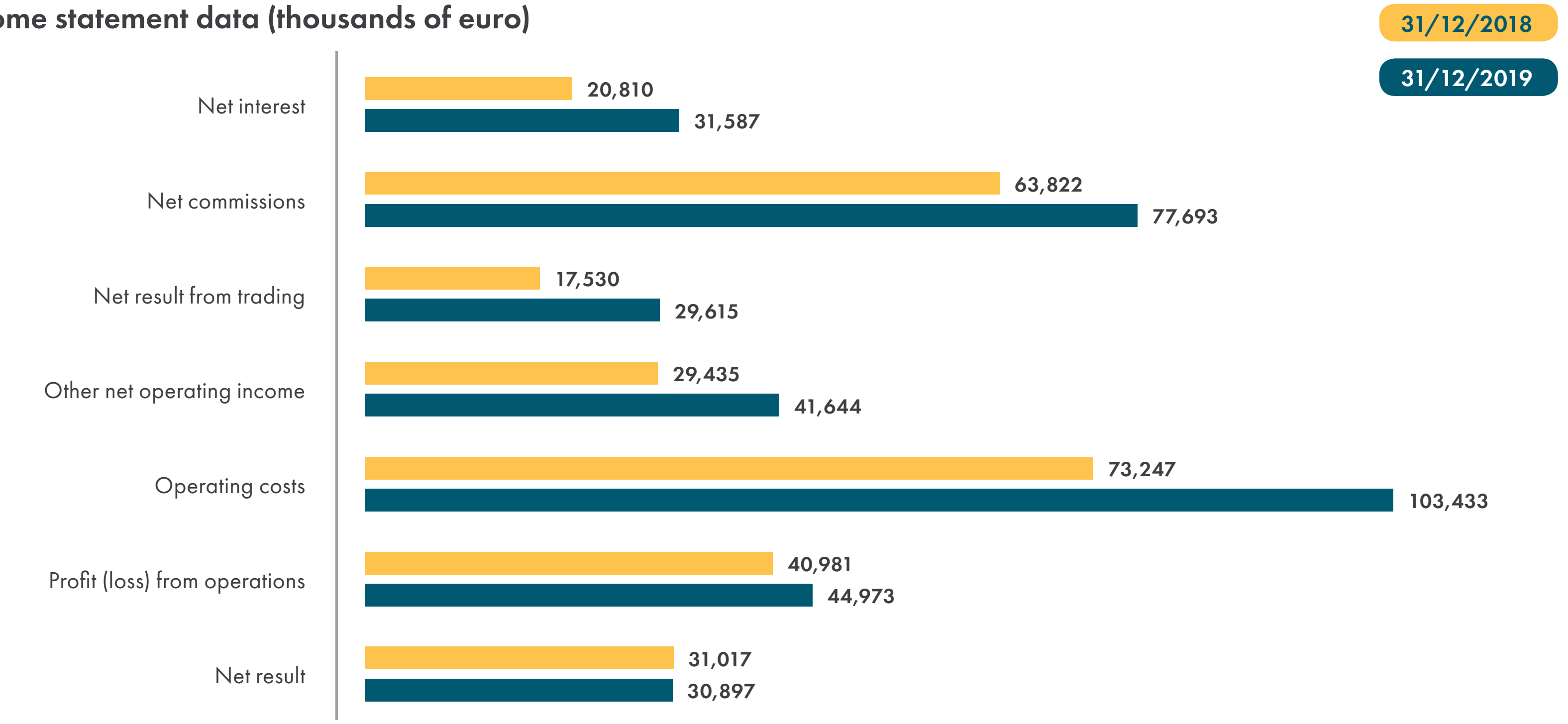
The ratio of net commissions to net interest and other banking income, 53.2%, was substantially in line with last year, confirming that margins from services remains an important revenue item. The ratio of net interest and other banking income to total assets also remained stable at around 1.7%.

[16] The ROA is calculated in accordance with Directive (EU) no. 36/2013 (the so-called CRD IV).

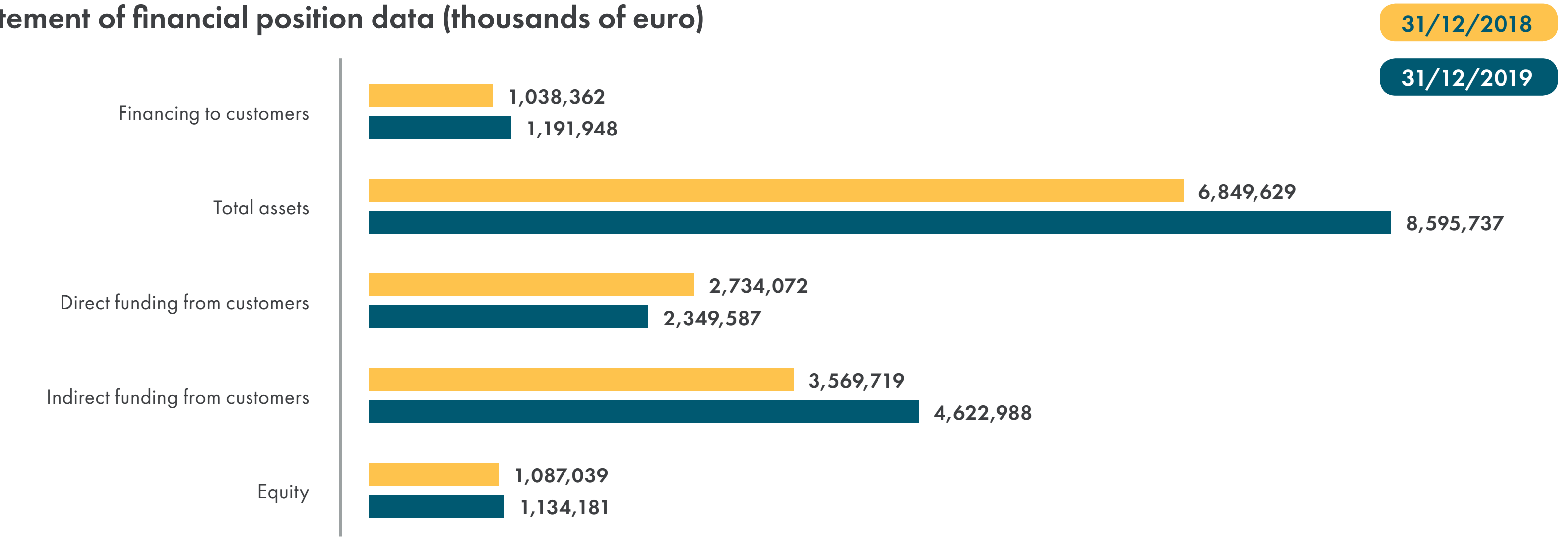
Summary of results

A graphic representation of the results of the main items in the income statement and statement of financial position is provided below. Please refer to the specific sections for details of individual items.

Income statement data (thousands of euro)



Statement of financial position data (thousands of euro)



Economic results

Reclassified income statement [17]

(Figures in thousands of euro)	31/12/2019	31/12/2018	Change	% change
Interest margin	**31,587**	**20,810**	**10,777**	**51.8%**
Net commissions	77,693	63,822	13,871	21.7%
Dividends	7,030	12,938	(5,908)	(45.7%)
Net trading revenues	29,615	17,530	12,085	68.9%
Net interest and other banking income	**145,925**	**115,100**	**30,825**	**26.8%**
Net value adjustments/write-backs	932	(897)	1,829	n.s.
Income from financial activities	**146,857**	**114,203**	**32,654**	**28.6%**
Operating charges*	(140,941)	(95,996)	(44,945)	46.8%
Net allocations to provisions for risks and charges	2,895	6,252	(3,357)	(53.7%)
Other income (charges)	34,613	16,497	18,116	109.8%
Profit (loss) from disposal of investments and equity investments	1,548	25	1,523	n.s.
Gross current result	**44,973**	**40,981**	**3,992**	**9.7%**
Income tax	(14,076)	(9,965)	(4,112)	41.3%
Net result	**30,897**	**31,017**	**(120)**	**(0.4%)**

* This item includes personnel costs, other administrative expenses and operating amortisation/depreciation.

As at 31 December 2019, Cassa Centrale Banca's net interest and other banking income amounted to approximately EUR 145.9 million, an increase of EUR 30.8 million compared to 2018. The growth in net interest and other banking income, supported by the interest margin, net commissions and other income, made it possible to offset the increase in operating charges linked to the strengthening of internal controls and consequent to the formation of the Group.

The gross current result of approximately EUR 45 million, up 10% from EUR 41 million in 2018, was affected by operating charges, which were mainly affected by personnel costs and other administrative expenses.

Income tax increased by EUR 4.1 million to EUR 14 million at the end of 2019, an increase of 41.3%.

The net result for the year amounted to EUR 30.9 million and was substantially stable compared to the results for 2018.

[17] In order to provide a better management representation of the results, the reclassified income statement figures differ from the layouts of the Bank of Italy.

Interest margin

(Figures in thousands of euro)	31/12/2019	31/12/2018	Change	% change
Financial assets measured at amortised cost not comprising loans	8,180	6,755	1,425	21.1%
Other financial assets and liabilities measured at FVTPL	(171)	(181)	10	(5.5%)
Other financial assets measured at FVOCI	4,140	5,177	(1,037)	(20.0%)
Financial instruments	**12,150**	**11,751**	**399**	**3.4%**
Net interest to customers (loans)	12,999	7,990	5,009	62.7%
Debt securities in issue	(300)	(300)	(0)	0.0%
Customer relations	**12,699**	**7,690**	**5,009**	**65.1%**
Net interest to banks	**524**	**(1,186)**	**1,710**	**(144.2%)**
Other net interest	**6,214**	**2,555**	**3,659**	**143.2%**
Total net interest margin	**31,587**	**20,810**	**10,777**	**51.8%**

The interest margin at the end of December 2019 amounted to EUR 31.6 million, an increase of approximately EUR 10.8 million and a contribution to net interest and other banking income of 21.6%.

The aggregate interest margin for Cassa Centrale Banca, represents a significant revenue item attributable to income flows linked to financial instruments in portfolio for EUR 12.1 million and to net interest from banking activities with customers (amounting to EUR 13 million), up by 63% compared to EUR 8 million in 2018, due to the dynamics of development of the credit granted to customers. The other net interest item, in 2019, amounted to EUR 6.2 million and includes the management reclassification of net interest relating to the Parent Company's relations with Cassa di Compensazione e Garanzia.

Net commissions

(Figures in thousands of euro)	31/12/2019	31/12/2018	Change	% change
Commission income	**148,429**	**127,937**	**20,493**	**16.0%**
Management, trading and consulting services	68,783	64,893	3,889	6.0%
Collection and payment services	21,673	20,231	1,441	7.1%
Current account maintenance and management	143	146	(3)	(2.1%)
Guarantees issued	369	369	0	0.0%
Other banking services	57,461	42,296	15,165	35.9%
Commission expenses	**(70,736)**	**(64,115)**	**(6,622)**	**10.3%**
Guarantees received	(58)	(39)	(19)	48.7%
Management and trading services	(39,043)	(39,301)	258	(0.7%)
Collection and payment services	(3,653)	(2,760)	(893)	32.4%
Other banking services	(27,982)	(22,016)	(5,966)	27.1%
Total net commissions	**77,693**	**63,822**	**13,871**	**21.7%**

In December 2019, net commissions represent the main revenue item for Cassa Centrale Banca, contributing 53.2% to net interest and other banking income, confirming the Parent Company's operations focused on the provision of services to support its affiliated Banks and other client banks. Net commissions amounted to approximately EUR 77.7 million, an increase of EUR 13.9 million compared to last year.

More specifically, the commission income component, amounting to approximately EUR 148.4 million, consisted of 46% of income from trading and consulting services (EUR 68.8 million), which confirms the strong focus of Cassa Centrale Banca in the provision of specific services, 25% for services in the monetary field (EUR 36.8 million) included within the "other banking services" item and 15% for collection and payment services (EUR 21.7 million).

Management and consulting services, collections and payment and e-money, represent the components that have contributed most to the annual growth of the aggregate.

Total commission expenses amounted to EUR 70.7 million, with an annual increase of approximately EUR 6.6 million, mainly due to e-money services included in the item "other banking services" (EUR 5.7 million) and collection and payment (EUR 893 thousand) for which Cassa Centrale Banca acts as intermediary between affiliated Banks and external companies.

Net result from financial operations

(Figures in thousands of euro)	31/12/2019	31/12/2018	Change	% change
Financial assets and liabilities held for trading	3,177	2,197	980	44.6%
- Equities	*281*	*(563)*	*844*	*(149.9%)*
- Debt securities	*(11)*	*15*	*(25)*	*n.s.*
- Derivative instruments	*3,434*	*4,424*	*(990)*	*(22.4%)*
- Other	*(527)*	*(1,679)*	*1,152*	*(68.6%)*
Net result from the sale of financial assets and liabilities	19,726	14,920	4,806	32.2%
Dividends and similar income	7,030	12,938	(5,908)	(45.7%)
Net change in value of other financial assets and liabilities	6,712	413	6,299	n.s.
Total result from financial operations	**36,645**	**30,468**	**6,177**	**20.3%**

In December 2019, the result of financial operations amounted to approximately EUR 36.6 million, with an annual increase of 20.3% or approximately EUR 6.2 million, and represents an important revenue dynamic for Cassa Centrale Banca contributing 25.1% to net interest and other banking income. The item consists of income from trading in securities held in portfolio amounting to approximately EUR 3.2 million, but above all of net profit on the disposal of financial assets totalling EUR 19.7 million, an increase of approximately EUR 4.8 million compared to 2018. This item also includes the net result of the sale of non-performing portfolios during the year as part of the Group's strategies to reduce impaired assets.

Dividends from investments in Group Companies contributed significantly, totalling EUR 7 million (although down from 2018), while the net change in value of other financial assets and liabilities at fair value contributed EUR 6.7 million.

Operating costs

(Figures in thousands of euro)	31/12/2019	31/12/2018	Change	% change
Administrative expenses	(137,879)	(94,124)	(43,755)	46.5%
- personnel costs	*(45,280)*	*(28,683)*	*(16,597)*	*57.9%*
- other administrative expenses	*(92,599)*	*(65,441)*	*(27,157)*	*41.5%*
Operating amortisation/depreciation	(3,062)	(1,872)	(1,190)	63.6%
Other net provisions (excluding credit risk adjustments)	2,895	6,252	(3,357)	(53.7%)
- of which on commitments and guarantees	*2,691*	*7,142*	*(4,451)*	*(62.3%)*
Other operating charges/income	34,613	16,497	18,116	109.8%
Total operating costs	**(103,433)**	**(73,247)**	**(30,186)**	**41.2%**

Operating costs amounted to EUR 103.4 million and increased by approximately EUR 30.2 million compared to the previous year. The increase mainly reflects the strengthening of the Bank's structures following the formation of the Group. The amount of the item is mainly attributable to personnel costs amounting to EUR 45.3 million, an increase of approximately 58% compared to EUR 28.7 million in 2018, due above all to the significant growth in the number of employees, amounting to 90 on an annual basis (130 in terms of FTE, also taking into account the changes in staff numbers). At the end of the year, the value of personnel costs was also affected by (i) the increase deriving from the renewal of the national collective labour agreement for the category, which had economic effects as from January 2019, for an annual total of approximately EUR 846 thousand, (ii) the increase in costs related to personnel costs (per diems, expense reimbursements, overtime, training, etc.) for a further EUR 876 thousand and (iii) extraordinary items relating to provisions for leaving incentives of EUR 2.6 million.

Administrative expenses amounted to EUR 92.6 million and increased year-on-year by approximately EUR 27.2 million. For the latter, the growth is mainly linked to IT consulting and development costs aimed at strengthening Cassa Centrale Banca's controls during the delicate start-up phase of the Group, to be considered - for the most part - non-recurring.

As at 31 December 2019, operating amortisation and depreciation amounted to EUR 3.1 million, up by approximately EUR 1.2 million compared to 2018, while other net provisions, which mainly include adjustments and any reversals of provisions set aside for commitments and margins, amounted to EUR 2.9 million.

Other operating income and charges, amounting to EUR 34.6 million, include recoveries of taxes and expenses relating to ordinary operations and recoveries of costs for the outsourcing of control functions by the affiliated Banks to the Parent Company.

As at 31 December 2019, the cost income of Cassa Centrale Banca, calculated as the ratio of operating costs to net interest and other banking income, stood at 70.9%, reflecting the aforementioned cost dynamics also resulting from the Group's start-up phase.

Value adjustments

(Figures in thousands of euro)	31/12/2019	31/12/2018	Change	% change
Loans to customers	(1,955)	4,319	(6,274)	(145.3%)
- of which write-offs	*(107)*	*(175)*	*68*	*38.9%*
Loans to banks	1,679	(3,767)	5,446	144.6%
OCI debt securities	1,226	(1,477)	2,703	n.s.
Contractual changes without derecognitions	(18)	27	(46)	n.s.
(Value adjustments)/write-backs	**932**	**(897)**	**1,829**	**n.s.**

In 2019, write-backs of EUR 932 thousand were recorded for Cassa Centrale Banca, compared to net adjustments of EUR 897 thousand recorded in 2018. These write-backs include adjustments to loans to customers of approximately EUR 2 million, and write-backs on debt securities and loans to banks of EUR 2.9 million.

Financial position aggregates

Reclassified statement of financial position [18]

(Figures in thousands of euro)	31/12/2019	31/12/2018	Change	% change
ASSETS				
Cash and cash equivalents	151,003	123,873	27,130	21.9%
Exposures to banks	3,267,894	1,977,027	1,290,867	65.3%
Exposures to customers	1,191,948	1,038,362	153,586	14.8%
of which at fair value	*24,388*	*21,001*	*3,388*	*16.1%*
Financial assets	3,462,522	3,225,440	237,081	7.4%
Equity investments	240,739	207,586	33,153	16.0%
Tangible and intangible assets	23,842	14,943	8,899	59.6%
Tax assets	27,339	37,657	(10,317)	(27.4%)
Other asset items	230,452	224,741	5,711	2.5%
Total assets	**8,595,737**	**6,849,629**	**1,746,109**	**25.5%**
LIABILITIES				
Due to banks	4,711,196	2,588,730	2,122,466	82.0%
Direct funding	2,349,587	2,734,072	(384,485)	(14.1%)
- Due to customers	*2,339,500*	*2,723,984*	*(384,484)*	*(14.1%)*
- Debt securities in issue	*10,087*	*10,088*	*(0)*	*0%*
Other financial liabilities	27,449	21,046	6,404	30.4%
Provisions (Risks, charges and personnel)	19,498	23,429	(3,931)	(16.8%)
Tax liabilities	2,186	6,778	(4,592)	(67.7%)
Other liability items	351,639	388,535	(36,896)	(9.5%)
Total liabilities	**7,461,556**	**5,762,590**	**1,698,966**	**29.5%**
Equity	1,134,181	1,087,039	47,142	4.3%
Total liabilities and equity	**8,595,737**	**6,849,629**	**1,746,109**	**25.5%**

[18] In order to provide a better management representation of the results, the reclassified statement of financial position figures differ from the layouts of the Bank of Italy.

As at 31 December 2019, Cassa Centrale Banca's total assets amounted to EUR 8.6 billion, an increase of approximately EUR 1.75 billion compared to the previous year. The total amount consisted mainly of exposures to banks (EUR 3.3 billion) which increased by approximately EUR 1.3 billion year-on-year and financial assets totalling EUR 3.5 billion. The growth in exposures to banks (+65% compared to last year) is to be seen in relation to the completion of the transfer of the operations of the affiliated Banks from the intermediaries with which they operated prior to the creation of the Group. Exposures to customers amounted to EUR 1.2 billion, an increase of EUR 154 million compared to 2018.

Liabilities, on the other hand, consist mainly of amounts due to banks of EUR 4.7 billion, up by EUR 2.6 billion compared to 2018, and direct funding of EUR 2.3 billion, down by EUR 384 million compared to 2018.

Equity, including profit for the period, amounts to EUR 1.1 billion.

Total customer funding

(Figures in thousands of euro)	31/12/2019	31/12/2018	Change	% change
Current accounts and deposits on demand	497,048	372,929	124,118	33.3%
Fixed-term deposits	35,220	35,943	(723)	(2.0%)
Repos and securities lending	1,494,266	2,041,813	(547,546)	(26.8%)
Bonds	10,087	10,088	(0)	0%
Other funding	312,966	273,300	39,666	14.5%
Direct funding	**2,349,587**	**2,734,072**	**(384,485)**	**(14.1%)**

The total amount of direct funding from customers at the end of the year amounted to EUR 2.3 billion and consisted mainly of repos with Cassa di Compensazione e Garanzia with a value of EUR 1.5 billion. Current accounts and deposits on demand amounted to EUR 497 million as at 31 December 2019, up by approximately EUR 124 million compared to 2018, representing 21% of direct funding.

(Figures in thousands of euro)	31/12/2019	31/12/2018	Change	% change
Assets under management	**1,965,983**	**1,380,596**	**585,386**	**42.4%**
Mutual funds and SICAVs	112,044	119,872	(7,828)	(6.5%)
Asset management	1,846,431	1,254,301	592,130	47.2%
Banking-insurance products	7,508	6,424	1,084	16.9%
Assets under administration	**2,657,005**	**2,189,123**	**467,883**	**21.4%**
Bonds	2,242,695	1,977,387	265,307	13.4%
Shares	414,311	211,735	202,575	95.7%
Indirect funding*	**4,622,988**	**3,569,719**	**1,053,269**	**29.5%**

* Indirect funding is expressed at market values.

Indirect funding of Cassa Centrale Banca [19] amounted to approximately EUR 4.6 billion at the end of 2019, 43% of which was represented by assets under management, amounting to approximately EUR 2 billion. Assets under administration amounted to EUR 2.6 billion and represent 57% of volumes.

Total funding from Cassa Centrale Banca customers amounted to approximately EUR 7 billion, an increase of 11% compared to EUR 6.3 billion in 2018, of which approximately 34% was composed of direct funding and approximately 66% of indirect funding.

% COMPOSITION OF CUSTOMER FUNDING	31/12/2019	31/12/2018	% change
Direct funding	34%	43%	(22.4%)
Indirect funding	66%	57%	17.1%

Net loans to customers

(Figures in thousands of euro)	31/12/2019	31/12/2018	Change	% change
Loans at amortised cost	**1,167,560**	**1,017,361**	**150,198**	**14.8%**
Mortgage loans	602,315	827,437	(225,122)	(27.2%)
Current accounts	53,997	40,320	13,677	33.9%
Other loans	495,264	128,769	366,495	n.s.
Impaired assets	15,984	20,836	(4,852)	(23.3%)
Loans at fair value	**24,388**	**21,001**	**3,388**	**16.1%**
Total net loans to customers	**1,191,948**	**1,038,362**	**153,586**	**14.8%**

Net loans to customers at the end of the year totalled EUR 1.2 billion and consisted of mortgages of approximately EUR 602 million and other loans of approximately EUR 495 million. The other loans item includes an exposure of approximately EUR 370 million to the subsidiary Claris Leasing S.p.A. and approximately EUR 130 million to Cassa di Compensazione e Garanzia. In 2018, the loan to Claris Leasing S.p.A., amounting to EUR 381.1 million, was included in the mortgages item, which explains the decrease in this item compared to the previous year. The ratio has been reallocated to other loans as a result of a change in its technical form. Reclassifying this component again in 2018, in line with the 2019 exposure, mortgages would show an annual growth of 35%, equal to approximately EUR 156 million, while other loans would decrease by EUR 14.6 million.

Credit quality

Cassa Centrale Banca adopts an extremely rigorous policy in the valuation of impaired loans. Loans granted to customers are the main sources of credit risk for Cassa Centrale Banca and require precise control and monitoring. A summary by degree of risk relating to loans to customers is provided below.

[19] The indirect funding represented refers to the component placed by Cassa Centrale Banca directly with customers and does not include the component placed through banks.

Cash assets to customers

(Figures in thousands of euro)	31/12/19			
	Gross exposure	Total value adjustments	Net exposure	Coverage
Impaired exposures at amortised cost	52,949	(36,965)	15,984	69.8%
- Non-performing	*24,689*	*(21,785)*	*2,904*	*88.2%*
- Unlikely to pay	*27,477*	*(14,712)*	*12,765*	*53.5%*
- Overdue/past due	*783*	*(468)*	*315*	*59.8%*
Non-impaired exposures at amortised cost	1,158,024	(6,449)	1,151,575	0.6%
Total cash assets to customers at amortised cost	**1,210,973**	**(43,414)**	**1,167,559**	**3.6%**
Impaired exposures at fair value	197	-	197	0.0%
Non-impaired exposures at fair value	24,191	-	24,191	0.0%
Total cash assets to customers at fair value	**24,388**	**-**	**24,388**	**0.0%**
Total cash assets to customers	**1,235,361**	**(43,414)**	**1,191,948**	**3.5%**

(Figures in thousands of euro)	31/12/18			
	Gross exposure	Total value adjustments	Net exposure	Coverage
Impaired exposures at amortised cost	74,466	(53,630)	20,836	72.0%
- Non-performing	*42,772*	*(35,922)*	*6,849*	*84.0%*
- Unlikely to pay	*31,694*	*(17,708)*	*13,987*	*55.9%*
- Overdue/past due	-	-	-	-
Non-impaired exposures at amortised cost	998,779	(2,253)	996,525	0.2%
Total cash assets to customers at amortised cost	**1,073,244**	**(55,883)**	**1,017,361**	**5.2%**
Impaired exposures at fair value	193	-	193	0.0%
Non-impaired exposures at fair value	20,808	-	20,808	0.0%
Total cash assets to customers at fair value	**21,001**	**-**	**21,001**	**0.0%**
Total cash assets to customers	**1,094,245**	**(55,883)**	**1,038,362**	**5.1%**

As at 31 December 2019, Cassa Centrale Banca's net non-impaired exposures amounted to approximately EUR 1.18 billion, an increase of approximately EUR 158 million compared to the previous year. They account for over 98% of Cassa Centrale Banca's net cash assets to customers.

Total net impaired loans amounted to approximately EUR 16 million, down compared to the previous year, non-performing loans amounted to approximately EUR 2.9 million and had a coverage level of 88%, while unlikely to pay, net of adjustments, amounted to EUR 12.8 million, down compared to 2018.

The table below shows the main risk [20] management indicators.

RISK MANAGEMENT RATIOS	31/12/2019	31/12/2018
NPL ratio	4.3%	6.8%
Coverage NPL	69.6%	72.0%

With regard to asset quality, as at 31 December 2019, Cassa Centrale Banca's NPL ratio was 4.3%, a level of absolute virtuosity in the presence of a positive evolutionary trend.

The overall level of coverage of impaired loans is 69.6%, one of the highest on the Italian banking market.

[20] The NPL ratio is calculated as the ratio of gross impaired loans to total gross loans to customers (given the importance of the loans to banks component for Cassa Centrale Banca, it was considered appropriate to exclude this item from the calculation of the index), while the NPL coverage is calculated on the basis of the EBA data model (EBA methodological guidance on risk indicators, last updated March 2019). In calculating the NPL ratio on the basis of the EBA data model, the value of the index for 2019 would be 1.2% and for 2018, 2.4%.

Composition of financial instruments

(Figures in thousands of euro)	31/12/2019	31/12/2018	Change	% change
SECURITIES PORTFOLIO				
Trading book assets (FVTPL)	59,518	55,538	3,980	7.2%
Financial liabilities	(3,286)	(9,449)	6,163	(65.2%)
Banking book assets (FVOCI)	999,072	1,808,715	(809,643)	(44.8%)
Financial fixed assets excluding loans (CA)	2,378,896	1,348,827	1,030,069	76.4%
Total securities portfolio	**3,434,199**	**3,203,630**	**230,569**	**7.2%**
DERIVATIVES PORTFOLIO				
Trading assets (FVTPL)	25,036	12,361	12,675	102.5%
Trading liabilities (FVTPL)	(24,163)	(11,597)	(12,566)	108.4%
Total derivatives portfolio	**873**	**764**	**109**	**14.3%**
TOTAL FINANCIAL INSTRUMENTS	**3,435,072**	**3,204,394**	**230,678**	**7.2%**

As at 31 December 2019, total financial instruments amounted to EUR 3.4 billion (up 7% from EUR 3.2 billion in 2018). In terms of allocation to business models, the securities portfolio was managed during the year with the objective of maintaining a 70% share of the total value of the portfolio in financial instruments allocated to the Hold to Collect business model.

The OTC derivatives activity is mainly aimed at hedging the interest rate risk of the Group's banking book. As a result, the almost symmetrical increase in trading assets and liabilities in the derivatives portfolio is representative of market trading in hedging transactions carried out by Cassa Centrale Banca for its affiliated Banks and, to a lesser extent, in favour of other client banks.

Financial assets

(Figures in thousands of euro)	31/12/2019	31/12/2018	Change	% change
Debt securities	**3,282,023**	**3,105,792**	**176,231**	**5.7%**
- Mandatorily measured at fair value (FVTPL)	41	-	41	100.0%
- Measured at fair value (FVTPL)	3,187	3,098	89	2.9%
- Measured at fair value through other comprehensive income (FVOCI)	899,899	1,753,867	(853,968)	(48.7%)
- Measured at amortised cost (AC)	2,378,896	1,348,827	1,030,069	76.4%
Equities	**99,508**	**58,156**	**41,352**	**71.1%**
- Held for trading (FVTPL)	-	3,309	(3,309)	(100.0%)
- Mandatorily measured at fair value (FVTPL)	335	-	335	100.0%
- Measured at fair value through other comprehensive income (FVOCI)	99,173	54,847	44,326	80.8%
UCITS units	**55,955**	**49,131**	**6,824**	**13.9%**
- Mandatorily measured at fair value (FVTPL)	55,955	49,131	6,824	13.9%
Total financial assets	**3,437,485**	**3,213,079**	**224,406**	**7.0%**

At the end of December 2019, financial assets amounted to EUR 3.4 billion, an increase of EUR 224 million compared to 2018, and consisted mainly of debt securities (95%). The latter are mainly government bonds of euro area countries or supranational issuers.

Exposure to the banking system: net financial position

(Figures in thousands of euro)	31/12/2019	31/12/2018	Change	% change
Loans to central banks	455,354	173,126	282,228	n.s.
Loans to other banks	2,812,540	1,803,901	1,008,639	55.9%
- Current accounts and deposits on demand	*68,196*	*78,906*	*(10,710)*	*(13.6%)*
- Fixed-term deposits	*134,617*	*116,909*	*17,708*	*15.1%*
- Other financing	*2,609,727*	*1,608,085*	*1,001,642*	*62.3%*
Total loans (A)	**3,267,894**	**1,977,027**	**1,290,867**	**65.3%**
Due to central banks	(675,269)	(297,177)	(378,092)	127.2%
Due to other banks	(4,035,927)	(2,291,553)	(1,744,374)	76.1%
- Current accounts and deposits on demand	*(2,461,354)*	*(1,433,194)*	*(1,028,160)*	*71.7%*
- Fixed-term deposits	*(1,104,401)*	*(812,588)*	*(291,813)*	*35.9%*
- Repos	*(468,809)*	*(45,770)*	*(423,039)*	*n.s.*
- Other financing	*(1,363)*	*-*	*(1,363)*	*100.0%*
Total payables (B)	**(4,711,196)**	**(2,588,730)**	**(2,122,466)**	**82.0%**
NET FINANCIAL POSITION (A-B)	**(1,443,303)**	**(611,703)**	**(831,600)**	**135.9%**

As at 31 December 2019, total loans to banks amounted to EUR 3.3 billion (an increase of 65% compared to approximately EUR 2 billion in 2018) and included EUR 455 million of liquidity held at the Bank of Italy. The main component (other loans) of loans to banks is represented by loans secured by ECB eligible securities offered to affiliated Banks and customers as part of the “Collateral Account” service, which is activated in order to broker the European Central Bank’s refinancing operations as well as on the Repo market. The EUR 1 billion increase in this item, from an intermediation point of view, is matched by an increase of EUR 801 million in due to central banks and due to other banks (repurchase agreements).

Fixed assets

(Figures in thousands of euro)	31/12/2019	31/12/2018	Change	% change
Equity investments	240,739	207,586	33,153	16.0%
Tangible	21,913	13,888	8,025	57.8%
Intangible	1,929	1,055	873	82.7%
Total fixed assets	**264,580**	**222,529**	**42,051**	**18.9%**

Fixed assets as at 31 December 2019 amounted to EUR 264.6 million, an increase of approximately EUR 42 million compared to 2018, and consisted mainly of equity investments of EUR 240.7 million, up by 16% compared to EUR 207.6 million in 2018 (Cassa Centrale Banca’s investments in the Group’s instrumental companies with a view to consolidation), and tangible assets, totalling EUR 21.9 million, which includes properties for functional use. Intangible assets refer mainly to user licenses and software.

Equity

(Figures in thousands of euro)	31/12/2019	31/12/2018	Change	% change
Share capital	952,032	952,032	-	0%
Share premium	19,029	19,029	-	0%
Reserves	131,293	101,324	29,969	29.6%
Valuation reserves	930	(16,363)	17,293	(105.7%)
Profit (loss) for the year	30,897	31,017	(120)	(0.4%)
Total equity	**1,134,181**	**1,087,039**	**47,142**	**4.3%**

Equity amounted to EUR 1.1 billion and increased by EUR 47 million compared to 2018, mainly due to the change in reserves.

Own funds and capital adequacy

Own funds and capital ratios

OWN FUNDS AND CAPITAL RATIOS	31/12/2019	31/12/2018
Common Equity Tier 1 capital - CET 1	1,109,179	1,025,604
Tier 1 capital - TIER 1	1,109,179	1,025,064
Total own funds - Total Capital	1,109,179	1,025,064
Total risk-weighted assets	1,788,037	1,407,952
CET1 Capital ratio (Common equity Tier 1 capital / Total risk-weighted assets)	62.03%	72.84%
Tier 1 Capital ratio (Tier 1 capital / Total risk-weighted assets)	62.03%	72.84%
Total Capital ratio (Total own funds/Total risk-weighted assets)	62.03%	72.84%

Risk Weighted Assets

(Figures in thousands of euro)	31/12/2019	31/12/2018	Change	% change
Credit and counterparty risk	1,420,141	1,088,507	331,634	30.5%
Credit valuation adjustment risk	32,933	15,749	17,184	109.1%
Market risk	119,066	144,473	(25,407)	(17.6%)
Operating risk	214,559	159,223	55,336	34.8%
Other prudential requirements	1,338	-	1,338	100.0%
Total RWA	**1,788,037**	**1,407,952**	**380,085**	**27.0%**

Own funds for prudential purposes are calculated on the basis of the capital and economic result determined in accordance with IAS/IFRS and the accounting policies adopted, and taking into account the prudential rules in force at the time.

In accordance with the above provisions, own funds derive from the sum of positive and negative components, based on their capital quality; the positive components are fully available to the Bank allowing them to be used in full to cover the overall regulatory capital requirements pertaining to risks.

Own funds as at 31 December 2019 totalled EUR 1,109 million and consisted almost entirely of Tier 1 capital.

At the end of December 2019, Common Equity Tier 1 - CET1, Tier 1 capital and total own funds (Total Capital), determined in application of the standards and references already mentioned, amounted to EUR 1,109 million. CET1 Capital ratio, Tier1 capital ratio and Total Capital ratio amounted to 62.03%.

Other information

Pursuant to Articles 37-bis of the *Testo Unico Bancario* (Consolidated Banking Act - TUB) and 2497 *et seq.* of the Italian Civil Code, Cassa Centrale Banca exercises management and coordination activities with regard to its direct and indirect subsidiaries, in application of Articles 23 of the TUB and 2359 of the Italian Civil Code, including companies that, under current prudential regulations, are not part of the Banking Group. It is also specified that the management and coordination activities of the affiliated Banks are carried out following the signing of the Cohesion Contract between Cassa Centrale Banca, as the Parent Company, and the affiliated Banks themselves; in particular, the Cohesion Contract defines the powers and duties of the Parent Company and the tasks and duties of the affiliated Banks.

This Report on Operations includes only comments on the results of operations of the Parent Company Cassa Centrale Banca. For all other information required by law and specific regulations, please refer to the Explanatory Notes to these separate financial statements, the Directors' Report on Consolidated Operations and the consolidated financial statements.

In particular, reference should be made to the Explanatory Notes to these separate financial statements for the following information:

- information relating to the Bank's operations and transactions with related parties (Part H - Transactions with related parties);
- the list of wholly-owned subsidiaries, jointly controlled and subject to significant influence (Part B, Assets, Section 7 - Equity investments);
- information on the ownership of own shares (Part B, Liabilities, Section 12 - Equity);
- information on events after the end of the financial year (Part A - Accounting policies);
- other information on assets (Part F - Information on equity);
- extraordinary transactions (Part G – Business combinations regarding companies or branches).

Reference should be made to the *Directors' Report on Consolidated Operations* of the Cassa Centrale Group for information on the following:

- economic context;
- significant events during the year;
- information on the Group's main strategic business areas;
- risk management;
- business continuity;
- research and development;
- other information;
- business outlook.

Proposed appropriation of the result for the year

Dear Shareholders,

We bring to your attention the financial statements for the year ended 31 December 2019 consisting of the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in equity, the cash flow statement and the explanatory notes, and the Report on Operations.

In accordance with the provisions of the Law and the Articles of Association, we propose to allocate the profit of EUR 30,896,867 as set out below:

DESTINATION ITEM	Figures in Euro
1. to legal reserve	1,544,844
2. to extraordinary reserve	14,750,000
3. to dividends in favour of shareholders	14,303,877
4. allocation to the Board of Directors	298,146

Trento, *29 April 2020*

The Board of Directors

Board of Statutory Auditors' Report

Board of Statutory Auditors' Report to the Shareholders' Meeting pursuant to Article 2429 of the Italian Civil Code

Dear Shareholders,

The Board of Statutory Auditors of Cassa Centrale Banca - Credito Cooperativo Italiano SpA (hereinafter also "Cassa Centrale" or the "Parent Company") took office on 28 May 2019, the date on which it was appointed by the Shareholders' Meeting for the three-year period 2019 - 2021.

With this report, drawn up in accordance with Article 2429 of the Civil Code, the Board of Statutory Auditors reports to the Shareholders' Meeting of Cassa Centrale on the supervisory activities carried out from the date of its establishment, in accordance with the relevant regulations, the Articles of Association and in compliance with the provisions issued by the National (Bank of Italy and Consob) and European (European Central Bank) Supervisory Authorities and also taking into account the Rules of Conduct of the Board of Statutory Auditors recommended by the National Board of Chartered Accountants (*Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili* - CNDCEC).
On 19 February 2019 Cassa Centrale was classified by the European Central Bank (ECB) as a "significant" supervised entity within the meaning of Article 6(4) of Council Regulation (EU) no. 1024/ 2013, which gives the ECB specific tasks regarding policies for the prudential supervision of credit institutions. In accordance with Regulation no. 468/2014 (ECB/2014/17), each entity that is part of the supervised cooperative banking group must be considered a significant supervised entity. For these reasons, the Parent Company and all entities that form part of the supervised Group have been included in the ECB list of supervised entities.

In this first year of activity, the Board of Statutory Auditors has been committed to verifying the overall process of consolidation of the organisational structure and the adaptation and homogenisation of the overall system of internal controls and risk management of Cassa Centrale, which is necessary in order to effectively carry out its role as Parent Company and therefore perform its duties of management and coordination of the Affiliated Banks and Subsidiaries. This includes the reorganisation and integration of the Group's IT and banking services into a single company, Phoenix Informatica Bancaria SpA (from 1 January 2020 - Allitude SpA), whose multiple projects to support the business and operating structures, implemented and in the process of being implemented, represent an essential element in the creation of an effective integrated control system at Group level.

As part of the supervisory activity carried out from its inauguration until the end of the 2019 financial year, the Board of Statutory Auditors:

- attended all meetings of the Board of Directors (16 meetings) and Executive Committee (11 meetings), all meetings of the Independent Directors' Committee (6 meetings), the Nomination Committee (14 meetings), the Remuneration Committee (10 meetings) and the Risk Committee (14 meetings);

1

- participated, with the majority of its members, in the Territorial Meetings of the North-West, North-East, Centre and South and the Islands, in December 2019, called by the Parent Company with the aim of sharing the guidelines of the new three-year strategic plan and incorporating the contributions of all the Affiliated Banks;
- has carried out both collective and individual audits;
- expressed opinions, where required by law and/or the Bank's Regulations; in particular, on 11 June 2019, it expressed its binding opinion on the Group Regulation for the management of conflicts of interest; on 17 December 2019, it expressed its opinion on the proposals sent in consultation to the Affiliated Banks for the updating of the Procedures for "Consultation for the election of the corporate offices of the Affiliated Banks" and for "Verification of the requirements of the corporate offices of the Affiliated Banks";
- also issued the report on the ICAAP and ILAAP report on 10 June 2019, by virtue of the extension granted by the European Supervisory Authority (ECB).

In addition, from 1 January 2020 to date, the Board of Statutory Auditors:

- expressed its favourable opinion on the proposal to appoint the Risk Management Officer on 17 March 2020, following the resignation of the previous head of the function in December 2019;
- provided considerations on the Internal Audit function's report on the important operational functions outsourced on 24 April 2020;
- issued the report on the ICAAP and ILAAP report submitted to the Board of Directors on 29 April 2020;
- participated, through at least one of its members, in the Territorial Meetings which, convened in order to share the impact of the coronavirus on the Group's three-year strategic plan, were held in May 2020.

During the year, the Board of Statutory Auditors:

- monitored compliance with laws, regulations and articles of association,
- monitored compliance with the principles of proper management and the adequacy of the organisational structure,
- monitored the adequacy, effectiveness and functionality of the overall internal control and risk management system,
- monitored the adequacy of the administrative and accounting system and the financial reporting process.

In addition, the Board of Statutory Auditors has taken steps to:

- monitor, in its capacity as Supervisory Body, the effectiveness of the organisation and management model pursuant to Legislative Decree no. 231/2001,
- coordinate with the Boards of Statutory Auditors of Affiliated Banks and Subsidiaries,
- monitor transactions with associated parties/related parties,
- monitor the External Auditors' activity pursuant to Articles 16 and 19 of Legislative Decree no. 39/2010, as amended by Legislative Decree no. 135/2016 transposing Directive 2014/56/EU.

2

The Board of Statutory Auditors, in the course of its activities and on the basis of the information obtained, has not found any irregularities, censurable acts or facts or circumstances such as to require reporting to the Supervisory Authorities; moreover, it has not been alerted pursuant to Article 2408 of the Italian Civil Code.

1. **Monitoring of compliance with legal, regulatory and statutory provisions**

By attending meetings of the Board of Directors, the Executive Committee, the Internal Board Committees and meetings with Top Management, the Board of Statutory Auditors has acquired information on the management activities and the most significant transactions from an economic and financial point of view and/or from an organisational point of view, of Cassa Centrale, the Affiliated Banks and the Subsidiaries.
Based on the information obtained, the Board of Statutory Auditors is able to provide reasonable confirmation that these transactions are not in violation of the law and the Articles of Association, are not manifestly imprudent or risky and do not compromise the integrity of corporate assets.
Among the most significant transactions during the year - of which the directors have provided adequate information in the Report on Operations to the Group's consolidated financial statements - which the Board of Statutory Auditors deem appropriate to recall here for their consistency with the strategic guidelines and the objectives of corporate rationalisation and strengthening of the assets'quality, the following are worth mentioning:

<u>Carige transaction</u>
Under the framework agreement signed on 9 August 2019 with the Interbank Deposit Protection Fund (*Fondo Interbancario per la Tutela dei Depositi* - FITD) and the Voluntary Intervention Scheme (Schema Volontario di Intervento - SVI) of the FITD as part of the Banca Carige S.p.A. Cassa di Risparmio di Genova e Imperia (Carige) bail out, Cassa Centrale participated in Carige's share capital increase for a total of Euro 700 million, subscribing to shares worth Euro 63 million, equal to 8.34% of the share capital; it also subscribed a Euro 100 million portion of the Euro 200 million bond issued by Carige, with a yield of 8.25%. At the same time, Cassa Centrale signed a call option agreement, under which the FITD and SVI granted the Bank an irrevocable option to acquire Carige shares held by them in execution of the share capital increase; the option may be exercised during the period from 1 July 2020 to 31 December 2021.

<u>ICCREA Agreement</u>
In October 2019, Cassa Centrale signed an agreement with Iccrea Banca S.p.A. that allowed for the reorganisation of the respective equity investments in the instrumental companies, as well as the reduction of the overall shareholding held by Cassa Centrale Group in Iccrea Banca S.p.A., which fell from more than 18% to below the 10% threshold. The remainder is expected to be sold in full in annual and proportional instalments by 31 December 2022.
The agreement also made it possible to define the migration paths to other platforms for BCCs belonging to Iccrea Group that use the SIB 2000 computer system of Phoenix, now Allitude.

<u>Reorganisation transactions between Affiliated Banks</u>
As a result of the merger transactions between Affiliated Banks, the number of Affiliated Banks was reduced by 7 during 2019. The aforementioned mergers involved:
- Banca Prealpi - Banca S. Biagio del Veneto Orientale: effective 1 July 2019, Veneto Region;
- CR Adamello Brenta - CR di Pinzolo - CR Val Rendena: effective 1 July 2019, Trentino-Alto Adige region;
- CR Alta Vallagarina - CR di Lizzana: effective 1 July 2019, Trentino-Alto Adige region.

In addition, with effect from 1 January 2020, Cassa Rurale di Lavis was merged by incorporation into Cassa Rurale di Trento.
Three other combinations have also been launched for which the authorisation process is still in progress and which will contribute to rationalising the Group's presence in the various territorial areas.
The Board of Statutory Auditors acknowledges that the section of the Report on Operations entitled "Significant Operating Events during the Year" and Part G "Business combinations regarding companies or concerns" of the Notes to the Consolidated Financial Statements illustrate the aforementioned transactions.

<u>Industrial reorganisation of IT and banking services</u>
In October 2019, the merger by incorporation of Servizi Bancari Associati S.p.A., Centro Sistemi Direzionali S.r.l., Informatica Bancaria Trentina S.r.l., Informatica Bancaria Finanziaria S.p.A., into Phoenix Informatica Bancaria S.p.A. was approved. The integration transaction was carried out in line with the established objectives and deadlines that saw the start-up of the new structure, Allitude SpA, from 1 January 2020. The latter centralises the provision of IT and back office services to Affiliated Banks and entities outside the Group, with the aim of exploiting critical mass to achieve synergies in terms of revenues and costs at Group level and to improve performance in terms of profitability, efficiency and productivity. The rationalisation process started will be completed by the end of the first half of 2020 with the further integration of CESVE into the recently established Allitude.

<u>Impaired asset reduction transactions</u>
During 2019, Cassa Centrale Banca continued its efforts to reduce the Group's impaired loans through various sale transactions, including the multi-originator securitisation "Buonconsiglio 2", which involved the sale of more than 500 million gross non-performing loans mostly belonging to the Group. In addition, in October 2019, the assignment without recourse of non-performing loans for approximately Euro 345 million was initiated, coordinated by the subsidiary Centrale Credit Solutions S.r.l.
The transactions were carried out with the aim of improving the quality of assets in line with the guidelines expressed by the Supervisory Authority, thanks to the derecognition of impaired loans from the banks' financial statements, as part of the Group's Non-Performing Loans management plan. As at 31 December 2019 the NPL ratio was 9.3%.
The Board acknowledges that the aforementioned transactions were illustrated in the Report on Operations to the Group's consolidated financial statements, in the paragraph "Significant Operating Events during the Year".

Significant events occurred after the end of the financial year
In the Report on Operations to the consolidated financial statements, the directors represent that after the end of the financial year, up to the date of approval of the draft financial statements by the Board of Directors (29 April 2020), no events have occurred that could have a significant impact on the balance sheet, income statement and financial position for the year ended 31 December 2019.

Coronavirus emergency
The element of greatest prospective impact that emerged in early 2020 is the health emergency caused by the spread of the Coronavirus. This epidemic currently represents a threat to public health with economic impacts resulting from the suspension of certain economic activities in the areas most affected by the virus, which to date cannot be definitively and reliably estimated.
Cassa Centrale Group has implemented all the measures necessary to deal with the emergency and to encourage the granting of benefits to its customers through support initiatives undertaken at its discretion or provided for in legislative measures issued by the Government to counter the economic effects caused by the pandemic. It reacted promptly to the situation of exceptional volatility generated on the financial markets, changing its strategy for managing its owned portfolio of financial instruments, through greater use of "Targeted Long Term Refinancing Operation III" (TLTRO III) auctions, diversification of the portfolio represented by debt securities and an increase in the percentage of securities allocated to the Hold To Collect business model.

Interruption of the start of the Comprehensive Assessment
In the course of 2019, the European Central Bank announced that, together with the National Authorities responsible for banking supervision, it would carry out an in-depth assessment (so-called Comprehensive Assessment) under the Regulation on the Single Supervisory Mechanism (Council Regulation (EU) no. 1024 of 15 October 2013).
The Comprehensive Assessment consists of an Asset Quality Review ("AQR") activity which aims to assess the correct classification and evaluation of receivables and a stress test to verify the solidity of the Group's financial statements in adverse scenarios. Should the stress tests, also taking into account the results of the AQR, show that the Group does not meet the capitalisation parameters set by the EBA, the Supervisory Authority may request the adoption of measures to fill the capital deficits identified.
This exercise should have taken place from the second quarter of this year; however, due to the health emergency generated by the pandemic, the related activities have been postponed to a date to be defined.

Malacalza Investimenti
The validity of the share capital increase resolution approved by the shareholders of Carige was challenged by the financial holding company Malacalza Investimenti S.r.l. through a civil action brought in January 2020 against Carige, the FITD, the SVI and Cassa Centrale Banca, with a claim for damages of over Euro 480 million. Similar disputes were subsequently brought by Vittorio Malacalza and 42 other Carige shareholders, with a claim for compensation totalling a further Euro 11.4 million, plus revaluation and interest.
The reasons for the disputed validity of the shareholders' resolution consist essentially in the alleged illegitimate exclusion of option rights, failure to comply with the principle of accounting parity and a determination of the issue price of the new shares that does not comply with the criteria set out in the corporate law.

As a result of the assessments carried out with the support of the appointed solicitors, Cassa Centrale Banca, taking into account the risk of losing the lawsuit, deemed not to make provisions for risks and charges.

The Board of Statutory Auditors acknowledges that the aforementioned events were illustrated in the Report on Operations to the Group's consolidated financial statements, in the paragraph "Significant events occurred after the end of the year".
The Board of Statutory Auditors has acquired all the necessary information on events after the end of the financial year, in the course of its supervisory activities, through participation in the meetings of the internal board committees, the Board of Directors, meetings with Top Management and the External Auditors.

With reference to the results of the supervisory review and evaluation process (SREP) the ECB communicated to the Parent Company, by letter dated 25 November 2019, the consolidated SREP requirements of the Group, in force from 1 January 2020.
The Group is required to meet, on a consolidated basis, a total SREP Capital Requirement (TSCR) of 10.25%, including an additional requirement with regard to Pillar 2 (Pillar 2 Requirement - P2R) own funds of 2.25%, to be held in the form of Common Equity Tier 1 (CET1) capital.
The Supervisory Authority also expects the Group to meet the Pillar 2 (Pillar 2 Guidance - P2G) approach of 1% on a consolidated basis, which should consist entirely of Common Equity Tier 1 capital held in addition to the total capital requirement.
With reference to the requests of the Resolution Board in application of the European Directive establishing a framework for the reorganisation and resolution of credit institutions and investment firms (so-called Bank Recovery and Resolution Directive - BRRD), during 2019 the activities aimed at defining the MREL (Minimum Requirement of Eligible Liabilities) target to be assigned to the Group were initiated with the SRB (Single Resolution Board).
The paragraph of the Directors' Report on Operations entitled "Risk management and internal control system" provides an exhaustive disclosure of the audit and prudential assessment process.
The Board of Statutory Auditors monitored the implementation of the requirements and recommendations contained in the ECB's SREP letter through attendance to the meetings of the Risk Committee, the meetings of the Board of Directors and interaction with the Risk Management Function, which reported periodically to the strategic supervisory body on the action plans shared with the Supervisory Authority.

2. Monitoring of the principles of proper management and the adequacy of the organisational structure

In 2019 and until today's date, Cassa Centrale has completed and updated, in line with regulatory developments, the internal body of regulations, policies and procedures to regulate the conduct of business and Group operations in compliance with the law and supervisory regulations, with a view to constantly strengthening the controls put in place to safeguard the company's assets and orienting conduct towards principles of sound and prudent management.
The information flows from the Business Functions and the Planning and Human Resources Department have gradually been enriched. The information flows of the Control Functions have also been strengthened in order to provide the Board of Directors with an integrated view of risks, the results of monitoring and internal audit

activities at Group level, and the progress of remedial actions against the findings that have emerged through the use of suitable application tools, some of which are still under development and/or being fine-tuned.
During the year, the organisational structure evolved in order to respond to the increased operational complexity brought about by the assumption of the role of Parent Company of Cassa Centrale Cooperative Banking Group and the consequent guidance of the Affiliated Banks, as well as to implement the ECB's recommendations in this regard:

- on 4 September 2019, the Board of Directors approved the change in the organisational chart, providing for the direct reporting of all Control Functions (Compliance, Risk Management, Anti-Money Laundering and Internal Audit) to the aforementioned strategic supervisory body;
- after the end of the financial year, on 27 May 2020, the Institutional Relations and Communication Department was established, into which the External Relations, Events and Media Relations Service was merged. The new Department, which will be active from 1 July 2020, will support the Chief Executive Officer in supervising specific projects, in consolidating and coordinating relations with Affiliated Banks and in relations with Public and Private Institutions where the Cooperative Banking Group model can be promoted and enhanced. Finally, the Risk Management Department was reorganised with the creation of the following respective services: *Coordination, Enterprise Risk Management and Financial and Operational Risk Management.*

The Board of Statutory Auditors acquired knowledge on and supervised the adequacy of the organisational structure through the information obtained during meetings with the heads of the relevant corporate functions. It also monitored the implementation of regulations and policies by the Affiliated Banks and Subsidiaries with the assistance of the Compliance Function; it supervised the directives provided by the Parent Company to the Affiliated Banks and Subsidiaries through direct observation of the circulars issued; it obtained information on specific instructions to individual Group entities through its participation to board meetings and to the work of the internal board committees.
With regard to the principles of proper management, the Board of Statutory Auditors, through meetings with Top Management, the Heads of the business areas, the Administration and Financial Statements Manager, the Heads of the Control Functions and the External Auditors, as well as through observation of the information flows to the Board of Directors, is able to provide reasonable confirmation that the transactions carried out during the year are based on principles of sound and prudent management and have been approved after obtaining adequate information flows that have enabled the strategic supervisory body to appreciate the related risk profiles.

The Board of Statutory Auditors, on the basis of the information received in the course of its supervisory activities, meetings with the Chief Executive Officer, the Management, the Heads of the Control Functions and the Independent Auditors, as well as on the basis of its participation in the meetings of the Board of Directors and the Executive Committee, did not find any anomalous and/or unusual transactions with third parties, related parties or intra-group transactions. The Board acknowledges that Part H, Paragraph 2. of the Notes to the separate

financial statements and to the Group's consolidated financial statements illustrates intra-group and related-party transactions.

3. Monitoring of the adequacy, effectiveness and functionality of the overall internal control and risk management system

The Board of Statutory Auditors oversaw the adequacy of the internal control and risk management systems through:

- the exchange of information with Top Management,
- periodic meetings with the Internal Audit, Risk Management, Compliance and Anti-Money Laundering functions (hereinafter the Control Functions) and with the External Auditors,
- the analysis of the annual plans of the Control Function,
- the analysis of the reports prepared by the Control Functions as a result of the verification and monitoring activities carried out,
- the monitoring of the implementation and effectiveness of the remedial actions planned by the Managers of the areas subject to verification in light of the findings emerging from the reports of the Control Functions, through direct intervention or examination of the periodic reports on the progress of such remedial actions prepared by the same Control Functions,
- the analysis of the annual reports of the Control Functions prepared in compliance with the regulations in force,
- participation in the work of the Risk Committee and meetings of the Board of Directors during which the aforementioned reports and annual reports were presented and examined,
- the analysis and discussion of the reports prepared by the Control Functions as part of the ongoing dialogue with the ECB,
- the exchange of information with the Affiliated Banks' and Subsidiaries' Boards of Statutory Auditors.

As a result of this activity, the Board of Statutory Auditors was able to ascertain that:

- the activity plans of the Control Functions are drawn up on the basis of a so-called "risk-based" approach also taking into account the levels of "residual risk" emerging from previous audits, the impact of regulatory developments on existing controls, coordination among the same Functions, according to a holistic approach and with a view to integrated risk management; finally, also taking into account any requests or indications of the Supervisory Authorities and corporate bodies,
- the follow-up of remedial actions subsequent to the outcome of the audits conducted is carried out regularly and adequately represented in the reports produced to the corporate bodies.

The corporate Control Functions for the affiliated cooperative credit banks are outsourced to the Parent Company in accordance with the Supervisory Provisions for Banks in the Cooperative Banking Group issued by the Bank of Italy.
The organisational model of Cassa Centrale provides for the role of the "Internal contact representative" at the individual user companies who reports functionally to the heads of the Parent Company's Control Functions and, in the case of the Compliance and Anti-Money Laundering Functions, carries out centrally planned verification activities under the direct supervision of the respective Control Function Departments.

The Board of Directors of the user companies carries out its duties with precise reference to what set out by the Parent Company and in particular:

- appoints the Internal contact representative who carries out support tasks for the outsourced control functions;
- approves the Audit Plan for the Internal Audit Department and Activity Programmes for the Compliance, AML and Risk Management Departments;
- takes action to remove the deficiencies detected during the verification activities.

In this regard, the periodic reports produced for the corporate bodies of Cassa Centrale, introduced in the second half of 2019, include the results of the audits carried out at the Affiliated Banks and Subsidiaries and provide granular information at individual entity level and in aggregate form, by macro-area of verification, in order to provide an integrated representation of risks.
After the first year from the start of the Group's operations, the Control Functions carried out a qualitative-quantitative assessment of the Internal contact representatives following the submission to them of a questionnaire divided into three main areas: organisational segregation, activities subject to control, expressed training needs. The conclusion of the assessment activity at the end of the first quarter of 2020 saw the identification by the Control Functions of remedial actions aimed at achieving the optimal qualitative and quantitative composition of the safeguards established at the individual Affiliated Banks.

For the subsidiary Claris Leasing, which outsourced the Control Functions to the Parent Company as from 1 January 2020, and for the Luxembourg subsidiary NEAM, reports and annual reports have been acquired from the external companies appointed and the status of implementation of remedial actions is monitored in response to the findings.

The annual report of the Internal Audit Function, in order to better represent to the corporate bodies the risk areas on which the Function's action has focused, reports the activities carried out according to a breakdown that reflects the four SREP macro areas: business model, governance and risk management, capital risk, liquidity and funding risk. The activities carried out by the Function during 2019 substantially complied with the provisions of the 2019 audit plan approved by the Board of Directors of Cassa Centrale on 27 March 2019.
The annual report of the Compliance Function, in accordance with Bank of Italy Circular no. 285/2013, acknowledges the substantial completion, including through the Internal contact representatives at the individual Affiliated Banks, of all the verification activities planned in accordance with the Function's activity plan (in relation to the Parent Company, the Affiliated Banks and the Subsidiaries) approved by the Board of Directors of Cassa Centrale on 27 March 2019.

The report of the Compliance Function prepared pursuant to Article 89 of the Intermediaries' Regulations adopted by Consob Resolution no. 20307 of 15 February 2018, concerning the compliance and effectiveness of controls in implementation of the regulation on investment services, identified a number of critical issues that were addressed by the competent functions through the planning of appropriate remedial actions currently underway. The Compliance Function monitors the progress of these measures and the Board of Statutory Auditors is committed to monitoring their concrete implementation and effectiveness.

9

The Risk Management Function dedicated the first year of its activity to achieving the set objectives of consolidating its structure and operations, in terms of resources, building periodic reporting, defining the tasks and role of Internal contact representatives, strengthening the ICAAP and ILAAP processes, and harmonising credit monitoring rules at Group level, in constant dialogue with the ECB.
The application tools supporting the operations of the Function are gradually being updated, also in accordance with the recommendations of the Supervisory Authority.
The report of the Risk Management Function prepared in accordance with Bank of Italy Circular no. 285 /2013 highlights the achievement, in all material respects, of its objectives while pointing out further areas for improvement with particular reference to credit monitoring activities.

The Board of Statutory Auditors examined the self-assessment report on the adequacy of current and prospective capital (ICAAP) and liquidity (ILAAP), submitted to the Board of Directors on 29 April 2020.
Through the examination of the report, supported by the results of the supervisory activity, participation in the work of the Risk Committee and the meetings of the Board of Directors, as well as through interaction with the Control Functions, it was able to verify the progressive implementation of the recommendations contained in the SREP letter released on 25 November 2019 concerning the ICAAP and ILAAP processes and the RAF. In particular:

- the risk map has been integrated with the identification of new risks potentially relevant for the Group, such as, for example, the risk relating to the real estate portfolio owned, the risk of money laundering and terrorist financing, the ICT risk; with reference to liquidity risk, funding risk, Intraday liquidity risk and encumbered assets risk have been introduced;
- the process of identifying significant risks for the Group was strengthened by means of methodologies for assessing the relevance of measurable risks, based on quantitative and qualitative criteria, which involved a representative sample of Affiliated Banks. In addition, the process of mapping significant risks has benefited from the contribution of the Parent Company's other structures within the scope of their respective competencies and powers;
- the determination of internal capital in its economic perspective was integrated with the measurement of two other risks identified as material: strategic or business risk and real estate risk;
- integration with the strategic planning process and the RAF has been designed and configured through the expansion and updating of the Bank's internal regulations, which has achieved a better definition of roles and responsibilities and the interconnection between functions and organisational units, as well as the definition of RAF guidelines for the Affiliated Banks. However, the course of recent events and the resulting health emergency situation have not allowed for the full implementation of process integration;
- the RAF and the related indicators to be monitored are consistent with the risk map used for ICAAP and ILAAP purposes and new indicators have been introduced to strengthen the monitoring of relevant risks. The RAF has also set "risk limits" for Pillar 2 risks;
- the independent validation of the methodologies applied in the ICAAP and ILAAP for the quantification of risks and related results, in accordance with the recently adopted guidelines of the Validation Policy and the ICAAP and ILAAP Methodological Manual, was carried out thanks to the launch of the Internal

10

- Validation Unit and the Head of the same unit who took office in mid-January 2020;
- the stress testing framework has been strengthened;
- the implementation of integrated risk reporting introduced in June 2019 is addressing the Board of Directors' needs for reporting and its objectives for monitoring capital and liquidity risks.

The structure of the Anti-Money Laundering (AML) Function of Cassa Centrale consists of the AML Department and the AML Governance and Risk Assessment, AML Controls and Monitoring, Suspicious Transaction Reporting services; since 1 January 2019, the Suspicious Transaction Reporting Manager has been appointed Group Suspicious Transaction Reporting delegate. In addition, through the Monitoring and Reporting Control Service, the Function carries out periodic, formalised second-level checks to assess the adequacy and effectiveness of the anti-money laundering safeguard measures adopted by the Group, proposing, where necessary, appropriate procedural and process changes.
During 2019, projects aimed at homogenising and harmonising anti-money laundering processes continued following the establishment of the Cooperative Banking Group and the outsourcing of the AML Function to the Parent Company by the Affiliated Banks. From this standpoint, the following are particularly noteworthy: the implementation of the map of first and second level controls aimed at standardising the frequency, methods of execution, formalisation and evaluation of controls at the level of the individual Affiliated Banks and the Group, the adoption of a Group risk profile, coinciding with the highest of those calculated by each participating bank with reference to the same customer, and the implementation and start-up of the system for the forwarding of objective communications, in accordance with the instructions of the Bank of Italy and the Financial Reporting Unit on the subject. With regard to the aforementioned projects, the Group's IT outsourcer has started developing applications, which are currently underway and whose progressive release is functional to a more effective exercise of controls.
The AML Function has prepared the annual report pursuant to Bank of Italy Decision of 26 March 2019, which also includes the results of the self-assessment exercise coordinated by the Parent Company for each entity belonging to the Group and conducted on the basis of the aforementioned Decision. The report illustrates the results of the activities carried out to monitor and control the risks of money laundering and terrorist financing, the initiatives taken, the dysfunctions ascertained and the related corrective actions to be taken, as well as the staff training activities, in accordance with the Activity Plan of the Function approved by the Board of Directors on 27 March 2019.
The report also acknowledges that on 26 February 2020, a Bank of Italy inspection at Cassa Centrale commenced, carried out mainly remotely and suspended in May, whose evidence relates to activities already planned and/or in progress. The Board of Statutory Auditors acknowledges that on 1 June 2020, Cassa Centrale, in its capacity as Parent Company, received an inspection report from the Bank of Italy following an audit carried out at an Affiliated Bank in relation to anti-money laundering which concluded with an unfavourable opinion. In this context, the Board of Statutory Auditors was able to ascertain that Cassa Centrale is promptly adopting all the necessary initiatives, in coordination with the Affiliate, to remedy the critical issues identified by the Supervisory Authority.
The Board of Statutory Auditors has been kept regularly updated by the AML Department with regard to the requests for clarification received from the Supervisory

11

Authority, the inspections undertaken, their evolution, their results and the consequent corrective actions.

The Board of Statutory Auditors acknowledges that the report of the Internal Audit Function has assessed that the overall control and risk management system is geared towards ensuring its reliability, integrity, functionality and adequacy, albeit with areas for improvement mainly relating to the monitoring of credit risk, operating risk, compliance risk and the countering of money laundering and terrorist financing; these areas of improvement are, for the most part, attributable to the consolidation and homogenisation of the processes and procedures in place at Group level and the related IT support projects. In this regard, Cassa Centrale has launched specific initiatives aimed at centralizing the operating policies and procedures at Group level, strengthening and standardising the operating tools used to support the business, implementing solutions that allow for effective monitoring of risks, strengthening the technological tools used to support operations, thus reducing manual activity and the associated operational risks and, finally, raising the level of data accuracy. In this context, the "Datawarehouse" project currently underway, aiming at creating a sole database that constitutes a repository certified by appropriate consistency, integrity and quality controls, is of strategic relevance.
The Control Functions monitor the progress of remedial actions and related projects, reporting periodically to the corporate bodies of Cassa Centrale. The Control Functions are also engaged in recruiting resources in order to achieve the optimal qualitative and quantitative size that the centralisation of controls at the Parent Company requires; due to the Coronavirus health emergency, this activity has slowed down in recent months.
The Board of Statutory Auditors interacted with the Internal Audit Function on an ongoing basis during the year and promptly acquired the reports produced by the same.
The Board of Statutory Auditors monitored the compliance of the remuneration policies of the Control Functions with supervisory regulations.
The Board of Statutory Auditors, on the basis of the activities carried out and the overall favourable opinion of the Group Internal Audit Function, considers that there are no critical issues such as to jepardize the overall internal controls and risk management system.

4. Monitoring of the administrative-accounting system and the financial reporting process

The Board of Statutory Auditors, in its role as Internal Control and Audit Committee, audited the effectiveness of the internal control system relating to financial reporting and monitored the related process, pursuant to Article 19, paragraph 1, letter c) of Legislative Decree no. 39/2010.
The Administration and Financial Statements Manager oversees the process of preparing the separate and consolidated financial statements in accordance with an articulated process on which centralised controls are in place as well as at the Affiliates and Subsidiaries that provide reasonable assurance on the reliability of financial reporting. The consolidation process is organised according to a programme of activities that provides for the sending of specific half-yearly and annual instructions to Group companies.

12

The convergence project towards the SIB 2000 target information system by a number of Affiliated Banks, which currently benefits from a different platform, will make it possible to standardise and make the process of preparing financial information and related control activities by the individual Group entities more efficient, as to date they are still differentiated. The project to migrate to the target system, which started in mid-2019, slowed down due to the health emergency situation caused by Covid-19, which led to a rescheduling of the deadline for its implementation.
In 2019, work was completed on refining the IFRS 9 impairment model to incorporate Probability of Default (PD) and Loss Given Default (LGD) parameters more specific for the banking group and forward looking scenarios that made it necessary to adapt the IT applications.
During the year, the Group's Accounting Standards Manual was approved, aimed at documenting the accounting policies and related application models adopted by the Group in the context of the IAS/IFRS accounting standards.
The year 2019 was the first year of application of the new accounting standard IFRS 16 "Leases" which replaced IAS 17 and IFRIC 5.
During the meetings with the Administrative Manager and the Responsibles for the audit, the Board of Statutory Auditors monitored the financial reporting process and carried out the necessary in-depth analysis of the effects of the refinement of the IFRS 9 model and the First Time Adoption of IFRS 16. It also analysed the items in the financial statements subject to complex estimates, including loans to customers and intangible assets with an indefinite useful life. The Responsibles for the audit did not report any shortcomings in the administrative-accounting internal control system during their periodic meetings with the Board of Statutory Auditors.
On the basis of the evidence gathered as shown above, no gaps have emerged that could affect the reliability of the internal control system that oversees the process of financial reporting and the suitability of the administrative-accounting system to correctly record and represent operations.

5. Supervisory Body

The supervisory responsibility in accordance with Legislative Decree no. 231/2001 was entrusted to the Board of Statutory Auditors by resolution of the Board of Directors on 2 October 2019. In the intervening period, the Body carried out its supervisory activity on the organisational and management model of Cassa Centrale, following which it issued its periodic report to the Board of Directors on 4 June 2020.
The Body's report did not indicate any critical issues, even though it recommended the completion of the updating of the organisation and management model. The update was necessary in order to incorporate the evolution of the organisational structure and related processes following the start-up of the Cooperative Banking Group and the consequent new role of Cassa Centrale, in its capacity as Parent Company, as well as the recently introduced regulations that have led to the inclusion of tax offences in the catalogue of predicate offences. Work on adapting the 231 model is nearing completion and the new model will be submitted to the Board of Directors of Cassa Centrale for approval at its next meeting.
During the period under review, the Supervisory Body received no reports of unlawful conduct or violations of the model.

6. Coordination with the Boards of Statutory Auditors of Affiliated Banks and Subsidiaries

During the year, based on a risk-based approach, the Board of Statutory Auditors exchanged information and news, both orally and in writing, with the Boards of Statutory Auditors of the Affiliated Banks and Subsidiaries.
At the territorial shareholders' meetings held last December, the Board of Statutory Auditors shared with the control bodies of the Affiliated Banks the methods of coordination and mutual exchange of information, in compliance with current regulations and the Rules of Conduct of the Board of Statutory Auditors issued by the National Board of Chartered Accountants.
The Board of Statutory Auditors has taken into account the information acquired through coordination with the control bodies of the Affiliated Banks and Subsidiaries in the exercise of its supervisory duties and has been able to ascertain the constructive spirit and cooperation of the Representatives of the control bodies of the aforementioned entities.

7. Monitoring of transactions with related parties

With regard to the issue of conflicts of interest with related parties, the Board of Statutory Auditors monitored the overall adequacy of internal procedures to achieve the objectives of the Bank of Italy Circular no. 263/2006.
It should be noted in particular that in 2019, Cassa Centrale adopted the Group Regulation for the management of transactions with related parties and the Group Regulation for the management of conflicts of interest. The first document governs the identification, approval and execution of transactions with related parties carried out by the Group, as well as the organisational structure and the internal control system that the Group uses in order to preserve the integrity of decision-making processes in transactions with related parties.
The second document regulates the procedures and organisational controls for the management of conflicts of interest, including operations pursuant to Article 136 of TUB.
The Board of Statutory Auditors took part in the work of the Independent Directors Committee, which is responsible for formulating opinions and examining transactions with related parties in advance, without identifying any critical issue.

8. Monitoring activities in relation to the statutory audit pursuant to Articles 16 and 19 of Legislative Decree no. 39/2010, as amended by Legislative Decree no. 135/2016 transposing Directive 2014/56/EU

The separate and consolidated financial statements are audited by theaudit companythe KPMG S.p.A. By Consob resolution no. 20934 of 14 May 2019, the request for an extension of two years (2019-2020) for the responsibility of auditing the separate and consolidated financial statements of Cassa Centrale Banca, pursuant to Article 17, paragraph 6, of Regulation (EU) no. 537/2014, was accepted. The shareholders' meeting of Cassa Centrale on 28 May 2019 ratified the extension of the audit assignment on the basis of the reasons indicated in the aforementioned Consob resolution.
The audit assignment also includes verifying that the company's books of account are properly kept and that the operations are correctly posted in the accounting records, the limited audit of the consolidated balance sheet and income statement prepared

for the determination of the half-yearly result for the purpose of calculating Common Equity Tier 1 capital as provided for in Regulation (EU) no. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, the checks connected with the signing of tax returns and the verification procedures for the purpose of issuing the attestation report to the National Guarantee Fund provided for by Article 62, paragraph 1 of Legislative Decree no. 415 of 23 July 1996.

The Board of Statutory Auditors, in its quality of Internal Control and Audit Committee, monitored the audit of the separate and consolidated financial statements of Cassa Centrale Group through an ongoing dialogue and periodic meetings with the Responsible for the audit during the year and until the date of completion of the audit, during which it examined the following aspects:

- planning and progress of the limited audit of the consolidated balance sheet and income statement at 30 June 2019, the main accounting issues relating to the aforementioned financial reporting and any difficulties encountered;
- strategy and planning for the audit of the separate and consolidated financial statements with an indication of the subsidiaries included in the scope of consolidation and audited by KPMG or other external auditors and related instructions;
- key audit matters;
- verification of the refinement of the IFRS 9 model for the purposes of classification and measurement of loans to customers; recoverability of the value of goodwill;
- verification of the Purchase Price Allocation in accordance with IFRS 3 for business combinations;
- outcome of control testing on the proper keeping of the Company's books of account and the correct posting of operations in the accounting records;
- status of the preliminary audit activity and in particular the analysis of the internal control system that oversees the preparation of financial information for the purposes of assessing the audit risk; focus on the audit approach to the potential risk of fraud;
- further information on stage allocation in accordance with IFRS 9 for the purposes of the correct classification of receivables;
- update on the securitisation transaction carried out at the end of 2019 and on the classification and valuation of the shares resulting from the investment acquired in Carige;
- focus on the preparatory work for the limited review of the Consolidated non-financial statement;
- analysis of the results of the impairment test on goodwill and real estate assets;
- acquisition of the audit outcome and the key matters that the auditor considers to be most relevant for the purposes of expressing his professional judgement; analysis of the contents of the additional report to the Internal Control and Audit Committee.

In the course of the meetings held, the Board of Statutory Auditors updated the Responsibles for the audit in relation to the supervisory activities carried out and the relevant outcomes and significant events of Cassa Centrale.

In its reports on the audit of the separate and consolidated financial statements issued on 5 June 2020, the External Auditor issued an opinion stating that:

- the separate and consolidated financial statements provide a true and fair view of the equity and financial position of Cassa Centrale Banca - Credito Cooperativo Italiano S.p.A. and of Cassa Centrale Cooperative Banking Group as at 31 December 2019, as well as the results of operations and cash flows for the year then ended in accordance with the International Financial Reporting Standards adopted by the European Union and with the rulings issued in implementation of Article 43 of Legislative Decree no. 136/15;
- the reports on operations, which are the responsibility of the directors, are consistent with the separate and consolidated financial statements of Cassa Centrale Banca - Credito Cooperativo Italiano S.p.A. and Cassa Centrale Cooperative Banking Group as at 31 December 2019 and are prepared in accordance with the law.

In its reports on the audit of the separate and consolidated financial statements, the External Auditor also certified:

- to have nothing to report, based on the knowledge and understanding of the company and of the related context acquired during the audit activity, with reference to the declaration referred to in Article 14, paragraph 2, letter e) of Legislative Decree no. 39/10 on significant errors in the reports on operations accompanying the financial statements;
- that it has verified the Directors' approval of the Consolidated non-financial statement.

On 5 June 2020, the External Auditors also submitted to the Board of Statutory Auditors the Additional report required by Article 11 of Regulation (EU) no. 537/2014, which does not reveal any weaknesses in the internal control system inherent to the financial reporting process, nor any circumstance to be reported as a result of the verifications carried out on the regular keeping of the Company's books of account and the correct recording of operations in the accounting records. Attached to the Report is the annual confirmation of independence referred to in Article 6, paragraph 2, letter a) of the same Regulation in which the External Auditor stated that, on the basis of the information obtained and the checks carried out in the period from 1 January 2019 until today, no situation emerged that compromised its independence pursuant to Articles 10 and 17 of Legislative Decree no. 39/2010 and Articles 4 and 5 of Regulation (EU) no. 537/2014.

During the year, Cassa Centrale approved the Policy for the assignment of engagements to the Appointed Auditors and / or other Auditors belonging to the reference network.

During the course of the year, the Board of Statutory Auditors complied with the provisions of current legislation and the Group Policy in relation to the approval of non audit services assigned to the External Auditor or other entities belonging to its network.

The costs for non-audit services charged to the Group's consolidated income statement - Annex A to the consolidated explanatory notes - amount to approximately Euro 600 thousand for attestation engagements and other services.

Attestation services relate to engagements that are assigned to the External Auditors by law or by Authorities' rulings on the grounds that, by their nature, they are assimilated to an extension of the audit activity and, as such, do not compromise the External Auditors' independence.

The Board of Statutory Auditors, taking into account the non-audit mandates assigned by Cassa Centrale and the Group entities to KPMG S.p.A. and its network, did not identify any critical issue in respect of the External Auditor's independence.

The Board of Statutory Auditors has also acquired the Transparency report for the year ended 30 September 2019, available on KPMG S.p.A. website which contains the information required by Article 13, paragraph 2, letters d), g) and h) of the European

Regulation no. 537/2014 on the internal control and quality system, compliance with independence requirements and ongoing training of the Audit firm.

Consolidated non-financial statement

Cassa Centrale is required to draw up the Consolidated non-financial statement in compliance with Article 2 of Legislative Decree no. 254/2016 and the Consob Regulation implementing the Decree adopted with Resolution no. 20267 of 18 January 2018.

The Consolidated non-financial statement, approved by the Board of Directors of Cassa Centrale on 29 April 2020, was presented as a separate document from the Report on Operations to the consolidated financial statements as at 31 December 2019.

Pursuant to Article 3, paragraph 10, of Legislative Decree no. 254/2016, the task of carrying out the limited examination of the Consolidated non-financial statement was assigned to the External Auditor who, on 5 June, certified that no evidence has come to his attention that the Consolidated non-financial statement of Cassa Centrale Group, relating to the financial year ended 31 December 2019, has not been prepared, in all material aspects, in accordance with the requirements of Articles 3 and 4 of the Decree and the "Global Reporting Initiative Sustainability Reporting Standards", "core" option defined in 2016 by the GRI - Global Reporting Initiative ("GRI Standards") and the "Financial Services Sector Supplements".

In the performance of its duties, the Board of Statutory Auditors has monitored compliance with the provisions of Legislative Decree no. 254/2016, with particular reference to the drafting process and the contents of the Consolidated non-financial statement.

9. Conclusions

Dear Shareholders,

The Ordinary Shareholders' Meeting, convened on 28 June 2020 in first call and on 23 July 2020 in second call, in addition to the approval of the separate financial statements as at 31 December 2019 of Cassa Centrale also includes the following items on the agenda: presentation of the consolidated financial statements as at 31 December 2019; presentation of the Consolidated non-financial statement as at 31 December 2019; information on the implementation of 2019 Remuneration and Incentive Policies; 2020 Remuneration and Incentive Policies, including the criteria for determining remuneration in the event of early termination of employment or early termination of office; information on the results of the self-assessment of the corporate bodies.

The Board of Statutory Auditors, considering the supervisory activities carried out and the opinions expressed in the audit reports by the External Auditors, has no observations to make to the Shareholders' Meeting with regard to the approval of the separate financial statements as at 31 December 2019 accompanied by the Report on Operations presented by the Board of Directors; likewise, having carried out the necessary in-depth analysis of the recommendation of the European Central Bank of 27 March 2020, it has no observations on the proposal for the allocation of the net profit for the year and the distribution of dividends formulated by the Board itself.

Trento, 5 June 2020

The Board of Statutory Auditors

Elisabetta Caldirola

Mariella Rutigliano

Claudio Stefenelli

Indipendent Auditors' Report on the Financial Statements of Cassa Centrale Banca

KPMG S.p.A.
Revisione e organizzazione contabile
Via Pancaldo, 70
37138 VERONA VR
Telefono +39 045 8115111
Email it-fmauditaly@kpmg.it
PEC kpmgspa@pec.kpmg.it

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

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

To the shareholders of
Cassa Centrale Banca - Credito Cooperativo Italiano S.p.A.

Report on the audit of the separate financial statements

Opinion

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

In our opinion, the separate financial statements give a true and fair view of the financial position of Cassa Centrale Banca - Credito Cooperativo Italiano S.p.A. as at 31 December 2019 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 43 of Legislative decree no. 136/15.

Basis for opinion

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

Key audit matters

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

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

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

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

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

Notes to the separate financial statements "Part E - Information on risks and related hedging policies": section 1 "Credit risk"

Key audit matter	Audit procedures addressing the key audit matter
Lending to customers is one of the bank's core activities. Loans and receivables with customers recognised under financial assets at amortised cost totalled €3,322.8 million at 31 December 2019, accounting for 38.6% of total assets. Net impairment losses on loans and receivables with customers recognised in profit or loss during the year totalled €2.0 million. For classification purposes, the directors make analyses that are sometimes complex in order to identify those positions that show evidence of impairment after disbursement. To this end, they consider both internal information about the performance of exposures and external information about the reference sector or the borrowers' overall exposure to banks. Measuring loans and receivables with customers is a complex activity, with a high degree of uncertainty and subjectivity, with respect to which the directors apply internal valuation models that consider many quantitative and qualitative factors, including historical collection flows, expected cash flows and related estimated collection dates, the existence of any indicators of impairment, the borrower's estimated	Our audit procedures included: — gaining an understanding of the banks' processes and IT environment in relation to the disbursement, monitoring, classification and measurement of loans and receivables with customers; — assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls, especially in relation to the identification of exposures with indicators of impairment and the calculation of impairment losses; — analysing the classification criteria used for allocating loans and receivables with customers to the IFRS 9 categories (staging); — analysing the individual and collective impairment assessment policies and models used and checking the reasonableness of the main assumptions and variables included therein; we carried out these procedures with the assistance of experts of the KPMG network;

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

Classification and measurement of financial assets and liabilities at fair value

Notes to the separate financial statements "Part A – Accounting policies": paragraphs A.2.1 "Financial assets at fair value through profit or loss", A.2.2 "Financial assets at fair value through other comprehensive income", A.2.13 "Financial liabilities held for trading", A.2.14 "Financial liabilities at fair value" and A.4 "Information on fair value"

Notes to the separate financial statements - "Part B - Information on the statement of financial position - Assets": sections 2 "Financial assets at fair value through profit or loss " and 3 "Financial assets at fair value through other comprehensive income "

Notes to the separate financial statements - "Part B - Information on the statement of financial position - Liabilities": sections 2 "Financial liabilities held for trading" and 3 "Financial liabilities designated at fair value"

Notes to the separate financial statements "Part C - Information on the income statement": sections 4 "Net trading income (loss)" and 7 "Net gains (losses) on other financial assets and liabilities at fair value through profit or loss"

Notes to the separate financial statements "Part E - Risks and related hedging policies": sections 2 "Market risks" and 3 "Derivatives and hedging policies"

Key audit matter	Audit procedures addressing the key audit matter
Trading in and holding financial instruments are one of the bank's core activities. The separate financial statements at 31 December 2019 include financial assets and financial liabilities at fair value totalling €1,108 million and €27.5 million, respectively. A portion thereof, equal to roughly €152.1 million and €27.5 million, respectively, is made up of financial assets and liabilities at fair value without a quoted price on an active market. The bank's directors have classified them in levels 2 and 3 of the fair value hierarchy. As part of our audit, we paid particular attention to the financial instruments with fair value levels 2 and 3, as their classification and, above all, their measurement require a high level of judgement, given their special complexity.	Our audit procedures included: — gaining an understanding of the bank's processes and IT environment in relation to the trading, classification and measurement of financial instruments; — assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls, especially in relation to the classification and measurement of financial instruments with fair value levels 2 and 3. We carried out these procedures also through discussions with experts of the KPMG network; — checking, on a sample basis, that the financial instruments had been correctly classified on the basis of their fair value level; — for a sample of financial instruments with fair value levels 2 and 3, assessing the reasonableness of the main parameters used by the directors for their measurement. We carried out this procedure also through discussions with experts of the KPMG network; — analysing the changes in the composition of the financial instrument portfolios compared to the previous year end and discussing the results with the relevant internal departments; — assessing the appropriateness of the disclosures about financial instruments and related fair value levels in the separate financial statements.

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

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

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

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

Auditors' responsibilities for the audit of the separate financial statements

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

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

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

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

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

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

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

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

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

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

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

On 22 May 2010, the bank's shareholders appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2010 to 31 December 2018. With its resolution no. 20934 of 14 May 2019, Consob (the Italian Commission for listed companies and the stock exchange) approved the bank's request for extending the term of the statutory audit engagement to the years ending 31 December 2019 and 2020. The bank's shareholders approved the extension at their meeting of 28 May 2019.

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

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

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10

The bank's directors are responsible for the preparation of a directors' report at 31 December 2019 and for the consistency of such report with the related separate financial statements and its compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report with the bank's separate financial statements at 31 December 2019 and its compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report is consistent with the bank's separate financial statements at 31 December 2019 and has been prepared in compliance with the applicable law.

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

Verona, 5 June 2020

KPMG S.p.A.

(signed on the original)

Bruno Verona
Director of Audit

Separate Financial Statements of Cassa Centrale Banca

FINANCIAL STATEMENTS

Statement of financial position

Statement of financial position - assets

	ASSET ITEMS	31/12/2019	31/12/2018
10.	Cash and cash equivalents	151,003,044	123,872,910
20.	Financial assets measured at fair value through profit or loss	108,942,695	88,899,776
	a) financial assets held for trading	25,036,339	15,669,896
	b) financial assets measured at fair value	3,187,102	3,098,010
	c) other financial assets obligatorily measured at fair value	80,719,254	70,131,871
30.	Financial assets measured at fair value through other comprehensive income	999,071,625	1,808,714,554
40.	Financial assets measured at amortised cost	6,814,348,811	4,343,214,899
	a) loans to banks	3,491,534,625	2,092,332,543
	b) loans to customers	3,322,814,186	2,250,882,357
70.	Equity investments	240,738,628	207,585,879
80.	Tangible assets	21,913,141	13,887,950
90.	Intangible assets	1,928,502	1,055,095
	of which:		
	- goodwill	-	-
100.	Tax assets	27,339,093	37,656,524
	a) current	68,882	195,186
	b) deferred	27,270,211	37,461,338
120.	Other assets	230,451,553	224,740,963
	Total assets	**8,595,737,092**	**6,849,628,552**

Statement of financial position - liabilities

	LIABILITIES AND EQUITY ITEMS	31/12/2019	31/12/2018
10.	Financial liabilities measured at amortised cost	7,060,783,683	5,322,801,704
	a) due to banks	4,711,196,285	2,588,729,806
	b) due to customers	2,339,500,147	2,723,984,402
	c) debt securities in issue	10,087,251	10,087,496
20.	Financial liabilities held for trading	24,163,201	11,596,743
30.	Financial liabilities measured at fair value	3,286,232	9,449,025
60.	Tax liabilities	2,186,457	6,778,049
	a) current	1,467,676	6,296,978
	b) deferred	718,781	481,071
80.	Other liabilities	351,638,925	388,535,345
90.	Provision for severance indemnity	2,368,026	2,384,320
100.	Provisions for risks and charges	17,129,598	21,044,548
	a) commitments and guarantees issued	5,084,955	7,813,214
	b) retirement and similar obligations	-	-
	c) other provisions for risks and charges	12,044,643	13,231,334
110.	Valuation reserves	929,862	(16,363,108)
140.	Reserves	131,293,399	101,324,265
150.	Share premium	19,029,034	19,029,034
160.	Share capital	952,031,808	952,031,808
180.	Profit (loss) for the year (+/-)	30,896,867	31,016,819
	Total liabilities and equity	**8,595,737,092**	**6,849,628,552**

Income statement

	ITEMS	31/12/2019	31/12/2018
10.	Interest income and similar revenues	61,942,040	34,534,968
	of which: interest income calculated with the effective interest method	61,694,362	34,273,765
20.	Interest expenses and similar charges paid	(30,354,739)	(13,724,900)
30.	**Interest margin**	**31,587,301**	**20,810,068**
40.	Commission income	148,429,040	127,936,538
50.	Commission expenses	(70,736,399)	(64,114,767)
60.	**Net commissions**	**77,692,641**	**63,821,771**
70.	Dividend and similar income	7,030,296	12,938,260
80.	Net result from trading	3,177,196	2,196,952
100.	Profit (loss) from disposal/repurchase of:	19,725,963	14,919,653
	a) financial assets measured at amortised cost	14,139,278	4,852,930
	b) financial assets measured at fair value through other comprehensive income	5,586,685	10,066,723
	c) financial liabilities	-	-
110.	Net result of other financial assets and liabilities measured at fair value through profit or loss	6,711,909	413,293
	a) financial assets and liabilities measured at fair value	102,665	309,388
	b) other financial assets obligatorily measured at fair value	6,609,244	103,905
120.	**Net interest and other banking income**	**145,925,306**	**115,099,997**
130.	Net value adjustments/write-backs due to credit risk relative to:	950,551	(924,109)
	a) financial assets measured at amortised cost	(275,226)	552,637
	b) financial assets measured at fair value through other comprehensive income	1,225,777	(1,476,745)
140.	Profits/losses from contractual changes without derecognitions	(18,431)	27,441

	ITEMS	31/12/2019	31/12/2018
150.	**Net income from financial activities**	**146,857,426**	**114,203,330**
160.	Administrative expenses:	(137,879,084)	(94,124,225)
	a) personnel costs	(45,280,243)	(28,682,766)
	b) other administrative expenses	(92,598,841)	(65,441,459)
170.	Net allocations to provisions for risks and charges	2,895,364	6,252,172
	a) commitments and guarantees issued	2,690,728	7,141,931
	b) other net allocations	204,636	(889,759)
180.	Net value adjustments/write-backs to tangible assets	(2,464,364)	(1,405,800)
190.	Net value adjustments/write-backs to intangible assets	(597,767)	(466,158)
200.	Other operating charges/income	34,613,280	16,497,016
210.	**Operating costs**	**(103,432,571)**	**(73,246,995)**
220.	Profits (losses) on equity investments	1,548,290	-
250.	Profit (loss) from disposal of investments	8	25,083
260.	**Profit (loss) before tax from current operating activities**	**44,973,153**	**40,981,418**
270.	Income taxes for the year on current operating activities	(14,076,286)	(9,964,599)
280.	**Profit (loss) after tax from current operating activities**	**30,896,867**	**31,016,819**
300.	**Profit (loss) for the year**	**30,896,867**	**31,016,819**

Statement of Comprehensive Income

	ITEMS	31/12/2019	31/12/2018
10.	**Profit (loss) for the year**	**30,896,867**	**31,016,819**
	Other post-tax components of income without reversal to the income statement	**2,611,364**	**(2,283,490)**
20.	Equities measured at fair value through other comprehensive income	2,727,190	(2,333,304)
30.	Financial liabilities measured at fair value through profit or loss (changes in credit rating)	-	-
40.	Hedging of equities measured at fair value through other comprehensive income	-	-
50.	Tangible assets	-	-
60.	Intangible assets	-	-
70.	Defined benefit plans	(115,826)	49,814
80.	Non-current assets and groups of assets held for disposal	-	-
90.	Quotas of valuation reserves relative to shareholdings measured with the equity method	-	-
	Other post-tax components of income with reversal to the income statement	**(329,911)**	**(24,848,667)**
100.	Hedging of foreign investments	-	-
110.	Exchange rate differences	-	-
120.	Cash flow hedging	-	-
130.	Hedging instruments (non designated elements)	-	-
140.	Financial assets (other than equities) measured at fair value through other comprehensive income	(329,911)	(24,848,667)
150.	Non-current assets and groups of assets held for disposal	-	-
160.	Quotas of valuation reserves relative to shareholdings measured with the equity method	-	-
170.	**Total other post-tax components of income**	**2,281,453**	**(27,132,157)**
180.	**Comprehensive income (Item 10+170)**	**33,178,320**	**3,884,662**

Statement of changes in equity

Statement of changes in equity as at 31 December 2019

	Balances as at 31/12/18	Adjustment to opening balances	Balances as at 01/01/19	Allocation of result from previous year		Changes during the year							Comprehensive income for 2019	Equity as at 31/12/19
							Operazioni sul patrimonio netto							
				Reserves	Dividends and other allocations	Changes to reserves	Issue of new shares	Purchase of own shares	Distribution of extraordinary dividends	Change in equity instruments	Derivatives on own shares	Stock Options		
Share capital:														
a) ordinary shares	944,231,808	X	944,231,808	-	X	X	-	-	X	X	X	X	X	944,231,808
b) other shares	7,800,000	X	7,800,000	-	X	X	-	-	X	X	X	X	X	7,800,000
Share premium	19,029,034	X	19,029,034	-	X	-	-	-	X	X	X	X	X	19,029,034
Reserves:														
a) of profit	101,305,981	-	101,305,981	30,716,819	X	(747,686)	-	-	-	X	X	X	X	131,275,114
b) other	18,284	-	18,284	-	X	-	-	X	-	X	-	-	X	18,284
Valuation reserves	(16,363,108)	15,011,516	(1,351,592)	X	X	-	X	X	X	X	X	X	2,281,453	929,861
Equity instruments	-	X	-	X	X	X	X	X	X	-	X	X	X	-
Own shares	-	X	-	X	X	X	-	-	X	X	X	X	X	-
Profit (loss) for the year	31,016,819	-	31,016,819	(30,716,819)	(300,000)	X	X	X	X	X	X	X	30,896,867	30,896,867
Equity	**1,087,038,818**	**15,011,516**	**1,102,050,334**	**-**	**(300,000)**	**(747,686)**	**-**	**-**	**-**	**-**	**-**	**-**	**33,178,320**	**1,134,180,968**

Statement of changes in equity as at 31 December 2018

	Balances as at 31/12/17	Adjustment to opening balances	Balances as at 01/01/18	Allocation of result from previous year		Changes during the year							Comprehensive income for 2018	Equity as at 31/12/18
							Equity transactions							
				Reserves	Dividends and other allocations	Changes to reserves	Issue of new shares	Purchase of own shares	Distribution of extraordinary dividends	Change in equity instruments	Derivatives on own shares	Stock Options		
Share capital:														
a) ordinary shares	944,231,808	X	944,231,808	-	X	X	-	-	X	X	X	X	X	944,231,808
b) other shares	7,800,000	X	7,800,000	-	X	X	-	-	X	X	X	X	X	7,800,000
Share premium	19,029,034	X	19,029,034	-	X	-	-	-	X	X	X	X	X	19,029,034
Reserves:														
a) of profit	94,869,357	(6,727,540)	88,141,817	13,171,548	X	(7,384)	-	-	-	X	X	X	X	101,305,981
b) other	18,284	-	18,284	-	X	-	-	X	-	X	-	-	X	18,284
Valuation reserves	(5,694,757)	16,463,806	10,769,049	X	X	-	X	X	X	X	X	X	(27,132,157)	(16,363,108)
Equity instruments	-	X	-	X	X	X	X	X	X	-	X	X	X	-
Own shares	-	X	-	X	X	X	-	-	X	X	X	X	X	-
Profit (loss) for the year	13,430,965	-	13,430,965	(13,171,548)	(259,417)	X	X	X	X	X	X	X	31,016,819	31,016,819
Equity	**1,073,684,691**	**9,736,266**	**1,083,420,957**	**-**	**(259,417)**	**(7,384)**	**-**	**-**	**-**	**-**	**-**	**-**	**3,884,662**	**1,087,038,818**

Compared to the amount published in the financial statements as at 31 December 2018, the amount of "Reserves - b) other" was changed from zero to EUR 18,284, separating the value from the line "Reserves - a) of profit".

Cash Flow Statement

Indirect method

	Amount	
	31/12/2019	31/12/2018
A. OPERATING ACTIVITIES		
1. Operations	42,395,169	(210,182)
- income for the period (+/-)	30,896,867	31,016,819
gains/losses on financial assets held for trading and financial assets/liabilities measured at fair value through profit or loss (-/+)	(4,484,927)	(16,933,155)
- gains/losses on hedging activities (-/+)	-	-
- net value adjustments/write-backs due to credit risk (+/-)	(950,551)	924,109
- net value adjustments/write-backs to tangible and intangible assets (+/-)	**3,062,130**	**(1,871,958)**
- net allocations to provisions for risks and charges and other costs/revenues (+/-)	(204,636)	(6,252,172)
- taxes, duties and tax credits not settled (+/-)	14,076,286	5,660,849
- net value adjustments/write-backs from discontinued operations net of tax (+/-)	-	-
- other adjustments (+/-)	-	(1,900,317)
2. Cash flows generated/used by the financial assets	(1,675,848,245)	(1,213,667,990)
- financial assets held for trading	(9,366,443)	(1,641,655)
- financial assets measured at fair value	(89,092)	(193,228)
- other financial assets obligatorily measured at fair value	(10,587,383)	3,136,113
- financial assets measured at fair value through other comprehensive income	403,645,485	54,261,752
- financial assets measured at amortised cost	(2,065,136,467)	(1,086,479,155)
- other assets	5,685,656	(182,781,818)
3. Cash flows generated/used by the financial liabilities	1,698,966,388	662,452,060
- financial liabilities measured at amortised cost	1,737,981,979	582,695,250
- financial liabilities held for trading	12,566,458	255,812
- financial liabilities measured at fair value	(6,162,793)	(884,563)
- other liabilities	(45,419,256)	80,385,562
Net cash flow generated/used by operating activities	65,513,312	(536,827,838)

	Amount	
	31/12/2019	31/12/2018
B. INVESTMENT ACTIVITIES		
1. Cash flows generated by	10,113,393	13,036,805
- sales of equity investments	3,082,970	82,620
- dividends collected on equity investments	7,030,295	12,938,261
- sales of tangible assets	128	15,924
- sales of intangible assets	-	-
- sales of business units	-	-
2. Cash flows used by	(48,196,570)	(49,221,633)
- equity investment acquisitions	(36,235,719)	(46,278,000)
- tangible asset acquisitions	(10,489,679)	(2,078,740)
- intangible asset acquisitions	(1,471,172)	(864,893)
- purchases of business units	-	-
Net cash flow generated/used by investment activities	(38,083,178)	(36,184,828)
C. FUNDING ACTIVITIES		
- issues/purchases of own shares	-	-
- issues/purchases of equity instruments	-	-
- dividend distribution and other	(300,000)	(259,417)
Net cash flow generated/used by funding activities	(300,000)	(259,417)
NET CASH FLOW GENERATED/USED DURING THE YEAR	27,130,134	(573,272,084)

KEY:

(+) generated

(-) used

Reconciliation

ITEMS	Amount	
	31/12/2019	31/12/2018
Cash and cash equivalents at the beginning of the year	123,872,910	697,144,994
Total net cash flows generated/used during the year	27,130,134	(573,272,084)
Cash and cash equivalents: impact of exchange differences	-	-
Cash and cash equivalents at year-end	151,003,044	123,872,910

Separate financial statements of Cassa Centrale Banca

EXPLANATORY NOTES

Part A - Accounting policies

A.1 - General part

Section 1 - Statement of compliance with international accounting standards

Following the issuing of Italian Legislative Decree no. 38/2005, Cassa Centrale Banca S.p.A. Credito Cooperativo Italiano (hereinafter also "Cassa Centrale Banca" or the "Bank") is required to prepare the separate financial statements according to the international accounting standards IAS/IFRS issued by the International Accounting Standards Board (IASB), as transposed by the European Union. The Bank of Italy defines the formats and rules for the preparation of financial statements in Circular no. 262 of 22 December 2005, including subsequent updates. The sixth update is currently in force, issued on 30 November 2018.

These separate financial statements were prepared in compliance with the international accounting standards issued by IASB and endorsed by the European Union according to the procedure per Article 6 of Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002 and in force at the date of this document, including the interpretative documents of the International Financial Reporting Interpretations Committee (IFRIC) and Standing Interpretations Committee (SIC), limited to those applied for the drafting of the separate financial statements as at 31 December 2019.

In interpreting and applying the new international accounting standards, reference was also made to the Framework for the Preparation and Presentation of Financial Statements (so-called Conceptual Framework or the Framework), issued by the IASB. In terms of interpretation, also considered were the documents on the application of IAS/IFRS in Italy, prepared by the Italian Accounting Body (OIC) and the Italian Banking Association (ABI).

In the absence of a standard or an interpretation specifically applicable to a particular transaction, the Bank uses the professional judgement of its departments in developing accounting recognition rules which make it possible to provide a reliable financial disclosure, necessary for guaranteeing that the financial statements give a true and fair view of the Bank's equity and financial position, reflecting the economic substance of the transaction as well as the relevant related aspects.

In formulating these accounting recognition rules, reference was made, as much as possible, to the provisions contained in the international accounting standards and the associated interpretations that address similar cases.

Section 2 - General preparation criteria

The separate financial statements are drafted by applying the general principles set out in IAS 1, essentially revised in 2007 and endorsed by the European Commission in December 2008, and specific accounting standards approved by the European Commission, as well as in compliance with the general assumptions set forth in the aforementioned Framework prepared by the IASB for the preparation and presentation of financial statements. No derogations to the application of IAS/IFRS were applied.

The financial statements consist of the statement of financial position, the income statement, the statement of comprehensive income, the cash flow statement and these Explanatory Notes, together with the director's report on operations and the situation of the Bank.

In addition, IAS 1 'Presentation of financial statements', requires the representation of a 'statement of comprehensive income' also illustrating, among the other income components, the changes in the value of the assets recorded in the period as a contra-entry to equity. In line with the information contained in the aforementioned Bank of Italy Circular no. 262 of 2005 and subsequent updates, the Bank chose, as permitted by the accounting standard in question, to use two statements to provide the statement of comprehensive income: a first statement highlighting the traditional components of the income statement and the relevant result for the year, and a second statement that, based on the latter, shows the other components of the statement of comprehensive income.

In compliance with the provisions of Article 5 of Legislative Decree no. 38/2005, the separate financial statements are prepared using the Euro as the accounting currency.

In preparing the separate financial statements, the formats and rules of preparation set forth in Bank of Italy Circular no. 262/2005 were used, based on the latest update in force.

The requests sent on 23 December 2019 by the aforementioned Supervisory Body in relation to information on multi-originator sale transactions of credit portfolios, for which reference should be made to the specific section of Part E - Information on risks and related hedging policies of these Explanatory Notes, have also been considered.

The accounts of the statement of financial position and the income statement comprise items, sub-items and additional detailed information. Items not valued either in the current or the previous year are not reported.

In the income statement and the related section of the Explanatory notes, revenues are recorded without sign, while the costs are indicated in brackets. In the statement of comprehensive income the negative amounts are stated in brackets.

Furthermore, the complementary information deemed suitable to supplement the financial statements data was provided in the Explanatory Notes, also when not specifically required by the legislation.

The statement of financial position and the income statement as well as the statement of comprehensive income, the statement of changes in equity and the cash flow statement are expressed in Euros, while the Explanatory Notes are expressed in thousands of Euro unless specified otherwise. Any difference found between the amounts in the Explanatory Notes and the financial statements are attributable to rounding up.

The separate financial statements are drafted according to the going concern basis. In particular, the joint cooperation between the Bank of Italy, Consob and Isvap concerning the application of IAS/IFRS, with document 2 of 6 February 2009 'Information to be provided in the financial reports about going concern, financial risks, the checks on the impairment of the assets and the uncertainties as to the use of estimates', as well as subsequent document 4 of 4 March 2010, "Information to be provided in financial reports in relation to impairment testing of assets on the contractual clauses of financial debts, on debt restructuring and on the "Hierarchy of fair value"", required the Directors to make particularly accurate assessments of the existence of the assumption of going concern.

On this point, paragraphs 25-26 of IAS 1 establish that: *'when preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. Financial statements shall be prepared on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, those uncertainties shall be disclosed. When financial statements are not prepared on a going concern basis, that fact shall be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern'.*

The situation of the financial markets and the real economy and the still uncertain forecasts made with reference to the short/medium-term require particularly precise valuations to be performed as regards the going concern assumption, since the results history of the company and its easy access to financial resources may not be sufficient in the current context. On this point, having examined the risks and uncertainties connected with the current macroeconomic context, it is reasonable to expect that the Bank will continue its operations in the foreseeable future. These separate financial statements were consequently prepared in the assumption of going concern.

Furthermore, estimation processes are based on past experience and other factors considered reasonable in this case, and were adopted to estimate the carrying amount of assets and liabilities that cannot be easily inferred from other sources. In particular, estimation processes were adopted that support the carrying amount of some of the most important valuation items posted in the accounts, according to reference regulations. These processes are mainly based on estimates of future recoverability of the values in the accounts and were carried out on a going concern basis. The main cases for which subjective evaluations are required to be made by the Board of Directors include:

- the quantification of losses due to the reduction of loan values and, in general, of other financial assets;
- the determination of the fair value of financial instruments;
- the assessment of congruity in the value of goodwill and other intangible assets;
- the measurement of personnel funds and provisions for risks and charges;
- the estimates and assumptions regarding recoverability of deferred tax assets.

The information provided on the accounting policies applied for the main aggregate values of the financial statements includes the necessary details for identifying the main assumptions and subjective evaluations made in preparing the separate financial statements. For further details on the breakdown and relative carrying amounts of the specific statement captions affected by said estimates, see the relevant sections of the Explanatory Notes. The processes adopted support the carrying amounts on the date of preparing the separate financial statements. The measurement process turned out to be particularly complex in consideration of the persisting uncertainty of the macroeconomic and market context, characterised by the considerable volatility of the financial parameters determined for the measurement as well as indicators of impairment of the credit quality that remain high. These parameters and the information used to check the mentioned values are significantly affected by these factors, which may undergo rapid and unforeseeable changes.

The separate financial statements also make reference to the general preparation criteria listed below, where applicable:

- principle of truth and fairness and completeness in the presentation of the statement of financial position, income statement and financial position (true and fair view);
- accrual principle;
- principle of consistent presentation and classification from one year to another (comparability);
- principle of prohibited offsetting of entries, except where expressly permitted;
- principle of prevalence of substance over form;
- principle of prudence in exercising the necessary judgement to make the estimates required in conditions of uncertainty so that the assets or revenues are not overestimated and the liabilities or costs are not underestimated, without this implying the creation of hidden reserves or excessive allocations;
- principle of neutral nature of information;
- principle of relevance/significance of the information.

Section 3 - Subsequent events

In the period between the date of the separate financial statements and their approval by the Board of Directors, no events occurred which result in an amendment of the figures approved. The accounting estimates as at 31 December 2019 were made on the basis of a series of macroeconomic and financial indicators expected at that date.

Particular mention should be made of the situation regarding the events and developments of the COVID-19 pandemic which initially affected China and then took on a global dimension, affecting, among others, the United States of America, Europe and Italy in particular.

This pandemic represents an unprecedented systemic event with repercussions on public health and the economies of the countries most affected.

In view of the impact that the COVID-19 pandemic is having on European economies and in particular on the Italian economy, leading financial analysts have significantly revised the GDP growth estimates for 2020 downwards, whilst forecasting a recovery in 2021 thanks to the economic support measures that are being implemented and that will be implemented in the affected countries. In this context, among other things, there was a significant increase in the BTP-BUND spread and more generally in the volatility of the financial markets.

At this stage, the banks have a crucial role to play in keeping the system going as they are called upon to provide the necessary liquidity to the real economy. On the other hand, the monetary and banking supervisory authorities have put in place unconventional measures in terms of monetary policy and prudence.

On the monetary policy front, the ECB's extraordinary measures are particularly important, including: the Pandemic Emergency Purchase Programme, the extension of the Corporate Sector Purchase Programme, the extension of the scope of the additional credit schemes, the increase in the maximum amount that can be requested under TLTRO-III from 30% to 50% of the amount of eligible loans as at 28 February 2020 and an additional long-term auction programme (TLTRO).

On the regulatory front, the following measures are particularly important: the postponement of the stress tests envisaged in 2020, flexibility to operate below the capital level defined by Pillar II (P2R and P2G), the potential to operate below the capital conservation buffer and the LCR buffer, flexibility in the partial use of equity instruments that do not qualify as CET 1 to meet Pillar II requirements and to fill capital needs.

Furthermore, with regard to the classification and valuation of loans, the ECB has introduced flexibility measures with regard to the unlikely to pay classification criteria for publicly guaranteed exposures as part of the measures implemented by euro area governments and, among other aspects, recommended banks to take better account of more stable long-term macroeconomic scenarios in their expected loss estimates (IFRS 9).

Finally, the EBA has issued specific guidelines on accounting and prudence issues related to both public and private moratoria granted by banks in relation to the pandemic crisis. In particular, the EBA has specified that such moratoria should not automatically be classified as forbearance measures, without prejudice to banks' obligation to assess the creditworthiness of debtors benefiting from such moratoria.

In the face of the pandemic, several legislative measures were implemented in Italy containing, first and foremost, measures to contain the epidemic (Law Decree no. 6 on "Urgent measures for the containment and management of the COVID-19 epidemiological emergency"), which led to the suspension of several important economic activities and, subsequently, support for the national economy (Law Decree no. 18 of 17 March 2020, also known as the "Cura Italia Decree"). Among the measures issued by the Italian government, of particular note are: measures to support liquidity through the banking system and the possibility of transforming deferred tax assets (DTA) into tax credits under certain conditions.

With reference to the issue of moratoriums for the COVID-19 emergency, the Bank has promptly implemented all actions to encourage the granting of benefits to its customers. These benefits include the following interventions:

- measures made available at the Bank's discretion as early as the beginning of March 2020;
- adhesion to the Addendum to the 2019 Credit Agreement promoted by ABI;
- Law Decree no. 18 of 17 March 2020.

The above benefits mainly consist in the suspension of the loan for a variable duration, depending on the type of intervention, the principal or interest or both, the postponement of the maturity of the loan and the non-revocability of certain exposures.

In response to circumstances of an exceptional macroeconomic nature and volatility in the financial markets, the Bank promptly and proactively updated its portfolio management strategy for the financial instruments in order to support its contribution to the interest margin, through greater use of TLTRO-III auctions, greater diversification of its debt securities portfolio and an increase in the proportion of financial assets allocated to the Hold to Collect business model.

In light of the above, despite the significant impact that the COVID-19 pandemic may have on the Bank's profitability levels in 2020, linked, among other things, to a probable increase in the cost of credit, it is believed that the many measures outlined above, together with the capital and liquidity profile of the Bank and the Cassa Centrale Group, and the efforts made by governments and central banks, make it possible to confirm the going concern assumption underlying the preparation of these financial statements.

The Bank considers this epidemic to be an event occurring after the reporting date that does not involve adjustments to the values of the same as at 31 December 2019.

In view of the above, the Bank is monitoring the phenomenon in order to promptly identify potential impacts on the current 2020 financial year.

Section 4 - Other matters

a) Newly applied accounting standards in 2019

During 2019, the following standards and interpretations entered into effect:

- IFRS 16 Leasing (Regulation (EU) no. 1986/2017) which replaced IAS 17 and IFRIC 4;
- amendments to IFRS 9: Prepayment elements with negative compensation (Regulation (EU) no. 498/2018). With the aforementioned amendment, IFRS 9 allows instruments that contain prepayment clauses that provide for the possibility or obligation to repay the debt early at a variable amount even lower than the residual debt and accrued interest (thus configuring a negative compensation) to be considered compliant with the Solely Payment of Principal and Interest test (hereinafter also "SPPI test");
- IFRIC Interpretation 23: Uncertainty of income tax treatment (Regulation (EU) no. 1595/2018). The interpretation clarifies the treatment of current and deferred tax assets and liabilities in cases of uncertainty about income tax treatment;
- amendments to IAS 28: Investments in associates and joint ventures (Regulation (EU) no. 237/2019). The amendment clarifies that an entity also applies IFRS 9 to other financial instruments in associates or joint ventures to which the equity method is not applied. Such instruments include long-term interests (e.g. a loan) that, in substance, represent the entity's additional net investment in the associate or joint venture;
- amendments to IAS 19: Plan amendment, curtailment or settlement (Regulation (EU) no. 402/2019). The amendments are designed to clarify that, after the adjustment, curtailment or settlement of a defined benefit plan, an entity applies the updated assumptions from the restatement of its net defined benefit liability (asset) for the remainder of the reporting period;
- annual cycle of improvements to IFRS 2015-2017 (Regulation (EU) no. 412/2019) involving amendments to IAS 12 Income Taxes, IAS 23 Borrowing Costs, IFRS 3 Business Combinations and IFRS 11 Joint Arrangements.

Transition to IFRS 16

Regulatory provisions

On 31 October 2017, Regulation (EU) no. 1986/2017 was issued, which acknowledged new accounting standard IFRS 16 Leases at EU level. IFRS 16 replaces IAS 17 and the relevant interpretations IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases - Incentives' and SIC 27 'Evaluating the substance of transactions involving the legal form of a lease', with reference to the accounting of long-term leases and rental contracts.

The new accounting standard has standardised the accounting treatment of operating and finance leases for the lessee. In fact, IFRS 16 requires the lessee to recognise:

- in the statement of financial position: i) a financial liability, which represents the present value of future payments that the company undertakes to make in relation to the lease, and ii) an activity that represents the 'right of use' of the asset involved in the lease;
- in the income statement: i) the financial charges connected with the aforementioned financial liability and ii) the amortisation related to the above-mentioned 'right of use'.

The lessee recognises in the income statement the interest deriving from the lease liability and the amortisation of the right of use. The right of use is amortised over the effective duration of the underlying contract.

This principle is applicable for financial years starting on or after 1 January 2019.

Consistent with the choices made by the Group, the Bank has applied the new standard using the prospective method and excluding short-term contracts, i.e. contracts with a duration of less than twelve months and low-value contracts, i.e. contracts involving a low-value asset, from the scope of application using the practical expedients provided for in paragraph 6 of IFRS 16. Cassa Centrale Banca has also applied IFRS 16 to embedded leases, i.e. contracts other than hire/leasing/rental contracts that substantially contain long-term rental, leasing or hire.

The effects of a lessee's application of IFRS 16 consist of the following:

- an increase in assets due to the registration of rights of use;
- an increase in liabilities resulting from the recognition of the financial liability for lease payments;
- a reduction in operating costs, relating to rents;
- an increase in financial charges attributable to interest on the lease liability and the increase in amortisation and depreciation relating to the right of use.

It is therefore clarified that, with reference to the income statement, the application of IFRS 16 does not have any impact with respect to the previous IAS 17 on the entire duration of contracts, but a spread of the effects over time.

For details on the effects on the Bank's statement of financial position and income statement of the first-time adoption of IFRS 16, please refer to the following paragraph, "The effects of the first-time adoption of IFRS 16".

The choices made by the Bank

The choices made by the Bank with regard to the implementation of IFRS 16 are fully consistent with those applied by the Group.

In more detail, Cassa Centrale Banca adopted IFRS 16 as from 1 January 2019 using the modified retrospective approach, which provides for the recognition of a lease liability equal to the present value of future lease payments and a right of use for the same amount. This approach does not therefore have an impact on equity.

The Bank has decided to adopt the practical expedient described in paragraph 6 of IFRS 16 and has therefore excluded from the scope of application (i) contracts with a residual useful life at the date of first application of less than twelve months and (ii) contracts involving assets with a value of less than EUR 5,000. With reference to these two scenarios, rental fees have been recorded under operating costs in the income statement.

The main choices made by the Bank in relation to the first-time adoption of IFRS 16 are summarised below.

Discount rate

The Bank, in application of IFRS 16, uses the weighted average rate of funding at maturity.

Contract duration

The duration of the contract corresponds to the non-cancellable period during which the individual company is subject to an obligation to the lessor and has the right to use the leased property. The following form part of the duration of the contract:

- the periods covered by the option to extend the lease, if the lessee is reasonably certain to exercise the option;
- the periods covered by the option to terminate the lease, if the lessee is reasonably certain not to exercise the option.

Periods covered by an option to terminate the bilateral contract are not part of the duration of the contract. In such cases the duration of the contract is limited to the notification period for the exercise of the option.

At the date of first application of the standard and for each contract entered into after 1 January 2019, the Bank determined the duration of the contract on the basis of the information available at that date.

Lease and non-lease components

The Bank has considered separating the service and lease components. Only the lease components participate in the definition of the lease liability, while the service components maintain the same accounting treatment as other operating costs.

The effects of the first-time adoption of IFRS 16

The first-time adoption of IFRS 16 resulted in the recognition of financial lease liabilities amounting to EUR 3,904 thousand and assets for right of use of the same amount.

The Bank availed itself of the practical expedient offered by the standard that allows it to maintain the valuation made on contracts previously identified as leases in application of the previous IAS 17 standard.

It should be noted that, with reference to the contracts to which IFRS 16 applies as at 1 January 2019, the differences between the Bank's commitments as at 31 December 2018 in respect of these contracts and the corresponding financial lease liability as at 1 January 2019 are mainly due to the effect of discounting, as well as the different treatment of renewal options in relation to the definition of the contract duration.

The weighted average of the lessee's marginal lending rate applied for the purposes of defining the lease liability is 1.32%.

With regard to information on assets by right of use, please refer to part B - Information on the statement of financial position, assets, paragraph 8.6.

With regard to information on financial payables for leases, please refer to part B - Information on the statement of financial position, liabilities, paragraph 1.2.

With regard to information on interest expense on payables for leases and other charges related to rights of use acquired through lease, profits and losses deriving from sale and leaseback transactions and income deriving from sub-lease transactions, please refer to Part C - Information on the income statement, paragraphs 1.3 and 12.1.

b) Approved accounting standards that will come into force on 1 January 2020

On 15 January 2020, Regulation (EU) no. 34/2020 was approved, which is mandatory from 1 January 2020. The Regulation incorporates certain amendments to IFRS 9, IAS 39 and IFRS 7 on hedge accounting with a view to regulating the effects of the Interest Rate Benchmark reform on existing hedges and the designation of new hedging relationships.

c) Accounting standards still not endorsed which will enter into force in the next few years

On the other hand, the following amended accounting standards have not yet been endorsed by the European Commission:

- IFRS 14 Regulatory deferral accounts (January 2014);
- IFRS 17 Insurance contracts (May 2017);
- modification of the references to the Conceptual Framework in the IFRS standards (March 2018);
- amendment to IFRS 3: definition of business (October 2018);
- amendments to IAS 1 and IAS 8: definition of material (October 2018).

d) Audit of the annual accounts

The financial statements are audited by the Independent Auditors KPMG S.p.A. (or "External Auditors"), in execution of the Resolution of the Shareholders' Meeting of 22 May 2010, which assigned this company the task of auditing the accounts for the period 2010-2018. With CONSOB resolution no. 20934 of 14 May 2019, the request for an extension of the duration of the statutory audit assignment for two years (2019 and 2020) for Cassa Centrale Banca was accepted, pursuant to Article 17, para. 6 of Regulation (EU) no. 537/2014. The Shareholders' Meeting of Cassa Centrale Banca on 28 May 2019 therefore appointed KPMG S.p.A. for the financial years 2019 and 2020.

e) Incorporation of the VAT Group

In December 2018, the Bank, together with the other companies participating in the Group, exercised the option to set up the "Cassa Centrale VAT Group", pursuant to Article 70-bis of Presidential Decree no. 633 of 26 October 1972, with a restriction for the entire duration of the option (three years of 2019-2021 and automatic renewal unless revoked).

As a result of the option, supplies of services and goods between participating entities are, in most cases, not relevant to the tax.

Supplies of goods and services carried out by a participating party to an external party are deemed to be carried out by the VAT Group; supplies of goods and services made by an external party to a participating party are deemed to be made to the VAT Group.

f) Information pursuant to Annex A of First Part, Title III, Chapter 2 of Bank of Italy Circular no. 285 of 17 December 2013

Government Grants Received

In this regard, it should be noted, also in accordance with the provisions of so-called Annual market and competition law (Law no. 124/2017), that, in 2019, the Bank received the grants from the public administrations indicated in the table below. It should also be noted that, in compliance with the provisions envisaged for the compilation of the disclosure in question, transactions with Central Banks for financial stability purposes or transactions whose objective is to facilitate the monetary policy transmission mechanism are excluded.

REASON FOR GRANTS	Amounts received
Grants from Regional Entities (other than Training Grants)	-
Grants from Provincial Entities (other than Training Grants)	-
Grants from Central Government (other than Training Grants)	-
Grants from Social Security Institutions (other than Training Grants)	-
Training Grants	49
Other (other than Training Grants)	-

A.2 – Part relating to the main items in the accounts

The accounting standards adopted for the preparation of these separate financial statements are shown below.

For the preparation of the separate financial statements as at 31 December 2019, the same principles and accounting methods were used as those applied for the annual financial statements as at 31 December 2018, as amended by the new accounting standards which came into force in 2019. The presentation of the standards adopted was carried out with reference to the phases of classification, recognition, valuation, derecognition of the assets and liabilities, just as for the methods of recognition of revenues and costs.

1 – Financial assets measured at fair value through profit or loss

Classification criteria

Financial assets measured at fair value through profit or loss include:

- financial assets which, according to the business model of the Bank, are held for trading purposes, i.e. debt and equities and the positive value of derivative contracts held for trading purposes. These assets are included under asset item 20. Financial assets measured at fair value through profit or loss, sub-item "a) financial assets held for trading";
- the financial assets measured at fair value at the moment of initial recognition where the conditions are satisfied (that happens if, and only if, on designation at fair value an accounting asymmetry is eliminated or significantly reduced). These assets are included under asset item 20. Financial assets measured at fair value through profit or loss, sub-item "b) financial assets measured at fair value";
- the financial assets do not pass the SPPI test (financial assets whose contractual terms do not make exclusive provision for the repayments of principal and interest payments on the amount of principal to be repaid) or that in any case, are measured at fair value as per mandatory requirements. These assets are included under asset item 20. Financial assets measured at fair value through profit or loss, sub-item "c) other financial assets obligatorily measured at fair value".

Therefore, the Bank recognises the following in this item:

- debt securities and loans included in an Other business model (not attributable to Hold to Collect or Hold to Collect and Sell business models) or that do not pass the SPPI test (including therein UCITS units);

- equity instruments, excluded from those addressed by IFRS 10 and IAS 27 (controlling interests, associates or joint ventures), not measured at fair value through other comprehensive income. In fact, IFRS 9 provides for the possibility of exercising, at the time of initial recognition, the irreversible option (so-called OCI option) to recognise an equity security at fair value through other comprehensive income.

This item also includes derivative contracts held for trading that have a positive fair value. The offsetting between the positive and negative present values deriving from transactions with the same counterparty is only possible if there is a legal right to offset the amounts recognised in the accounts and if there is an intention to settle on a net basis the items subject to offsetting.

The reclassification of a financial asset to a different accounting category is permitted only in the event of a change in the business model. Exceptions to this rule are equities for which no reclassification is permitted. More specifically, changes in business model - which in any case should very rarely happen - must be decided by the Bank's senior management as a result of external or internal changes, must be relevant to the Bank's operations and must be demonstrable to external parties. A change in business model could, for example, occur in the case of the acquisition, termination or divestment of a business line or branch of business. In the rare cases of changes to the business model, financial assets measured at fair value through profit or loss may be reclassified to financial assets measured at amortised cost or to financial assets measured at fair value through other comprehensive income.

The Bank applies the reclassification prospectively from the date of reclassification which, in fact, coincides with the first day of the first financial year following that in which the change to the business model was approved.

In the event of reclassification from this category to the amortised cost category, the fair value at the date of reclassification represents the new gross carrying amount on the basis of which the effective interest rate is determined.

If, on the other hand, the category in question is reclassified to the category of financial assets measured at fair value through other comprehensive income, the fair value at the date of reclassification is the new gross carrying amount and the effective interest rate is determined on the basis of this value at the date of reclassification. In addition, for the purposes of applying the provisions on write-downs from the date of reclassification, the latter is considered to be the date of initial recognition.

Recognition criteria

The initial recognition of financial assets takes place at the settlement date if settled with the time intervals set by market practices (regular way), otherwise at the trade date. In the case of recognising the financial assets at the settlement date, the profits and losses recorded between the trade date and the settlement date are recognised in the income statement. Upon initial recognition the financial assets held for trading are recorded at the fair value; unless otherwise indicated, this is represented by the amount paid or by the amount disbursed for executing the transaction, without considering the costs or income referring to it and attributable to the same instrument, which are recorded directly in the income statement.

Measurement criteria

Following initial recognition, the financial assets measured at fair value through profit or loss are valued at fair value with recognition of the related changes in the income statement. If the fair value of a financial asset becomes negative, this entry is booked as a financial liability. The change in the fair value of derivative contracts with "customers" counterparties takes their credit risk into account.

To calculate the fair value of the financial instruments listed in an active market, the market listings are used. In the absence of an active market, commonly adopted estimation methodologies are used to factor in all relevant risk factors related to the instruments.

For further details on how fair value is determined, please refer to paragraph "A.4 - Information on fair value" of this part A of the Explanatory Notes.

Derecognition criteria

The financial assets measured at fair value through profit or loss are derecognised when the contractual rights on the cash flows deriving from the same expire or when the financial asset is sold substantially transferring all the associated risks and rewards.

When it is not possible to ascertain the substantial transfer of the risks and rewards, the financial assets are derecognised from the financial statements unless control of said assets has been maintained. Conversely, if the Bank has maintained control, even only partial, it is necessary to retain the assets in the financial statements to the extent of the continuing involvement, measured by the exposure to changes in value of the assets transferred and the changes in their cash flows.

The securities delivered as part of a transaction which contractually envisages their repurchase are not derecognised from the financial statements.

Criteria for the recognition of the income components

The positive income components represented by the interest income on securities and relating similar income, as well as the differentials and margins accrued until the date of the financial statements relating to the derivative contracts classified to the item, but managerially connected to the assets or liabilities measured at fair value (so-called Fair Value Option), are entered in the income statement items relating to interest on an accrual basis. The profits and losses from the disposal or repayment and the profits and losses not realised deriving from the changes in the fair value of the trading book are classified in the income statement under item 80. Net result from trading for instruments held for trading and in item 110. Net result of other financial assets and liabilities measured at fair value through profit or loss for instruments mandatorily measured at fair value and for instruments measured at fair value.

2 – Financial assets measured at fair value through other comprehensive income

Classification criteria

The financial assets recorded under this item include:

a. debt securities, loans and receivables for which:

- the business model associated to financial assets aims at collecting both the cash flows envisaged contractually and the flows deriving from sale (Hold to Collect and Sell business model) and
- the SPPI Test is passed as the contractual terms only provide for repayments of principal and interest payments on the amount of principal to be repaid;

b. equities for which the Bank has exercised the so-called OCI option as an irrevocable choice to present subsequent changes in the fair value of these instruments in other comprehensive income. In this respect, it should be noted that the exercise of the so-called OCI option:

- shall be made at the time of initial recognition of the instrument;
- must be carried out at the level of the individual financial instrument;
- is irrevocable;
- is not applicable to instruments that are held for trading or represent contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies.

The reclassification of a financial asset to a different accounting category is permitted only in the event of a change in the business model. Exceptions to this rule are equities for which no reclassification is permitted. More specifically, changes in business model - which in any case should very rarely happen - must be decided by the Bank's senior management as a result of external or internal changes, must be relevant to the Bank's operations and must be demonstrable to external parties. A change in business model could, for example, occur in the case of the acquisition, termination or divestment of a business line or branch of business. In the rare cases of changes to the business model, financial assets measured at fair value through other comprehensive income may be reclassified to financial assets measured at amortised cost or to financial assets measured at fair value through profit or loss.

The Bank applies the reclassification prospectively from the date of reclassification which, in fact, coincides with the first day of the first financial year following that in which the change to the business model was approved.

In the event of reclassification from this category to the amortised cost category, the fair value at the date of reclassification becomes the new gross value for the purposes of amortised cost. The cumulated profits and losses recorded in the OCI reserve are eliminated from equity and adjusted for the fair value of the financial assets at the date of reclassification. Consequently, the financial asset is valued at the date of reclassification as if it had always been valued at amortised cost. The effective interest rate and the valuation of expected losses are not restated following the reclassification.

If, on the other hand, this category is reclassified to the category of financial assets measured at fair value through profit or loss, the fair value at the date of reclassification becomes the new gross carrying amount. The cumulated profits and losses recognised in the OCI reserve are reclassified to the income statement at the date of reclassification.

Recognition criteria

The initial recognition of financial assets takes place at the settlement date if settled with the time intervals set by market practices (regular way), otherwise at the trade date. In the event of recognising financial assets at the settlement date, the profits and losses recorded between the trade date and the settlement date are recognised in the equity. Upon initial recognition, the financial assets are recognised at fair value; it is represented, unless otherwise indicated, by the amount paid for executing the transaction, including the transaction costs or income directly attributable to the same instrument.

Measurement criteria

Following initial recognition, the debt securities, loans and receivables classified in this item continue to be measured at fair value. For the aforementioned financial assets, the following are recognised:

- in the income statement, the interest calculated with the effective interest rate method, which considers the depreciation of both the transaction costs and the differential between the cost and the repayment value;
- in equity, in a specific reserve, changes in fair value (net of tax) until the asset is derecognised. When the instrument is fully or partially disposed, the cumulated profit or loss in the OCI reserve are booked to the income statement (so-called recycling).

Equities classified under this item also continue to be measured at fair value after initial recognition. In this case, however, unlike in the case of debt securities, loans and receivables, the cumulated profit or loss included in the OCI reserve must never be reversed to the income statement (so-called no recycling). In fact, in case of transfer, the OCI reserve may be transferred to a specific available equity reserve. For these equities, only the component relating to dividends received is recorded in the income statement.

With reference to the methods used to determine the fair value of financial assets, please refer to paragraph "A.4 - Information on fair value" of this part A of the Explanatory Notes.

It should also be noted that financial assets measured at fair value through other comprehensive income, both in the form of debt securities, loans and receivables, are subject to impairment in accordance with IFRS 9 in the same way as financial assets measured at amortised cost. Therefore, for the aforementioned instruments, a value adjustment to cover expected losses will be recognised in the income statement. The estimate of the expected loss using the expected credit loss (hereinafter also referred to as "ECL") method is based on the allocation of each position to the three reference stages as explained in more detail in the paragraph "Impairment of financial assets".

The equity instruments are not subject to the impairment process.

Derecognition criteria

The financial assets measured at fair value through other comprehensive income are derecognised when the contractual rights on the cash flows deriving from the same expire or when the financial asset is sold substantially transferring all the associated risks and rewards.

When it is not possible to ascertain the substantial transfer of the risks and rewards, the financial assets are derecognised from the financial statements unless control of said assets has been maintained. Conversely, if the Bank has maintained control, even only partial, it is necessary to retain the assets in the financial statements to the extent of the continuing involvement, measured by the exposure to changes in value of the assets transferred and the changes in their cash flows.

The securities delivered as part of a transaction which contractually envisages their repurchase are not derecognised from the financial statements.

Criteria for the recognition of the income components

Interest income on debt securities, loans and receivables - calculated on the basis of the effective interest rate - is recognised in the income statement on an accruals basis. For these instruments, the effects of impairment and any changes in exchange rates are also recognised in the income statement, while other gains or losses deriving from changes in fair value are recognised in a specific equity reserve. At the moment of full or partial disposal, the cumulated profit or loss in the valuation reserve are reversed, wholly or partly to the income statement (so-called recycling).

With reference to equity instruments, the only component that is recognised in the income statement is dividends. The latter are recognised in the income statement only when (para. 5.7.1A of IFRS 9):

- the right of the entity to receive the dividend payment arises;
- it is likely that the economic benefits from the dividend will flow to the entity;
- the amount of the dividend may be reliably estimated.

Normally the aforementioned conditions occur at the time of collection of the dividend following the shareholders' resolution approving the financial statements and distribution of the result for the year by the investee company.

In the case of equities, changes in fair value are recognised as a contra-entry to equity and must not be subsequently transferred to the income statement even if they are realised (no recycling).

3 – Financial assets measured at amortised cost

Classification criteria

Financial assets measured at amortised cost include debt securities, loans and receivables that jointly meet the following conditions:

- the business model associated to financial assets aims at collecting the cash flows envisaged contractually (Hold to Collect business model);
- the SPPI Test is passed as the contractual terms only provide for repayments of principal and interest payments on the amount of principal to be repaid.

Therefore, in the presence of the aforementioned conditions, the Bank recognises in this item:

- loans to banks (current accounts, security deposits, debt securities, etc.). This includes operating receivables related to the provision of financial activities and services as defined by the TUB and the TUF (e.g. distribution of financial products). Also included are loans to Central Banks (e.g. compulsory reserve), other than deposits on demand included under the cash and cash equivalents item;
- loans to customers (mortgages, finance lease transactions, factoring transactions, debt securities, etc.). Also included are loans to post offices and the Cassa Depositi e Prestiti, variation margins with compensation bodies for transactions on derivative contracts and operating receivables related to the provision of financial activities and services as defined by the TUB and the TUF (e.g. servicing activities).

The reclassification of a financial asset to a different accounting category is permitted only in the event of a change in the business model. Exceptions to this rule are equities for which no reclassification is permitted. More specifically, changes in business model - which in any case should very rarely happen - must be decided by the Bank's senior management as a result of external or internal changes, must be relevant to the Bank's operations and must be demonstrable to external parties. A change in business model could, for example, occur in the case of the acquisition, termination or divestment of a business line or branch of business. In the rare cases of changes to the business model, financial assets measured at amortised cost may be reclassified to financial assets measured at fair value through other comprehensive income or to financial assets measured at fair value through profit or loss.

The Bank applies the reclassification prospectively from the date of reclassification which, in fact, coincides with the first day of the first financial year following that in which the change to the business model was approved.

In the event of reclassification from this category to the fair value category through other comprehensive income, any differences between the previous amortised cost and the fair value at the date of reclassification are recognised in the OCI reserve. The effective interest rate and the valuation of expected losses are not restated following the reclassification.

If, on the other hand, the category in question is reclassified to the category of financial assets measured at fair value through profit or loss, any difference between the previous amortised cost and the fair value at the date of reclassification is recognised in the income statement.

Recognition criteria

Financial assets are first recognised on the disbursement date (in the case of loans or receivables) or on the settlement date (in the case of debt securities) based on the fair value of the financial instrument. The fair value is normally equal to the amount disbursed or the subscription price, including income and charges directly attributable to the individual instrument and determinable from the origin of the transaction, even when liquidated at a subsequent time. Excluded are the costs that, though having the above mentioned characteristics, are subject to repayment by the debtor counterparty or can be classified among the normal internal costs of an administrative nature.

In the case of assets for which the net amount of the loan disbursed or the price paid on subscription of the security does not correspond to the fair value of the asset, for example due to the application of an interest rate significantly lower than the market rate, initial recognition is made on the basis of the fair value determined using valuation techniques (e.g. discounting future cash flows at an appropriate market rate).

In some cases, the financial asset is considered impaired upon initial recognition (so-called impaired financial assets acquired or originated), for example because the credit risk is very high and, in the case of acquired, it is acquired with large discounts. In such cases, at the time of initial recognition, an adjusted effective interest rate is calculated for the receivable which includes, in the cash flow estimates, the expected losses calculated over the life of the receivable. The above rate will be used for the application of the amortised cost criterion and the related calculation of interest to be recognised in the income statement.

Measurement criteria

After initial recognition, financial assets are measured at amortised cost using the effective interest rate method. Amortised cost is the amount at which the financial asset is measured on initial recognition less repayments of principal, plus or minus the cumulated amortisation, according to the effective interest criterion, of any difference between that initial amount and the amount at maturity and, for financial assets, adjusted for any provision to cover losses. The effective interest rate is identified by calculating the rate that equals the current value of the future flows of the asset, for principal and interest, to the disbursed amount including the costs/income attributable to said financial asset.

The exceptions to the application of the amortised cost method concern short-term assets, assets that do not have a defined maturity date and receivables subject to revocation. For the above cases, the application of the amortised cost criterion is considered not significant and the valuation is maintained at cost.

It should also be noted that financial assets measured at amortised cost, both in the form of debt securities and loans and receivables, are subject to impairment in accordance with IFRS 9. Therefore, for the aforementioned instruments, a value adjustment to cover expected losses will be recognised in the income statement. The estimate of the expected loss using the ECL method is based on the allocation of each position to the three reference stages as explained in more detail in the paragraph "Impairment of financial assets".

In such cases, for the purpose of calculating amortised cost, the entity is required to include in its cash flow estimates, the expected losses on initial receivables when calculating the credit-adjusted effective interest rate for financial assets that are considered impaired financial assets acquired or originated on initial recognition (IFRS 9 para. B5.4.7).

Derecognition criteria

The financial assets measured at amortised cost are derecognised when the contractual rights on the cash flows deriving from the same expire or when the financial asset is sold by substantially transferring all the risks and rewards connected to it.

When it is not possible to ascertain the substantial transfer of the risks and rewards, the financial assets are derecognised from the financial statements unless control of said assets has been maintained. Conversely, if the Bank has maintained control, even only partial, it is necessary to retain the assets in the financial statements to the extent of the continuing involvement, measured by the exposure to changes in value of the assets transferred and the changes in their cash flows.

The securities delivered as part of a transaction which contractually envisages their repurchase are not derecognised from the financial statements.

If the contractual cash flows of a financial asset are subject to renegotiation or, in any case, to an amendment, in accordance with IFRS 9, it is necessary to assess whether or not these amendments have the characteristics to determine the derecognition of the financial asset. More specifically, contractual changes lead to the derecognition of the financial asset and the recognition of a new one when they are considered substantial. In order to assess the substantiality of the change, a qualitative analysis of the reasons why the changes were made is necessary. Distinguishments can be made between:

- renegotiations made for commercial purposes with performing customers for reasons other than the economic and financial difficulties of the debtor. These refer to renegotiations which are granted at market conditions, in order to avoid losing customers in cases where they require the cost of the loan to be adjusted to the conditions applied by other banking institutions. These types of contractual changes are considered substantial as they are aimed at avoiding a decrease in future revenues that would occur if the customer decides to turn to another bank. They result in the recognition in the income statement of any differences between the carrying amount of the derecognised financial asset and the carrying amount of the new asset;
- renegotiations due to financial difficulties of the counterparty: this scenario includes concessions made to counterparties in financial difficulty (forbearance measures) that aim to maximise the repayment of the original loan by the customer and thus avoid or contain any future losses. For this reason, the Bank is prepared to grant potentially more favourable contractual conditions to the counterparty. In these cases, as a rule, the change is closely related to the debtor's inability to repay the cash flows originally established and, therefore, in the absence of other factors, this indicates that there was in substance no extinction of the original cash flows such as to lead to the derecognition of the asset. As a result, the aforementioned renegotiations or contractual amendments qualify as non-substantial. Therefore, they do not generate derecognition of the financial asset and, according to para. 5.4.3 of IFRS 9, involve the recognition in the income statement of the difference between the pre-amendment carrying amount and the value of the financial asset recalculated by discounting the renegotiated or modified cash flows at the original effective interest rate.

In order to assess the substantiality of the contractual amendment, in addition to understanding the reasons underlying the amendment itself, it is necessary to assess the possible presence of elements that alter the original nature of the contract because they introduce new elements of risk or have a significant impact on the original contractual flows of the asset so as to lead to its derecognition and the consequent recognition of a new financial asset. This includes, for example, the introduction of new contractual clauses which change the reference currency of the contract, which allow the credit to be converted/replaced into equity instruments of the debtor or which lead to the failure of the SPPI test.

Criteria for the recognition of the income components

Interest on loans to banks and customers is classified under the item "Interest income and similar revenues" and is recorded on an accruals basis, based on the effective interest rate, i.e. applying the latter to the gross carrying amount of the financial asset, except for:

a. impaired financial assets acquired or originated. As noted above, for these financial assets, the effective interest rate adjusted for the receivable at the amortised cost of the financial asset from initial recognition is applied;
b. financial assets that are performing financial assets acquired or originated but have become impaired financial assets in a second phase. For these financial assets, the effective interest rate is applied to the amortised cost of the financial asset in subsequent years.

If there is an improvement in the credit risk of the financial instrument, as a result of which the financial asset is no longer impaired, and the improvement can be objectively linked to an event occurring after the application of the requirements in letter b) above, interest income shall be calculated in subsequent years by applying the effective interest rate to the gross carrying amount.

It should be noted that the Bank applies the criterion referred to in letter b) above only to impaired assets measured using a specific analytical method. Therefore, stage 3 financial assets valued on a flat-rate analytical basis, for which interest is calculated on the gross value of the exposure, are excluded.

Adjustments and write-backs are recorded at each reporting date in the income statement under item 130. Net value adjustments/write-backs due to credit risk. Profits and losses resulting from the sale of receivables are recorded in the income statement under item 100. Profit (loss) from disposal/repurchase.

The positive income components represented by the interest income and similar revenues relating to securities are entered on an accrual basis, based on the effective interest rate, in the income statement items relating to interest.

Profits and losses relating to securities are recognised in the income statement under item 100. Profit (loss) from disposal/repurchase at the time the assets are sold.

Any impairment of securities is recognised in the income statement under item 130. Net value adjustments/write-backs due to credit risk. If the reasons that led to the evidence of the decline in value are removed, the write-back is included with recognition in the income statement in the same item.

4 – Hedging transactions

With regard to hedging transactions, the Bank avails itself of the option, provided by the introduction of IFRS 9, to continue to apply IAS 39 in full with regard to both specific hedges and macro hedges.

Classification criteria

This item includes derivative contracts designated as effective hedging instruments. In this regard, hedging transactions are designed to neutralise any losses, that may be incurred on a specific item or group of items, linked to a specific risk should the aforementioned risk actually occur.

The types of hedging provided for by IAS 39 are:

- fair value hedge, aimed at hedging against the exposure to the change in fair value of a statement of financial position entry (asset or liability) attributable to a particular risk. The objective of macro fair value hedges is to reduce fluctuations in fair value, attributable to interest rate risk, by a monetary amount arising from a portfolio of financial assets or liabilities;
- cash flow hedge, aimed at hedging against the exposure to the change in future cash flows attributable to a particular risk associated to a highly probable present or future statement of financial position entry;
- hedging instruments of a net investment in a foreign company for which the assets were or are managed in a non Euro country or currency.

Recognition criteria

The hedging derivative financial instruments are initially entered at fair value and classified in the statement of financial position asset or liability item, depending on whether, as at the reporting date, they show a positive or negative fair value.

The hedge is attributable to a predefined strategy set by risk management and must be consistent with the risk management policies adopted; it is designated as a hedge if there is formal documentation of the relationship between the hedged instrument and the hedging instrument, including the high initial and prospective effectiveness during its entire life cycle.

The effectiveness of the hedge depends on the extent to which the changes in fair value of the hedged instrument or the related expected cash flows are offset by those of the hedging instrument. Thus the effectiveness is measured by comparison between these changes.

The hedging is assumed as highly effective when the expected and effective changes in fair value or the cash flows of the hedging financial instrument neutralise almost completely the changes in the hedged element, within the limits set by the interval 80%-125%.

The assessment of the effectiveness is performed at each year-end and interim period using:

- perspective tests, which justify the application of the hedge accounting, since they show its expected effectiveness;
- retrospective tests, which show the level of effectiveness of the hedging reached in the period they refer to.

If the checks do not confirm that the hedging is highly effective, the accounting of the hedging transactions, according to the above, is interrupted and the hedging derivative contract is reclassified among the trading instruments, while the financial instrument subject to hedging goes back to being measured according to the criterion of the original pertinence class and, in case of cash flow hedge, any reserve is reclassified in the income statement along the residual duration of the instrument.

The hedging links also cease when the derivative expires or is sold or exercised and the hedged element is sold or expires or is repaid.

Measurement criteria

After initial recognition, hedging derivatives are measured at fair value. The calculation of the fair value of the derivatives is based on the prices inferred from regulated markets or supplied by operators, on option measurement models or future cash flow discounting models.

For further details on how fair value is determined, please refer to paragraph "A.4 - Information on fair value" of this part A.

Derecognition criteria

The hedging derivatives are cancelled when the right to receive the cash flows from the asset/liability has expired, or where the derivative is sold, or when the conditions for continuing to book the financial instrument under the hedging derivatives no longer apply.

Criteria for the recognition of the income components

Fair value hedge

In the case of a fair value hedge, the change in the fair value of the hedged item is offset by the change in the fair value of the hedging instrument. This offsetting actually takes place through the recognition in the income statement of changes in value, referring both to the hedged item and the hedging instrument. Any difference represents the ineffectiveness of the hedge and is reflected in the income statement in terms of net effect. In the case of macro fair value hedges, changes in fair value with reference to the hedged risk of the hedged assets and liabilities are recognised in the statement of financial position, respectively, in the financial statements item 60. Adjustment of the financial assets subject to macro-hedging or item 50. Adjustment of the financial liabilities subject to macro-hedging.

If the hedging relationship no longer satisfies the conditions for the application of hedge accounting and the hedging relationship is revoked, the difference between the carrying amount of the hedged element at the time when the hedge ceases and that which would have been its carrying amount if the hedge had never existed, is amortised in the income statement along the residual lifespan of the hedged element based on the effective rate of return in case of instruments entered at amortised cost. In the event that it is excessively costly to recalculate the internal rate of return, it is considered acceptable to amortise the delta fair value relating to the hedged risk over the residual life of the instrument in a linear manner or in relation to the residual portions of capital.

If this difference refers to non-interest bearing financial instruments, it is recorded immediately in the income statement. If the hedged element is sold or repaid, the portion of fair value not yet amortised is recognised immediately in the income statement.

Cash flow hedges and hedging instruments of a net investment in a foreign company

In the case of cash flow hedges, changes in the fair value of the derivative are recognised, limited to the effective portion of the hedge, in an equity reserve. The above changes are recognised in the income statement only when, with reference to the hedged item, there is a change in the cash flows to be offset or if the hedge is ineffective.

When the hedging relationship no longer meets the conditions for the application of hedge accounting, the relationship is terminated and all losses and gains recognised in the equity reserve up to that date remain suspended within it and reversed to the income statement when the flows relating to the risk originally hedged occur.

5 – Equity investments

Classification criteria

Equity investments means stakes in the capital of other companies, generally represented by shares or holdings and classified as controlling interests, interests carrying significant influence and joint ventures.

The following definitions in particular apply:

- subsidiary: equity investments in companies as well as investments in entities over which the parent company exercises control of the relevant activities in compliance with IFRS 10. More specifically, 'an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee'. The power requires the investor to have existing rights that give the current ability to direct the activities that significantly affect the investee's returns. Power is based on an ability, whether or not that power is used in practice. Control is analysed on a continuous basis. The investor must redetermine whether it controls an investee when facts or circumstances indicate changes in one or more elements of control;

- associate: equity investments in companies for which, despite the conditions of control not being satisfied, the Bank, directly or indirectly, is able to exercise a significant influence as it has the power to participate in determining the financial and management policies of the investing company. Such influence is presumed (relative presumption) to exist for companies in which the Bank owns at least 20% of the voting rights of the investee company;
- jointly controlled companies (joint venture): an equity interest in a company that is achieved through a contractual agreement that collectively grants all parties or a group of parties control of the agreement.

Equity investments that in the separate financial statements of participating entities do not have the characteristics to be considered as investments in subsidiaries or associates, but instead, at a consolidated level, qualify as such, already in the separate financial statements of the individual Group entities, are qualified as equity investments subject to significant influence and are consistently classified in the Equity investments item, being valued accordingly at purchase cost. In such cases, the significant influence is demonstrated by the fact that the equity investment of the individual Affiliated Bank is instrumental in achieving control or connection at Group level.

Recognition criteria

Equity investments are initially entered at cost, including the directly attributable ancillary charges.

Measurement criteria

Equity investments in subsidiaries, associates and jointly controlled companies are shown in the financial statements by using the cost method as measurement criterion, net of any impairment losses.

If there is objective evidence of impairment, an estimate is made of the recoverable value of the same investment, considering the current value of the future cash flows the same may generate, including the final disposal value of the investment. If the recoverable value of the asset is lower than its carrying amount, the impairment loss is recognised in the income statement under item Profits (Losses) on equity investments.

Derecognition criteria

Equity investments are derecognised when the right to receive the cash flow from the asset has expired, or where the equity investment is sold by substantially transferring all the risks and benefits connected to it.

Criteria for the recognition of the income components

Dividends from investee companies are recorded under the item Dividends and similar income. The latter are recognised in the income statement only when (para. 5.7.1A of IFRS 9):

- the right of the entity to receive the dividend payment arises;
- it is likely that the economic benefits from the dividend will flow to the entity;
- the amount of the dividend may be reliably estimated.

Normally the aforementioned conditions occur at the time of collection of the dividend following the shareholders' resolution approving the financial statements and distribution of the result for the year by the investee company.

Any value adjustments/write-backs connected to the valuation of the equity investments as well as profits or losses deriving from the disposal are recognised under item 220. Profits (losses) on equity investments.

6 – Tangible assets

Classification criteria

This item mainly includes land, properties for business use (IAS 16) and properties held for investment purposes (IAS 40), the plants, vehicles, furniture, furnishings and equipment of any type for long-lasting use.

Property for business use is defined as those tangible fixed assets that are functional to the pursuit of the corporate purpose (including those held for use in the provision of services or for administrative purposes). On the other hand, property held for investment purposes includes property held for the purpose of receiving rental fees and/or for the appreciation of the invested capital.

The item also includes tangible assets classified under IAS 2 Inventories, which refer both to assets arising from the enforcement of guarantees or the purchase at auction that the company intends to sell in the near future, without carrying out major renovation work, and which do not qualify for classification in the previous categories, and to the real estate portfolio including buildable areas of land, properties under construction, completed properties for sale and real estate development initiatives, held with a view to disposal.

Included are rights of use acquired through lease and relating to the use of a tangible asset (for lessees), assets under operating leases (for lessors), and improvements and incremental expenses incurred on third party assets, provided they relate to identifiable and separable tangible assets.

Recognition criteria

The tangible assets are initially entered at purchase or construction cost, including any ancillary charges directly attributable to the purchase and commissioning of the asset.

The unscheduled maintenance expenses and the costs of an increasing nature that imply increased benefits being generated by the asset, if these can be identified and separated, are attributed to the assets they refer to and depreciated in relation to the residual possibility of using the same. If these improvements cannot be identified and separated, they are entered under 'Other Assets' and subsequently depreciated based on the length of the contracts they refer to for the third-party assets, or along the residual life of the asset, if owned.

The expenses for repairs, maintenance or other actions to ensure the ordinary operation of the assets are instead recognised in the income statement of the year when they are incurred.

According to IFRS 16, leases are accounted for on the basis of the right of use model for which, at the initial date, the lessee has a financial obligation to make payments due to the lessor to offset its right to use the underlying asset during the lease term. When the asset is made available to the lessee for use (start date), the lessee recognises both the liability and the asset consisting of the right of use.

Measurement criteria

After initial recognition, the tangible assets, including non-instrumental properties, notwithstanding the specifications below, are entered in the accounts at cost, net of accumulated depreciation and any write-downs for the long-lasting reductions in value, in compliance with the 'cost model'.

Tangible assets are systematically depreciated each year based on their useful life by adopting the straight line method as the depreciation criterion. The following are not subject to depreciation:

- land, whether purchased individually or incorporated in the value of the buildings, since considered to have an undefined useful life. If their value is incorporated in the value of the building, assets which are separate from the building are only the 'free-standing' property assets; the subdivision between the value of the land and a value of the building is based on the appraisal of independent appraisers;
- works of art, the useful life of which may not be estimated, also since their value normally increases over time;
- real estate investments measured at fair value in compliance with accounting standard IAS 40;
- inventories of tangible assets, in accordance with IAS 2;
- tangible assets classified as held for disposal in accordance with IFRS 5.

The depreciation process starts when the asset is available for use. For the assets acquired during the year, the depreciation is calculated on a daily basis starting from the date of using the asset.

A write-down for value impairment is recorded for an amount corresponding to the excess in the carrying amount compared to the recoverable value. The recoverable value of an asset is equal to the higher of the fair value, net of any sales costs, and the related value of using the asset, meant as the current value of the future flows originating from the asset. Any adjustments are recognised in the income statement.

If the reasons leading to recording the loss cease to apply, a write-back is accounted for, which may not exceed the value that the asset would have had, net of depreciation calculated in the absence of previous impairment losses.

Tangible assets recognised in accordance with IAS 2 are valued at the lower of cost and net realisable value, it being understood that the carrying amount of the asset is compared with its recoverable value if there is any indication that the asset may have suffered an impairment. Any adjustments are recognised in the income statement.

With reference to the asset consisting of the right of use, accounted for in accordance with IFRS 16, it is measured using the cost model in accordance with IAS 16 Property, plant and equipment; in this case the asset is subsequently depreciated and subject to impairment testing if indicators of impairment emerge.

Derecognition criteria

Tangible assets are eliminated from the statement of financial position at the time of disposal or when they are permanently withdrawn from use and, as a consequence, no future economic benefits are expected which derive from their sale or use.

Capital gains and losses deriving from the release or disposal of the tangible assets are determined as the difference between the net sale payment and the carrying amount of the asset; they are recorded in the income statement at the same date when they are eliminated from the accounts.

Criteria for the recognition of the income components

Depreciation, value adjustments and write-backs of tangible assets are recorded in the income statement item 180. Net value adjustments/write-backs to tangible assets.

In the first year the depreciation is recorded proportionally to the effective period of using the asset.

The assets subject to depreciation are adjusted for possible impairment losses each time events or changes in situations indicate that the carrying amount might not be recoverable. These impairment losses are recognised in the income statement, as are any reversals to be recognised if the reasons for the impairment no longer apply.

In the item 250. Profit (Loss) from disposal of investments, the positive or negative balance between the profits and losses on investments is recognised.

7 – Intangible assets

Classification criteria

Accounting standard IAS 38 defines intangible assets as non-monetary assets without physical substance owned for use in a multi-year or undefined period, which meet the following characteristics:

- identifiability;
- the company holds the control;
- it is probable that the expected future economic benefits attributable to the asset will flow into the company;
- the cost of the asset may be reliably measured.

In the absence of one of these characteristics, the expense to acquire or generate the same internally is recorded as a cost in the year when it was incurred.

Intangible assets include, in particular, the application software with multi-year use and the other identifiable intangible assets that originate from legal or contractual rights.

Intangible assets also include goodwill, which represents the positive difference between the purchase cost and the fair value of the assets and liabilities of the acquired company.

Recognition criteria

Intangible assets are entered at cost, adjusted for any ancillary costs incurred to arrange the use of the asset, only if it is probable that the future economic benefits attributable to the asset will be realised and if the cost of the same asset may be determined reliably. Otherwise the cost of the tangible asset is recorded in the income statement in the year when it was incurred.

Measurement criteria

After initial recognition, intangible assets with finite useful life are recognised at cost, net of the accumulated amortisation and impairment losses.

The amortisation process starts when the asset is available for use, or when it is in the place and conditions suitable to be able to work in the set manner.

Amortisation is carried out with the straight line method, in a way to reflect the multi-year use of the assets based on the estimated useful life. In the first year the amortisation is recorded proportionally to the effective period of using the asset. Amortisation ends from the date when the asset is eliminated from the accounts.

At each year-end, given the presence of evidence of impairment losses, an estimate is made of the recoverable value of the asset. The amount of the impairment, recorded in the income statement, is equal to the difference between the carrying amount of the asset and its recoverable value.

Derecognition criteria

Intangible assets are eliminated from the statement of financial position at the time of their disposal or when future economic benefits are not expected. Capital gains and losses from the release or disposal of an intangible asset are calculated as the difference between the net sale payment and the carrying amount of the asset and entered in the income statement.

Criteria for the recognition of the income components

In the first year the amortisation is recorded proportionally to the effective period of using the asset.

In the item 190. Net value adjustments/write-backs to intangible assets, the positive or negative balance between the value adjustments, amortisation and write-backs relating to the intangible assets is indicated. In the item 250. Profit (Loss) from disposal of investments, the positive or negative balance between the profits and losses on investments is recognised.

8 – Non-current assets and groups of assets held for disposal

Classification criteria

This item includes the non-current assets held for sale and the associated groups of assets and liabilities held for disposal, according to the provisions of IFRS 5.

More specifically, assets and groups of assets are classified in this item whose carrying amount will be mainly recovered with a sale rather than their continuous use.

For the recovery of a non-current asset or a group held for disposal through a sale to materialise, two conditions must be met:

- the asset must be available for immediate sale in its current condition, subject to conditions, which are usual and customary, for the sale of such assets (or groups held for disposal);
- the sale of the non-current asset (or group held for disposal) must be highly probable.

Since the sale is highly probable, Management at a suitable level must be committed to an asset disposal programme, and activities must be started to identify a buyer and complete the programme. In addition, the asset must be actively exchanged in the market and put up for sale, at a reasonable price compared to its current fair value. The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Non-current assets and groups held for disposal and discontinued operations and related liabilities are shown under specific items of assets (110. Non-current assets and groups of assets held for disposal) and liabilities (70. Liabilities associated to assets held for disposal).

Recognition criteria

The non-current assets and groups of assets held for disposal are initially recognised at the lower between the carrying amount and the fair value net of costs to sell. With the exception of certain types of assets (e.g. financial assets falling within the scope of IFRS 9), IFRS 5 specifically provides that the measurement criteria of the relevant accounting standard must be applied.

Measurement criteria

In the measurements subsequent to initial recognition, non-current assets and groups of non-current assets held for disposal continue to be valued at the lower of their carrying amount and their fair value net of costs to sell, with the exception of certain types of assets (e.g. financial assets falling within the scope of IFRS 9) for which IFRS 5 specifically provides that the measurement criteria of the relevant accounting standard must be applied.

In cases where assets held for disposal are depreciable, the depreciation process is interrupted from the time when classification as non-current assets held for disposal takes place.

Derecognition criteria

The non-current assets and groups of assets held for disposal are eliminated from the statement of financial position at the time of disposal.

If an asset (or group held for disposal) classified as held for sale loses the criteria for inclusion in accordance with accounting standard IFRS 5, the asset (or group held for disposal) must no longer be classified as held for sale.

It is necessary to assess a non-current asset that ceases to be classified as held for sale (or ceases to be part of a group held for disposal and classified as held for sale) at the lower between:

- the accounting value before the asset (or group held for disposal) was classified as held for sale, adjusted for all the amortisation, write-downs or write-backs that would have otherwise been recorded if the asset (or group held for disposal) had not been classified as held for sale;
- its recoverable value at the date of the subsequent decision to not sell.

The items include the current and deferred tax assets and current and deferred tax liabilities recognised in application of IAS 12.

The income taxes, calculated in compliance with current taxation regulations, are recorded in the income statement on an accrual basis, in line with the recognition in the accounts of the costs and revenues that generated them, except for those relating to the entries charged or credited directly in the equity, for which the recognition of the related taxation takes place in the equity.

Criteria for the recognition of the income components

Income and expenses, valuation results and profits/losses on sale (net of the tax effect) attributable to groups of assets held for disposal or recognised as such during the year are shown in the relevant income statement item Profit (loss) on groups of assets held for disposal, after tax.

9 – Current and deferred taxes

Current taxes

Current tax assets and liabilities are recorded at the value due or recoverable against the tax profit (loss) by applying the rates and the current taxation regulations. Current taxes that are entirely or partially unpaid at the reference date are posted under 'Current tax liabilities' of the Statement of financial position.

In case of overpayment, which gave rise to a recoverable receivable, this is accounted for among the 'Current tax assets' of the statement of financial position.

In accordance with IAS 12, the Bank compensates current tax assets and liabilities if, and only if, it:

- has an enforceable right to offset the amounts recognised;
- intends to settle for the net residual, or realise the asset and simultaneously settle the liability.

Deferred taxes

Deferred tax assets and liabilities are booked by using the so-called balance sheet liability method, taking into account the temporary differences between the carrying amount of an asset or a liability and its value recognised for tax purposes. They are calculated using the applicable tax rates according to current laws, in the year when the deferred tax asset will be realised or the deferred tax liability will be settled.

Tax assets are recorded only if it is deemed probable that in the future a taxable income will be realised, against which this asset may be used.

In particular, tax regulations may lead to differences between taxable income and statutory income that, if temporary, only cause a temporal mismatch that implies the advance or deferment of the time of taxation compared to the period of accrual, thus determining a difference between the carrying amount of an asset or a liability in the statement of financial position and its value recognised for tax purposes. These differences are distinguished between 'deductible temporary differences' and 'taxable temporary differences'.

Deferred tax assets

Deductible temporary differences indicate a future reduction in taxation, against a prepayment of tax compared to the economic-statutory accrual. They generate deferred tax assets since they will determine a lower tax burden in the future, on the condition that in the following years, taxable profits are realised in a sufficient measure to cover the realisation of the taxes paid in advance.

Deferred tax assets are recorded for all the deductible temporary differences if it is probable that a taxable income will be realised against which the deductible temporary differences may be used. However, the probability of recovering advance taxes relative to goodwill, other intangible assets and adjustments to receivables is to be considered automatically fulfilled pursuant to the provisions of the law that provide for their transformation into a tax credit in the event of a statutory and/or tax loss.

The transformation enters into effect from the date of the approval of the shareholders' meeting of the separate financial statements in which the loss is recognised.

The origin of the difference between the higher fiscal income and the statutory one is mainly due to negative income components fiscally deductible in years that are subsequent to those of recognition in the financial statements.

Deferred tax liabilities

Taxable temporary differences indicate a future increase in taxation and consequently generate Deferred tax liabilities, since these differences give rise to taxable amounts in the following years to those when they are attributed to the statutory income statement, determining a deferment of the taxation compared to the economic-statutory accrual.

Deferred tax liabilities are recorded for all the taxable temporary differences with the exception of the deferred tax reserves since transactions that determine the taxation are not envisaged.

The origin of the difference between the lower fiscal income and the statutory one is due to:

- positive income components taxable in years after those when they were entered in the accounts;
- deductible negative income components in years prior to the one when they will be entered in the accounts according to statutory criteria.

Assets and liabilities entered for advance and deferred taxes are systematically measured to take into account any amendments taking place in the regulations or in the rates.

Advance taxes and deferred taxes are accounted for at capital level with open balances and without offsetting and are booked in item 100. Tax assets "b) deferred" and in item 60. Tax liabilities "b) deferred".

If the deferred tax assets and liabilities refer to components which concerned the income statement, the contra-entry is represented by income tax. In case the advance and deferred taxes concern transactions which directly regard the equity without influencing the income statement (such as the valuation of financial instruments measured at fair value through other comprehensive income), they are recorded as a contra-entry to equity, affecting the specific reserve when applicable.

10 – Provisions for risks and charges

Classification criteria

In compliance with the provisions of IAS 37, the provisions for risks and charges include the provisions relating to current (legal or implicit) obligations originating from a past event, for which the use of economic resources is probable to fulfil the same obligation, as long as a reliable estimate of the related amount can be made.

Recognition criteria

Therefore, this item includes the following:

- provision for credit risk relative to commitments and financial guarantees issued: the value of the total provisions for credit risk is recognised in respect of the commitments to disburse funds and financial guarantees issued which are subject to the impairment rules of IFRS 9 (see paragraph 2.1, letter e); paragraph 5.5; appendix A), including therein the financial guarantees issued and the commitments to disburse funds which are measured at the first-time recognition value, net of the total revenues booked in compliance with IFRS 15;
- provision for other commitments and guarantees issued: the value of the total provisions in respect of other commitments and other guarantees issued which are not subject to the impairment rules of IFRS 9 is recognised (see IFRS 9, paragraph 2.1, letters e) and g));
- provisions for retirement and similar obligations includes the provisions in respect of benefits provided to the employee after terminating the employment relationship in the form of defined contribution plans or defined benefit plans;
- other provisions for risks and charges: these includes other provisions for risks and charges established in compliance with the provisions of the international accounting standards (e.g. personnel expenses, tax disputes).

Measurement criteria

The amount recorded as allocation represents the best estimate possible of the charge requested to fulfil the existing obligation at the reference date.

Where the time element is significant, the provisions are discounted by using current market rates.

The allocated funds are periodically reviewed and adjusted, if necessary, to reflect the best current estimate. If, following the review, the charge becomes unlikely to be incurred, the provision is cancelled. With regard to provisions for employee benefits, please refer to paragraph "15.2 - Provision for severance indemnity and seniority bonuses" below.

Derecognition criteria

If it is unlikely that the use of resources to produce economic benefits to fulfil the obligation will be necessary, the provision must be cancelled. A provision must be used only for those expenses for which it was originally entered.

Criteria for the recognition of the income components

The provision is recorded in the income statement under the item 'Net allocations to provisions for risks and charges'.

The item includes the positive or negative balance between the allocations and any re-attributions to the income statement of funds deemed redundant.

The net allocations also include the decreases in funds for the discounting effect as well as the corresponding increases due to the passing of time (accrual of the interest implicit in discounting).

11 – Financial liabilities measured at amortised cost

Classification criteria

Financial liabilities measured at amortised cost include amounts due to banks and customers, whatever their technical form (deposits, current accounts, loans, leases), other than Financial liabilities held for trading and Financial liabilities measured at fair value.

This item also includes securities issued for funding purposes (e.g. certificates of deposit, bonds) valued at amortised cost. Securities that, at the reference date, are expired but still not repaid are included.

Recognition criteria

The initial recognition of these financial liabilities takes place upon receiving the sums collected or issuing the debt securities. The value at which they are entered corresponds to the related fair value, normally equal to the amount collected or the issue price, increased by any additional costs/income directly attributable to the individual funding or issue transaction and not repaid by the creditor counterparty. Internal costs of an administrative nature are excluded.

The fair value of the financial liabilities, possibly issued at different conditions from market conditions, is subject to a suitable estimate and the difference compared to the amount collected is, where appropriate, directly recognised in the income statement.

Measurement criteria

Following initial recognition, carried out at fair value, on the date of signing of the contract, the financial liabilities are measured at the amortised cost, using the effective interest rate method.

Excluded are the short-term liabilities, where the time factor is negligible, which remain recorded at their collected value, and whose costs and income directly attributable to the transaction are entered in the relevant items of the income statement.

Derecognition criteria

The financial liabilities are derecognised from the financial statements when settled or expired, or when securities issued by the Bank are reacquired, with a consequent redefinition of the debt entered for debt securities in issue.

Criteria for the recognition of the income components

The negative income components represented by the interest expense are entered on an accrual basis in the items in the income statement relating to interest.

Any difference between the value of repurchasing own securities and the corresponding carrying amount of the liability is entered in the income statement, under item 100. Profit (loss) from disposal/repurchase of: c) Financial liabilities.

12 – Financial liabilities held for trading

Classification criteria

Subject to recognition in this item are the financial liabilities, whatever their technical form (debt securities, loans, etc.) classified in the trading book.

The item includes, where present, the negative value of the trading derivative contracts. Derivatives connected to the fair value option are also included in this category (as defined in IAS 9, paragraph 4.2.2) which are operationally related to the assets and liabilities measured at fair value which on the statement of financial position date have a negative fair value, except for derivatives which are designated as effective hedging instruments and recognised in a separate liability item in the statement of financial position; if the fair value of a derivative subsequently becomes positive, it shall be recognised among financial assets measured at fair value through profit or loss.

Recognition criteria

The derivative financial instruments are entered at the subscription date and measured at fair value through profit or loss.

Measurement criteria

Subsequently to the initial recognition, the financial liabilities are measured at fair value through profit or loss.

For further details on how fair value is determined, please refer to paragraph "A.4 - Information on fair value" of this part A.

Derecognition criteria

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

Criteria for the recognition of the income components

Profits and losses deriving from changes in fair value and/or from the disposal of financial liabilities held for trading are recognised in the income statement under item 80. Net result from trading.

13 – Financial liabilities measured at fair value

Classification criteria

Classified in this item are those financial liabilities measured at fair value with valuation results entered in the income statement as a result of the exercise of the fair value option provided by IFRS 9, i.e. when:

- an inconsistency in the valuation or recognition is eliminated or significantly reduced (sometimes defined as an accounting mismatch), which would otherwise result from the measurement of assets or liabilities or the recognition of the associated profits and losses on a different basis;
- there is an implicit derivative;
- a group of financial liabilities or financial assets and liabilities is managed and its return is measured at fair value according to a documented risk management or investment strategy and the information relating to the group is provided internally on said basis to executives with strategic responsibilities.

Recognition criteria

Financial liabilities measured at fair value are initially recognised at fair value on the issue date, which normally corresponds to the amount collected without considering the transaction costs or income directly attributable to the same instrument, which are instead attributed to the income statement.

Measurement criteria

Liabilities are measured at fair value. The income components are reported according to the provisions of IFRS 9, as below:

- changes in fair value attributable to the change of its creditworthiness are stated in the appropriate equity reserve ('Statement of comprehensive income');
- the remaining changes in fair value are recognised in the income statement, under item 110. Net result of other financial assets and liabilities measured at fair value through profit or loss.

For further details on how fair value is determined, please refer to paragraph "A.4 - Information on fair value" of this part A.

Derecognition criteria

The financial liabilities measured at fair value are derecognised from the financial statements when they have expired or are extinct.

Derecognition also takes place in case of repurchasing previously issued securities. The difference between the carrying amount of the liability and the amount paid to purchase is recorded in the income statement.

The re-placement on the market of own shares after their repurchase is considered as a new issue with entry at the new placement price, without any effect on the income statement.

Criteria for the recognition of the income components

The cost for interest on debt instruments is classified among the interest expense and similar charges of the income statement.

The income components relating to this financial statements item are reported according to the provisions of IFRS 9, as below:

- changes in fair value attributable to the change of its creditworthiness are stated in the appropriate equity reserve ('Statement of comprehensive income');
- the remaining changes in fair value are recognised in the income statement, under item 110. Net result of other financial assets and liabilities measured at fair value through profit or loss.

14 – Foreign exchange transactions

Classification criteria

Among the assets and liabilities in foreign currencies, in addition to those explicitly expressed in a currency other than the Euro, are also those to which financial indexing clauses apply, connected to the Euro exchange rate with a certain currency or a given basket of currencies.

For the purpose of the conversion method to be used, the assets and liabilities in foreign currencies are subdivided into monetary items (classified among the current items) and non-monetary items (classified among the non-current items).

The monetary elements consist of cash at hand and in the assets and liabilities to be received or paid, in cash amounts that are fixed or to be determined. In non-monetary elements, the right to receive or the obligation to deliver a cash amount that is fixed or to be determined is absent.

Recognition criteria

Transactions in foreign currencies are recorded, at the time of initial recognition, in a currency account, by applying the exchange rate in force at the transaction date to the amount in a foreign currency.

Measurement criteria

At the time of closing the financial statements or the interim period, the elements originally denominated in foreign currencies are valued as follows:

- the monetary items are converted at the exchange rate at year-end;
- the non-monetary items valued at the historical cost are converted at the exchange rate in force at the transaction date;
- the non-monetary items carried at fair value are converted at the spot exchange rate at year-end.

Criteria for the recognition of the income components

The exchange rate differences found between the transaction date and the related payment date, on the monetary elements, are booked in the income statement in the year when they arise, together with those which derive from the conversion of monetary elements at different rates from the initial conversion rates or the conversion at the previous year-end.

When a profit or loss relating to a non-monetary element is recorded in the Equity, the exchange rate difference relating to this element is also recorded in the Equity.

When a profit or loss is recorded in the income statement, the related exchange rate difference is also recorded in the income statement.

15 – Other information

15.1 SALES AND REPURCHASE CONTRACTS (REPOS)

Securities sold and subject to a repurchase agreement are classified as committed financial instruments when the purchaser has the right to resell or re-commit the underlying asset by contract or agreement; the liability of the counterparty is included in the liabilities to other banks, other deposits or customer deposits.

The securities purchased in relation to a resale contract are accounted for as loans or down payments to other banks or customers.

The difference between the sales price and the purchase price is booked as interest and recorded on an accrual basis along the lifespan of the transaction.

15.2 PROVISION FOR SEVERANCE INDEMNITY AND SENIORITY BONUSES

Provision for severance indemnity (TFR) is similar to a post-employment benefit of the defined benefit plan type the value of which IAS 19 requires to be determined using actuarial methodologies.

Consequently, the valuation at the end of the year is made on the basis of the benefits accrued using the projected unit credit method.

This method provides for a projection of future outflows based on historical, statistical and probability analysis as well as by virtue of adopting the appropriate basic demographic techniques.

It makes it possible to calculate the TFR accrued on a certain day in actuarial terms, distributing the expense for all the years of expected residual permanence of the existing employees and no longer as an expense to be settled in the event that the company ceases its operations on the reference date.

The valuation of the employee TFR is carried out by an independent actuary pursuant to the method indicated above.

Following the entry into effect of the supplementary pension reform, pursuant to Italian Legislative Decree no. 252/2005, the portions of the provision for severance indemnity (T.F.R.) accrued to 31 December 2006 will remain in the company, while the portions that accrue from 1 January 2007 have been, based on the employee's choice, applied to supplementary pension plans or the INPS fund.

The latter were therefore recognised in the income statement based on the contributions due in each year; the Bank did not discount the obligation to the supplementary fund or the INPS as its maturity is less than 12 months.

Based on IAS 19, the TFR paid to the Pension Fund Treasury (INPS) is considered as a defined contribution plan, as is the amount paid into the supplementary fund.

The portions accrued and paid into the supplementary pension funds are recognised in the income statement sub-item 160. a) personnel costs.

These cases are configured as a defined contribution plan since the obligation of the company towards the employee ends with the payment of the accrued amounts. Therefore, for these cases, only the portion of the debt can be recorded under the Bank's liabilities (among 'Other liabilities') for payments still to be made to the INPS or the supplementary funds, on the reference date.

IAS 19 requires all actuarial gains and losses accrued on the reference date to be immediately recognised in the "Statement of comprehensive income".

The 'Other long-term benefits' described by IAS 19 include the seniority bonuses to employees. These benefits must be valued, in compliance with IAS 19, with the same methodology used to determine the provision for severance indemnity, as these are compatible.

The liability for the seniority bonus is recorded under the provisions for risks and charges of the statement of financial position.

The allocation, as the reattribution to the income statement of any excesses of the specific fund (due for example to changes to the actuarial assumptions) are recognised in the income statement among the personnel costs.

15.3 RECOGNITION OF REVENUES AND COSTS

Revenues are recognised when control of the goods or services is transferred to the customer at an amount that represents the amount of the consideration to which the customer is deemed to be entitled.

Revenues are recorded through a process of analysis that involves the following steps:

- identification of the contract, defined as an agreement in which the parties have undertaken to fulfil their respective obligations;
- identification of the individual performance obligations contained in the contract;
- determination of the transaction price, i.e. the expected consideration for the transfer of the goods or services to the customer;
- allocation of the transaction price to each performance obligation, based on the sales prices of the individual obligation;
- recognition of revenues when (or as) the obligation to do is fulfilled by transferring the promised good or service to the customer.

That said, the recognition of revenues may occur:

a. at a given time, when the entity meets its obligation to do so by transferring the promised good or service to the customer; or
b. over a period of time, as the entity meets its obligation to do by transferring the promised good or service to the customer.

With reference to point b) above, a 'performance obligation' is satisfied over a period of time if at least one of the following conditions is met:

- the customer controls the asset involved in the contract at the moment in which it is created or enhanced;
- the customer simultaneously receives or consumes the benefits provided by the entity's performance as the entity performs;
- the company's performance creates a personalised asset for the customer and the company has a payment right for the services completed at the date of transfer of the asset.

If none of the above criteria are met, then the revenue is recognised at a given moment.

The indicators of the transfer of control are i) the payment obligation ii) the legal title to the right for the consideration accrued iii) the physical possession of the asset iv) the transfer of the risks and benefits connected with ownership v) acceptance of the asset.

With regards to revenues realised over a period of time, the Bank adopts a time-based accounting method. In relation to the above, the main approaches adopted by the Bank are summarised below:

- the interest is recognised on a temporal basis, based on the contractual interest rate or the effective rate in the case of applying the amortised cost;
- the overdue interest, possibly set contractually, is booked in the income statement only at the time of its actual collection;
- the dividends are recorded in the income statement in the period in which their distribution is resolved, which coincides with the period when they are collected;
- the commissions for revenues from services are entered, based on the existence of contractual agreements, in the period when the same services were rendered.

The revenues from the sale of non-financial assets are recorded at the time of finalising the sale, unless the bank has maintained most of the risks and benefits connected to the asset.

The costs are booked to the income statement according to the accrual principles; the costs relating to the obtainment and fulfilment of the contracts with the customer are recognised in the income statement in the periods in which the associated revenues are recognised.

15.4 IMPROVEMENTS TO THIRD-PARTY ASSETS

The restoration costs on third party properties are capitalised in consideration of the fact that, throughout the duration of the lease, the using company has the control of the goods and may gain future economic benefits from them. The aforementioned costs are classified among the 'Other assets' and are amortised for a period not exceeding the duration of the lease.

15.5 METHODS OF RECOGNITION OF IMPAIRMENT LOSSES

Impairment of financial assets

Financial assets other than those measured at fair value through profit or loss, in accordance with IFRS 9, are subject to an assessment - to be carried out at each reporting date - to verify whether there are any indicators that these assets may be impaired (so-called impairment indicators).

If the above indicators exist, the financial assets in question are considered impaired (stage 3) and value adjustments equal to the expected losses over their entire residual life must be recorded against them.

For financial assets for which there are no impairment indicators (stage 1 and stage 2), it is necessary to verify whether there are indicators such that the credit risk of the individual transaction is significantly increased compared to the time of initial recognition and apply, consequently, the criteria underlying the IFRS 9 impairment model.

The IFRS 9 impairment model

The impairment model adopted by the Bank is consistent with that adopted by the Group.

In more detail, the scope of application of the IFRS 9 impairment model, on which the requirements for the calculation of allocations are based, includes financial instruments such as debt securities, loans, trade receivables, assets deriving from contracts and receivables originating from lease transactions, measured at amortised cost or fair value through other comprehensive income, as well as off-balance sheet exposures (financial guarantees and commitments to disburse funds).

The aforementioned impairment model is characterised by a forward looking approach and in given circumstances, may require the immediate recognition of all expected losses over the life of a loan. This estimate will also need to be continuously adjusted to take account of the credit risk of the counterparty. In order to prepare this estimate, the impairment model must not only consider past and present data, but also information relating to future events.

For credit exposures falling within the scope of application of the impairment model, the accounting standard provides for the allocation of the individual positions in one of the 3 stages listed below:

- in stage 1, positions that do not present, at the valuation date, a significant increase in credit risk or which can be identified as 'low credit risk';
- in stage 2, positions that, at the reference date, present a significant increase of the credit risk or that do not present the characteristics to be identified as 'low credit risk';
- in stage 3, non-performing positions.

More specifically, the Bank made provision for the allocation of the individual credit, cash and off-balance sheet positions, in one of the three stages listed below, based on the following criteria:

- in stage 1, positions with generation date of less than three months from the measurement date or that do not present any of the characteristics described in the previous point;
- in stage 2, the positions, which at the reference date, showed a significant increase in credit risk:
  - positions which, at the valuation date, are classified to 'watch list', i.e. 'performing under observation';
  - positions which, at the valuation date, present an increase of 200% in the 'PD' with respect to that at origination;
  - presence of a 'forborne performing' attribute;
  - presence of past due amounts and/or overrun by more than 30 days;
  - positions (without 'lifetime PD' at the disbursement date) that, at the measurement date, do not present the characteristics to be identified as 'low credit risk' (as described below);
- in stage 3, non-performing loans. These concern individual positions relating to counterparties classified in one of the impaired loan categories set forth by Bank of Italy Circular no. 272/2008 and subsequent updates. Falling into this category are impaired past due and/or overrun, 'unlikely to pay' and non-performing exposures.

Performing positions that possess the following characteristics at the measurement date are considered 'low credit risk':

- absence of 'PD lifetime' at the disbursement date;
- rating class of less than or equal to 4.

Positions are allocated automatically to the stages set out in IFRS 9 according to the criteria defined above.

The estimate of expected loss using the ECL methodology, for the classes defined above, takes place on the basis of the allocation of each position into the three reference stages, as detailed below:

- stage 1, expected loss is calculated on a time horizon of one year;
- stage 2, the expected loss is calculated by considering all the losses that it is presumed will be incurred during the entire life of the financial asset (lifetime expected loss);
- stage 3, expected loss must be calculated from a lifetime perspective, but unlike the positions in stage 2, the calculation of lifetime expected loss will be analytical. In addition, where appropriate, forward looking elements will be introduced to the measurement of the aforementioned positions represented, in particular, by the inclusion of different scenarios (e.g. sale), weighted for the relevant probability of occurrence. More specifically, as part of the estimate of the recovery value of the positions (in particular those classified as non-performing), the inclusion of a transfer scenario, as an alternative to the internal management scenario, normally involves the recognition of greater value adjustments connected with the application of weighted sale prices for the relative probability of occurrence of the transfer scenario.

With specific reference to loans to banks, the Bank has adopted a model for determining the significant increase in credit risk that differs slightly from that applied to loans to customers, although the stage allocation logic adopted for loans to banks has been defined as consistently as possible with those implemented for loans to customers.

More specifically, with reference to loans to banks, the low credit risk ratios are performing ratios which at the valuation date have the following characteristics:

- absence of 'PD lifetime' at the disbursement date;
- PD Point in Time lower than 0.3%.

Interbank positions are allocated automatically to the stages set out in IFRS 9 according to the criteria defined above. Now, therefore, for loans to banks, the Bank adopts the IFRS 9 impairment model developed on an ad hoc basis for the specific counterparty type and, therefore, different from the model used for loans to customers.

Also for loans to banks, the estimate of expected loss using the ECL methodology, for the classes defined above, takes place on the basis of the allocation of each position into the three reference stages, as detailed below:

- stage 1: expected loss is calculated on a time horizon of 12 months;
- stage 2: expected loss is calculated on a time horizon that incorporates the entire duration of the position until maturity (so-called lifetime expected loss or LEL);
- stage 3, expected loss must be calculated from a lifetime perspective, but unlike the positions in stage 2, the calculation of lifetime expected loss is analytical.

The probability of default and exposure at default (hereinafter also "PD" and "EAD") risk parameters are calculated by the impairment model.

The loss given default (hereinafter also "LGD") parameter is prudentially set at the regulatory level of 45% valid in the IRB Foundation model, for portfolios composed of risk assets other than subordinated and guaranteed instruments.

With reference to the portfolio of securities, the use of the approach for loans is confirmed, i.e. allocation of securities into one of the three stages set forth by IFRS 9, which correspond to the three different expected loss calculation methodologies.

In stage 1, expected loss is measured within a time horizon of one year, therefore with a probability of default at 12 months.

In the first stage of creditworthiness, securities were placed:

- at the moment of purchase, regardless of their risk;
- which, at the measurement date, have not experienced a significant increase in credit risk with respect to the moment of purchase;
- which have experienced a significant decrease in credit risk.

In the second stage, the ECL is calculated by using the probability of lifetime default. This stage will include those securities that possess the following characteristics:

- at the measurement date, the instrument presents an increase in credit risk with respect to the purchase date as such to request the recognition of an expected loss until maturity;
- instruments that fall under stage 3 on the basis of a significant decrease in risk.

The third and final stage includes exposures for which the ECL is calculated using a probability of default of 100%.

The decision to place instruments in stage 1 or in stage 2 is connected with the quantification of the thresholds that identify a significant increase in the credit risk of the individual tranche subject to valuation. These thresholds are calculated from the characteristics of the portfolio. As regards stage 3, an analysis is conducted as to whether the increase in risk was high enough, from the moment of initial recognition, to consider the assets 'impaired', i.e. whether events were verified as such to negatively impact future cash flows. As outlined previously, the Bank must recognise an incremental loss from stage 1 to stage 3. More specifically:

- the 12-month ECL represents the expected value of the loss estimated on an annual basis;
- the lifetime ECL is the estimate of expected loss until maturity of the security;
- the ECL estimation parameters are PD, LGD and EAD of the individual tranche (PD, LGD, EAD respectively).

Analytical impairment of receivables in stage 3

With reference to the analytical valuation of loans, the model used by the Bank to determine allocations for impaired loans (stage 3) measured at amortised cost or at fair value through other comprehensive income requires, depending on their characteristics, the use of a specific analytical valuation or a flat-rate analytical valuation.

The specific analytical valuation method is designed to determine the correct quantification of the allocations for each position, considering both the characteristics of the individual position being valued and the characteristics of the counterparty to which the same is registered.

The purpose of the flat-rate analytical valuation is to determine the correct quantification of allocations for each position and is carried out by estimating risk parameters defined by a statistical model, in line with the provisions for the collective assessment of performing exposures with reference to stage 2 credit exposures.

The flat-rate analytical valuation shall apply to credit exposures with the following characteristics:

- impaired past due and/or overrun exposures;
- impaired off-balance sheet exposures (e.g. endorsement exposures, available margins on credit);
- cash exposures classified as unlikely to pay that do not exceed an amount threshold defined at the individual debtor level (so-called size threshold);
- cash exposures classified as non-performing that do not exceed the size threshold.

The specific analytical valuation applies to credit exposures that have the following characteristics:

- cash exposures classified as unlikely to pay that exceed the size threshold;
- cash exposures classified as non-performing that exceed the size threshold.

For the purposes of applying the size threshold, the overall credit exposure at the Bank is taken as a reference at the level of the individual debtor, thus determining, alternatively, a flat-rate or specific analytical valuation for all cash relationships in the name of the same debtor. The size threshold for counterparties classified as unlikely to pay and non-performing is EUR 200,000.

The assessment of expected losses, in particular with regard to non-performing exposures, shall be carried out taking into account the probability that different credit realisation scenarios will occur, such as the assignment of the exposure or, conversely, internal management.

With regard to the specific analytical valuation of recoverable value (valuation component), the Bank adopts two alternative approaches that reflect the characteristics and riskiness of individual credit exposures:

- going concern approach, which applies only to business counterparties, operating in sectors other than real estate, that have objective prospects of going concern that are assumed when:
    - the debtor's future operating cash flows are pertinent and can be reliably estimated from documentable sources, such as:
        - updated, complete and regular official financial statements;
        - the business plan, the use of which for estimating cash flows is subject to (i) verification of the reliability and feasibility of the assumptions underlying the plan and (ii) full compliance with the plan, if it is already in progress;
        - the plan provided for in relation to agreements pursuant to the Bankruptcy Law such as, for example, pursuant to Article 67 letter d), Article 182 bis and septies, Article 186 bis, Article 160 *et seq.*, it being understood that as long as the plans have only been submitted and not sworn in by the external professional appointed, the participating banks must carry out the same checks as those provided for with reference to the business plans;
    - the debtor's future operating cash flows are adequate to repay the financial debt to all creditors.
- gone concern approach, which applies mandatorily to credit exposures in the name of individuals and for companies with a view to business cessation or where it is not possible to estimate operating cash flows.

The discounting of the recoverable value (financial component), applied for non-performing loans and unlikely to pay, is based on the determination of the discount rate and the recovery time.

Impairment of equity investments

At each reporting date, investments in associates or jointly controlled companies are subject to an impairment test to verify whether there is objective evidence that the carrying amount of the assets in question is not fully recoverable.

The presence of impairment indicators (such as the presence of lower than expected economic performance of the investee company, significant changes in the environment or in the market where the company operates or in market interest rates, etc.) leads to the recognition of an impairment loss to the extent that the recoverable value of the investment is lower than its carrying amount.

The recoverable value is represented by the higher of the fair value, net of costs to sell and the value in use of the equity investment. As a consequence, the need to estimate both values does not apply if one of them has been valued above the carrying amount.

For the valuation methods used to determine fair value, reference should be made to paragraph "A.4 - Information on fair value" in this part A.

The value in use of the investment is the present value of the expected cash flows from the asset. This quantity responds to a general logic according to which the value of an asset is a direct expression of the cash flows it is able to generate over the period of its use. The determination of value in use therefore presupposes the estimate of the cash flows expected from the use of the assets or their final disposal expressed in terms of present value through the use of appropriate discount rates.

When an equity investment does not generate cash flows that are largely independent from other assets, it is subject to an impairment test not independently, but at the level of the cash generating unit (hereinafter also referred to as "CGU"). Therefore, when assets attributable to a subsidiary are included in a CGU larger than the investment itself, the impairment test can only be carried out at the latter level and not at the level of the individual investee company for which a value in use cannot be correctly estimated.

If the outcome of the impairment test shows that the recoverable value is higher than the carrying amount of the equity investment, no impairment loss is recognised; otherwise, an impairment loss is recognised in item 220. Profits (losses) on equity investments.

Should the recoverable value subsequently be higher than the new carrying amount because it can be demonstrated that the elements that led to the write-down are no longer present, a write-back is permitted up to the amount of the previously recorded adjustment.

Impairment of other fixed assets

Tangible assets

IAS 36 establishes that, at least once a year, the company must verify whether the tangible assets held show one or more indicators of impairment. If such indicators are found, the enterprise must carry out a valuation in order to detect any impairment loss (so-called impairment test).

The impairment test does not apply to the tangible assets that constitute:

- real estate investments measured at fair value (IAS 40);
- inventories (IAS 2);
- assets within the scope of IFRS 5.

The impairment indicators to be considered are those defined by para. 12 of IAS 36. In this regard, impairment indicators specific to tangible assets may occur, for example, in the presence of obsolescence that prevents normal use of the same such as fire, collapse, unusability and other structural defects.

Although IAS 36 is applicable to individual assets, it is often very difficult or, in some cases, impossible to calculate the value in use of an individual tangible asset. For example, it is not always possible to attribute specific incoming or outgoing cash flows to a property that houses the Management (so-called corporate asset) or to a plant or machinery. In these cases, IAS 36 states that the CGU, i.e. the smallest grouping of assets that generates independent cash flows, must be identified and tested at this higher level (rather than on the individual asset). This is precisely because it is often a group of assets - and not a single asset - that generates cash flow and for this reason it is not possible to calculate the value in use of the individual asset.

Without prejudice to the above, the impairment test involves the need to compare the recoverable value (which in turn is the higher of value in use and fair value net of costs to sell) of the tangible asset or the CGU with the relative carrying amount.

If and only if the recoverable value of an asset or of the CGU is lower than its carrying amount, the latter must be reduced to the recoverable value, configuring an impairment loss.

Intangible assets

Pursuant to IAS 36, the Bank is required to perform an impairment test at least once a year, irrespective of the presence of impairment indicators, on the following assets:

- intangible assets with an indefinite useful life (including goodwill);
- intangible assets not yet available for use (including those in progress).

Other intangible assets (e.g. those with a defined useful life such as core deposits acquired in a business combination) must be subject to an impairment test only if there is an indicator of impairment.

In this regard, the impairment indicators to be considered for intangible assets are those defined by para. 12 of IAS 36. Specific impairment indicators for intangible assets (and in particular for goodwill) may occur, for example, in the event of actual results significantly below budget forecasts (which suggests a downward revision of the projections used for the test) or in the event of an increase in the discount rate or a reduction in the long-term growth rate.

Intangible assets with a definite life, such as any value of the asset management portfolio acquired as part of business combinations, in the presence of impairment indicators are subject to a new assessment process to verify the recoverability of the values recorded in the financial statements. The recoverable value is determined on the basis of the value in use, i.e. the present value, estimated using a rate representative of the time value of money and the risks specific to the asset, the profit margins generated by the relationships existing at the date of the valuation over a time horizon expressing the expected residual duration of the same.

Intangible assets with an indefinite life, represented mainly by goodwill, as mentioned above, are tested annually for impairment. As there are no independent cash flows, the impairment test is carried out for the above mentioned assets with reference to the CGU to which the values have been attributed.

The CGU represents the smallest identifiable group of assets generating cash inflows (revenues) that are largely independent of the flows generated by other assets or groups of assets. It identifies the lowest possible level of aggregation of assets provided that it is, at that level, possible to identify cash inflows that are objectively independent and autonomous from other assets.

Once the CGUs have been identified, it is necessary to determine their recoverable value, which will be compared with their carrying amount in order to quantify any impairment. The recoverable value is defined as the greater of:

- value in use;
- fair value less costs to sell.

IAS 36 para. 19 states that if one of the two values (value in use or fair value less costs to sell) is higher than the carrying amount of the CGU, it is not necessary to estimate the other.

Value in use represents the present value of future cash flows expected to arise from a CGU. The value in use, therefore, responds to a general logic according to which the value of an asset is a direct expression of the cash flows it is able to generate over the period of its use. The determination of value in use requires an estimate of the expected cash inflows and outflows from the CGU and the appropriate discount rate depending on the level of risk of these flows.

Fair value is the amount obtainable from the sale of an asset or cash generating unit in a free transaction between knowledgeable and independent counterparties. Costs to sell include those directly associated with the potential sale (e.g. legal fees).

A CGU is written down when its carrying amount is higher than its recoverable value. In substance, it is necessary to write down the asset or the CGU because it suffers an impairment loss either because the cash flows deriving from the use of the asset are not sufficient to recover the carrying amount of the asset, or because the asset would be sold at a value lower than its carrying amount.

15.6 BUSINESS COMBINATIONS

A business combination consists of the bringing together of companies or company activities into a single entity required to prepare financial statements.

A business combination may give rise to an investment link between the parent company (acquiror) and subsidiary (acquiree). A business combination may also make provision for the purchase of the net assets of another company, including any goodwill, or the acquisition of the capital of another company (mergers and contributions).

Based on the provisions of IFRS 3, business combinations must be accounted for by applying the purchase method which envisages the following phases:

- identification of the purchaser;
- determination of the cost of the business combination;
- allocation, at the acquisition date, of the cost of the business combination to the assets acquired and liabilities assumed, including therein any contingent liabilities.

In particular, the cost of a business combination is determined as the sum of the fair value, at the date of the exchange, of the assets transferred, the liabilities incurred or assumed and the equity instruments issued, in exchange for control of the acquiree. augmented by any cost directly attributable to the business combination.

The acquisition date is the date on which control of the business acquired is effectively obtained. When the acquisition is carried out via a single exchange, the exchange date coincides with the acquisition date.

When the business combination is achieved through several exchange transactions:

- the cost of the combination is the total cost of the individual transactions;
- the exchange date is the date of each exchange transaction (i.e. the date on which each investment is recognised in the financial statements of the acquiring company), while the acquisition date is the date on which control of the business acquired is obtained.

The cost of a business combination is allocated by recognising the identifiable assets, liabilities and contingent liabilities of the acquiree at the associated fair values at the acquisition date.

The identifiable assets, liabilities and contingent liabilities of the acquiree are recognised separately at the acquisition date only if, at said date, they satisfy the following criteria:

- in the event of an asset other than an intangible asset, it is likely that any future related economic benefits flow to the acquiror and it is possible to reliably measure its fair value;
- in the event of a liability other than a contingent liability, it is likely that, to extinguish the obligation, the use of resources aimed at generating economic benefits will be necessary and it is possible to reliably measure its fair value;
- in the event of an intangible asset or a contingent liability, the relevant fair value can be reliably measured.

The positive difference between the cost of the business aggregation and the acquiror's interest at the net fair value of the identifiable assets, liabilities and contingent liabilities must be accounted for as goodwill.

Following initial recognition, the goodwill acquired in a business combination is measured at the relevant cost, and is subject to an impairment test at least annually. In the event of a negative difference, a new measurement is performed. This negative difference, if confirmed, is booked immediately as revenue in the income statement.

15.7 ACCRUALS AND DEFERRALS

Accruals and deferrals that include expenses and income pertaining to the period accrued on assets and liabilities are booked to the financial statements as an adjustment to the assets and liabilities to which they refer.

15.8 OWN SHARES

Any own shares held are deducted from equity. Similarly, the original cost of the same and the profits or losses arising from their subsequent sale are recognised as movements in equity.

15.9 SHARE BASED PAYMENTS

This case does not apply to the Bank, as it does not have a so-called stock option plan in place on bank-issued shares.

A.3 - Information on transfers between portfolios of financial assets

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

Type of financial instrument (1)	Portfolio of origin (2)	Destination portfolio (3)	Date of reclassification (4)	Reclassified carrying amount (5)	Interest income recorded during the year (before tax) (6)
A	DEBT SECURITIES			405,997	-
010	Financial assets held for trading	Financial assets measured at amortised cost		-	-
020	Financial assets held for trading	Financial assets measured at fair value through other comprehensive income		-	-
030	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income		-	-
040	Financial assets measured at amortised cost	Financial assets held for trading		-	-
050	Financial assets measured at fair value through other comprehensive income	Financial assets measured at amortised cost	01/01/2019	405,997	-
060	Financial assets measured at fair value through other comprehensive income	Financial assets held for trading		-	-
B	EQUITIES			-	-
020	Financial assets held for trading	Financial assets measured at fair value through other comprehensive income		-	-
060	Financial assets measured at fair value through other comprehensive income	Financial assets held for trading		-	-
C	LOANS			-	-
010	Financial assets held for trading	Financial assets measured at amortised cost		-	-
020	Financial assets held for trading	Financial assets measured at fair value through other comprehensive income		-	-
030	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income		-	-
040	Financial assets measured at amortised cost	Financial assets held for trading		-	-
050	Financial assets measured at fair value through other comprehensive income	Financial assets measured at amortised cost		-	-
060	Financial assets measured at fair value through other comprehensive income	Financial assets held for trading		-	-
D	UCITS UNITS			-	-
020	Financial assets held for trading	Financial assets measured at fair value through other comprehensive income		-	-
060	Financial assets measured at fair value through other comprehensive income	Financial assets held for trading		-	-
E	TOTAL			405,997	-

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

Type of financial instrument (1)	Portfolio of origin (2)	Destination portfolio (3)	Fair value as at 31/12/2019 (4)	Gains/losses in the absence of transfer to the income statement (before tax)		Gains/losses in the absence of transfer to equity (before tax)	
				31/12/2019 (5)	31/12/2018 (6)	31/12/2019 (7)	31/12/2018 (8)
A	DEBT SECURITIES		350,756	-	-	(3,076)	-
010	Financial assets held for trading	Financial assets measured at amortised cost	-	-	-	-	-
020	Financial assets held for trading	Financial assets measured at fair value through other comprehensive income	-	-	-	-	-
050	Financial assets measured at fair value through other comprehensive income	Financial assets measured at amortised cost	350,756	-	-	(3,076)	-
B	EQUITIES		-	-	-	-	-
020	Financial assets held for trading	Financial assets measured at fair value through other comprehensive income	-	-	-	-	-
060	Financial assets measured at fair value through other comprehensive income	Financial assets held for trading	-	-	-	-	-
C	LOANS		-	-	-	-	-
010	Financial assets held for trading	Financial assets measured at amortised cost	-	-	-	-	-
020	Financial assets held for trading	Financial assets measured at fair value through other comprehensive income	-	-	-	-	-
050	Financial assets measured at fair value through other comprehensive income	Financial assets measured at amortised cost	-	-	-	-	-
D	UCITS UNITS		-	-	-	-	-
020	Financial assets held for trading	Financial assets measured at fair value through other comprehensive income	-	-	-	-	-
060	Financial assets measured at fair value through other comprehensive income	Financial assets held for trading	-	-	-	-	-
E	TOTAL		350,756	-	-	(3,076)	-

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

In December 2018, the Bank's Board of Directors approved an amendment to the business model of its financial assets represented by securities.

The launch of the Cooperative Banking Group represented a moment of significant discontinuity with respect to the past, for Cassa Centrale Banca as the Parent Company, as well as for the affiliated Banks. In more detail, when the Cohesion Contract was entered into by Cassa Centrale Banca and the affiliated Banks, Cassa Centrale Banca, in its role as Parent Company, was assigned the Cassa Centrale Group management and coordination activities and its powers were also defined.

In summary, the latter include the Group governance powers, powers to identify and implement the Group's strategic and operating guidelines, and the other powers necessary to perform management and coordination activities. The above-mentioned activities are proportionate to the risk of the affiliated Banks measured on the basis of a risk-based model set forth in the cohesion contract. The main objective of Group unity and solidity, in line with the principle of proportionality of the risk of the individual affiliated Banks, thus required a new organisational structure and processes aimed, in brief, at reducing risk at Group level.

The evident consequence of this change in objectives is the new operating guidelines for the management of the Finance Area which, in responding to centralised treasury management and different liquidity risk management approaches, required a change in the business model for investments in the securities portfolio of the Parent Company and the individual affiliated Banks.

In relation to the foregoing, on 27 November 2018, Cassa Centrale Banca - in view of the imminent launch of the Group - announced the decisions that needed to be made by the participating Banks, including the Parent Company itself, as of 1 January 2019, relating to government securities already classified in the Hold to collect and Sell (HTCS) business model as at 31 December 2018, detailing the residual life of the securities reclassified to the Hold to collect portfolio and the percentage weight of Italian government securities in the Hold to collect portfolio in relation to total Italian government securities.

As a result of the foregoing, on 12 December 2018, the Bank's Board of Directors approved the decision to change the business model.

From the accounting perspective, the effects of the business model amendment occurred from 1 January 2019 and entailed, on one hand, a reclassification of part of the Italian government securities portfolio from the accounting category "Financial assets measured at fair value through other comprehensive income" to the accounting category "Financial assets measured at amortised cost" and, on the other hand, an expected improvement in the consolidated CET 1 ratio following the elimination of the negative OCI reserves associated with the reclassified securities.

A.4 - Information on fair value

The accounting standard IFRS 13 defines fair value as the price that would be received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Policy for determining fair value approved by the Bank's Board of Directors in accordance with the policy defined at Group level has defined the principles and methods for determining the fair value of financial instruments and the criteria for determining the fair value hierarchy.

A fair value measurement assumes that the sale of the asset or the transfer of the liability takes place:

- in the main market for the asset or liability;
- in the absence of a main market, in the most advantageous market for the asset or liability.

In the absence of a main market, all reasonably available information is taken into consideration in order to identify an active market among the available markets where the fair value of an asset/liability can be measured: in general, a market is active in relation to the number of contributors and the type of the same (dealer, market maker), the frequency of price updating and deviation, the presence of an acceptable bid-offer spread. These prices are immediately executable and binding and express the actual and regular levels of exchange on the valuation date.

In order to identify these markets, the Bank has equipped itself with tools to identify and monitor whether or not a market can be considered active, in particular with regard to bonds, shares and funds.

In this respect, in general, a financial instrument is considered to be quoted on an active market if prices are readily and regularly available, are immediately executable and binding and represent actual market transactions that occur regularly in normal trading on a regulated market or Multilateral Trading Facilities (MTF).

The presence of official prices in an active market is the best evidence of fair value; these prices therefore represent the prices to be used in priority for fair value measurements.

In the absence of an active market, fair value is determined using prices recorded on non-active markets, valuations provided by info providers or techniques based on valuation models.

When using such models, the use of relevant observable inputs shall be maximised where possible and the use of non-observable inputs shall be minimised. Observable inputs refer to prices formed within a market and used by market participants in determining the exchange price of the financial instrument being valued. This includes prices of the same asset/liability in a non-active market, parameters supported and confirmed by market data and valuation estimates based on daily observable inputs.

The non-observable inputs, on the other hand, are those not available on the market, processed on the basis of assumptions that the operators/assessors would use in determining the fair value for the same instrument or similar instruments of the same type.

IFRS 13 defines a fair value hierarchy that classifies the inputs of the valuation techniques adopted to measure fair value into three distinct levels. In particular, there are three levels of fair value:

a. Level 1: fair value is determined on the basis of quoted prices observed on active markets. The Bank has equipped itself with tools to identify and monitor whether or not a market can be considered active with regard to bonds, shares and funds. The prices that are recorded on these markets to which the Bank has access are considered level 1 prices. For example, the following are classified at this level of fair value:
   - bonds listed on Bloomberg MTF and valued with composite prices or, limited to Italian government securities, with MOT reference price;
   - shares and ETFs listed on markets where in the last five sessions the volumes traded are not zero and the prices recorded are not identical;
   - UCITS mutual funds.
b. Level 2: fair value is determined on the basis of valuation techniques that envisage:
   - reference to market values that do not reflect the stringent active market requirements envisaged for level 1;
   - valuation models using inputs observable on active markets.

More specifically, with regard to financial instruments for which it is not possible to identify a fair value in active markets, the Bank refers to prices in markets where the stringent requirements of the active market are not met or to valuation models - also developed by info providers - aimed at estimating the price at which a regular sale or transfer of a liability between market operators would take place on the valuation date. These models for determining fair value (e.g. discounting cash flow model, option pricing models) include the representative risk factors that condition the valuation of a financial instrument (cost of money, credit risk, volatility, exchange rates, etc.) and that are observed in active markets such as:

- the prices of similar financial assets/liabilities;
- interest rates and yield curves observable at commonly quoted intervals;
- implied volatility;
- credit spread;
- inputs corroborated by the market based on observable market data.

The fair value thus determined is assigned a level of 2. Some examples of securities classified at this level are:

- non-governmental bonds for which a price is available on a non-active market;
- securities for which the valuation is provided by a third party provider using inputs observable on active markets;
- securities for which valuation is provided using internal models based on inputs observable on active markets (e.g. bonds measured at fair value option);
- shares that are not listed on an active market;
- OTC (Over the counter) financial derivatives concluded with institutional counterparties measured mainly through observable market data.

c. Level 3: the estimate of fair value is carried out using valuation techniques that make significant use of inputs that are not observable on the market and assumptions made by operators using historical evidence or statistical assumptions. Where present, as examples, the following are classified at this level:
   - unlisted minority equity investments;
   - insurance investment products;
   - unlisted non-UCITS funds;
   - junior securitisation securities;
   - unlisted Additional Tier 1 bonds.

The classification of fair value is a figure that may vary over the life of a financial instrument. Consequently, it is necessary to verify on an ongoing basis the significance and observability of market data in order to proceed with any change in the level of fair value attributed to an instrument.

Information of a qualitative nature

A.4.1 FAIR VALUE LEVELS 2 AND 3: VALUATION TECHNIQUES AND INPUTS USED

As noted above, in the absence of an active market, fair value is determined using valuation techniques appropriate to the circumstances. Below is an illustration of the main valuation techniques adopted for each type of financial instrument, where an internal model is used to determine fair value.

The valuation models are reviewed periodically to ensure their full and constant reliability and are updated to the most up-to-date techniques used on the market.

Unlisted bonds not contributed by info providers

The procedure for estimating the fair value of bonds is based on a discounted cash flow model.

The yield curve used in the discounting is constructed from liquid bonds, with the same seniority and currency of the instrument being valued, issued by companies belonging to the same sector and with a similar rating class.

As part of the fair value measurement of bonds issued by the issuer, the estimate of fair value takes into account changes in the issuer's creditworthiness. In particular, for securities issued by affiliated Banks or other cooperative credit banks, the rating class is determined on the basis of the creditworthiness of the Parent Company. Changes in the rating may also lead to changes in the fair value calculated according to the characteristics of the security and the discount curve used.

Given the predominant use of observable inputs, the fair value thus determined is classified at level 2.

Derivatives

The fair value of OTC derivatives, for which there is no price quoted on regulated markets, is determined using different quantitative models depending on the type of instrument. In detail, for non-optional instruments the valuation techniques adopted belong to the discount cash flow model category (e.g. interest rate swaps, FX swaps). For instruments of an optional rate nature, the Black model commonly known as a market benchmark is used.

The models are supplied using market-observable inputs such as rate curves, exchange rates and volatility.

With regards to the determination of the fair value of OTC derivatives in statement of financial position assets, IFRS 13 confirmed the rule of applying the credit valuation adjustment - CVA. With regard to financial liabilities involving OTC derivatives, IFRS 13 introduces the debt valuation adjustment (DVA), i.e. an adjustment to fair value which aims to reflect its own default risk on those instruments.

The Bank therefore considered it reasonable not to recognize a correction in the fair value of derivatives for CVA and DVA in the cases in which agreements had been made and remained operative for collateralisation of the positions and derivatives with the following characteristics:

- a bilateral exchange of guarantees with a high frequency (daily or at the most weekly);
- the type of guarantee provided in cash or highly liquid government securities with a high credit rating, subject to an appropriate spread;
- absence of a threshold of the fair value of the derivative under which an exchange of guarantees is not required or setting the level to such a threshold which is adequate to allow for effective and significant mitigation of the counterparty risk;
- MTA - minimum transfer amount (that is the difference between the fair value of the contract and the value of the guarantee) under which there is no adjustment of the collateralisation of the positions, identified contractually at a level that allows for essential mitigation of the counterparty risk.

Unlisted minority equity investments

The main valuation methods adopted by the Bank, in accordance with the provisions of IFRS 13, in the valuation of unlisted minority equity investments are set out below:

- market methodologies (market approach): these are based on the idea of comparability with other market participants assuming that the value of an asset can be determined by comparing it to similar assets for which market prices are available. In particular, in practice, two reference sources of market prices are taken into account: stock market prices in active markets and observable information from merger transactions, acquisition or sale of share packages (direct transaction method, transaction multiples, market multiples);
- income approach: these are based on the assumption that future cash flows (e.g. cash flows or dividends) are convertible into a single (discounted) current value. In particular, the main methodologies that fall into this category include i) discounted cash flow (DCF); ii) dividend discount model (DDM); iii) appraisal value;
- adjusted net asset value or ANAV: this method is based on the principle of expressing, at current values, the individual elements of the assets (represented, essentially, by equity investments, whether controlling or not) and liabilities with the emergence also of any items not recorded in the financial statements. This method is normally used to determine the economic value of holding companies and investment companies whose value is closely related to the portfolio of equity investments held.

In accordance with the provisions of IFRS 13, the Bank verifies, depending on the specific case, whether it is necessary to apply certain adjustments to the economic value resulting from the application of the aforementioned valuation methods to determine the fair value of the investment under analysis (e.g. liquidity discount, control premium, minority discount).

The choice of valuation approach is left to the judgement of the valuer as long as it favours, compatibly with the available information, methodologies that maximise the use of observable inputs on the market and minimise the use of non-observable inputs.

Lastly, it should be noted that the Bank uses the net asset value or cost method (as a proxy for fair value) for minority interests below certain materiality thresholds for which no fair value measurement based on the aforementioned methods is available, based on specific parameters defined within the Fair Value Policy approved by the Board of Directors.

Unlisted mutual investment funds

Mutual investment funds such as unlisted real estate funds, private equity funds and alternative investment funds (hereinafter also referred to as 'AIFs') are characterised by a portfolio of assets generally valued with subjective inputs and provide for the redemption of the subscribed portion only at a certain maturity.

For this reason, the net asset value (NAV) used as a fair value estimation technique is considered to be level 3.

Insurance investment products

The valuation of these assets provides for the discounting of expected future cash flows from the investment. In this regard, the estimate of cash flows is based on the use of risk-free financial scenarios in which a Monte-Carlo simulative approach is used for the projection of future returns from the separate holding. The input data of the functional model for the estimation of flows consist of:

- historical information on the performance of the separate holdings involved;
- risk-free rates;
- the average asset allocation of the Italian separate holdings taken from market data (source: ANIA) at the last available survey compared to the valuation date.

Cash flow projections are made using a financial-actuarial model that incorporates the data of the policyholder, the financial structure of the insurance investment product (minimum guaranteed rates, management fees), demographic assumptions and financial data in order to consider the value of the financial options included in the insurance investment product. These cash flows are finally discounted using the same risk-free curve specific to the individual scenario.

Loans and receivables

The fair value measurement of loans mainly takes place in cases where the relationship fails the SPPI test or in cases of hedge accounting or application of the fair value option.

The valuation method consists of discounting the contractual cash flows net of the expected loss

calculated in accordance with the IFRS 9 model used to estimate value adjustments.

Unlisted Additional Tier 1 (AT1) subordinated bank securities issued by affiliated Banks

The procedure for estimating the fair value of Additional Tier 1 securities is based on a discounted cash flow model. The yield curve used in discounting is constructed from liquid bonds, taking into account the seniority of the instrument, the sector and the rating class of the issuer. Taking into account the presence, within the model, of assumptions on the evolution of future cash flows, the fair value thus determined is classified at level 3.

A.4.2 PROCESSES AND SENSITIVITIES OF THE VALUATIONS

The Bank generally carries out a sensitivity analysis of non-observable inputs, through a stress test on non-observable inputs that are significant for the evaluation of the different types of financial instruments belonging to level 3 of the fair value hierarchy.

On the basis of this analysis, potential changes in fair value are determined, by type of instrument, attributable to plausible changes in non-observable inputs. The sensitivity analysis was developed for the financial instruments for which the valuation techniques adopted made it possible to carry out this exercise.

That said, financial instruments with a fair value level 3 represent a residual portion (11.6%) of the total portfolio of financial assets. They consist mainly of unlisted minority equity investments and insurance investment products (typically life insurance policies).

With reference to the equity investment in Iccrea Banca S.p.A. (hereinafter also referred to as "Iccrea"), amounting to EUR 19,443 thousand at the reference date of these financial statements, the same was not subject to sensitivity analysis considering that the fair value was determined on the basis of the price defined in the agreement signed in October 2019 between the Parent Company and Iccrea Banca regarding the definition of reciprocal ownership structures. Given that the value of the equity investment will be realised at the price already established in the agreement, which cannot therefore be subject to change, it was considered that the sensitivity analysis has no significant informative value.

With reference to the other fair value level 3 instruments, the sensitivity analysis is not produced because the effects deriving from the change in the non-observable inputs are considered not relevant.

With reference to the equity investment in Banca Carige S.p.A. Cassa di Risparmio di Genova e Imperia (hereinafter also referred to as "Carige"), given the valuation model adopted, no analysis of sensitivity to non-observable inputs was considered relevant.

A.4.3 FAIR VALUE HIERARCHY

For a description of the fair value hierarchy levels envisaged by the Bank, please refer to paragraph "A.4 - Information on fair value" above.

With reference to assets and liabilities measured at fair value, classification at the correct level is carried out with reference to the rules and methods set out in internal regulations.

Any transfers to a different level of hierarchy are identified on a monthly basis. The transition from level 3 to level 2 occurs when the relevant parameters used as input to the valuation technique are, at the reference date, observable on the market. The transition from level 2 to level 1 takes place when the presence of an active market, as defined by IFRS 13, has been successfully verified. The transition from level 2 to level 3 occurs when, at the reference date, several of the significant parameters in determining fair value are not directly observable on the market.

A.4.4 OTHER INFORMATION

The Bank does not manage groups of financial assets and liabilities based on its net exposure to market risks or credit risk.

The Bank, with reference to derivatives concluded with financial counterparties with which it stipulated framework offsetting agreements, availed itself of the possibility to measure the fair value at overall portfolio exposure level in order to take account of the offsetting of counterparty risk. The CVA/DVA calculated at portfolio level is allocated to the individual derivative contracts based on the fair value of the said individual contracts forming the object of the offsetting agreements.

Information of a quantitative nature

A.4.5 FAIR VALUE HIERARCHY

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

	31/12/2019			31/12/2018		
FINANCIAL ASSETS/LIABILITIES MEASURED AT FAIR VALUE	L1	L2	L3	L1	L2	L3
1. Financial assets measured at fair value through profit or loss	56,002	28,223	24,717	52,005	15,814	21,001
a) financial assets held for trading	-	25,036	-	3,309	12,361	-
b) financial assets measured at fair value	-	3,187	-	-	3,098	-
c) other financial assets obligatorily measured at fair value	56,002	-	24,717	48,776	355	21,001
2. Financial assets measured at fair value through other comprehensive income	899,899	-	99,173	1,753,867	10,723	44,124
3. Hedging derivatives	-	-	-	-	-	-
4. Tangible assets	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	**955,901**	**28,223**	**123,890**	**1,805,952**	**26,537**	**65,125**
1. Financial liabilities held for trading	-	24,163	-	-	11,597	-
2. Financial liabilities measured at fair value	-	3,286	-	-	9,449	-
3. Hedging derivatives	-	-	-	-	-	-
Total	**-**	**27,449**	**-**	**-**	**21,046**	**-**

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

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

	Financial assets measured at fair value through profit or loss							
	Total	of which: a) financial assets held for trading	of which: b) financial assets measured at fair value	of which: c) other financial assets obligatorily measured at fair value	Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Tangible assets	Intangible assets
1. OPENING BALANCES	**21,001**	**-**	**-**	**21,001**	**44,124**	**-**	**-**	**-**
2. INCREASES	**3,784**	**-**	**-**	**3,784**	**73,851**	**-**	**-**	**-**
2.1. Purchases	41	-	-	41	64,657	-	-	-
2.2. Profit attributed to:	-	-	-	-	-	-	-	-
2.2.1. Income Statement	-	-	-	-	-	-	-	-
- of which capital gains	-	-	-	-	-	-	-	-
2.2.2. Equity	-	X	X	X	-	-	-	-
2.3. Transfers from other levels	-	-	-	-	8,327	-	-	-
2.4. Other increases	3,743	-	-	3,743	867	-	-	-
3. DECREASES	**67**	**-**	**-**	**67**	**18,803**	**-**	**-**	**-**
3.1. Sales	-	-	-	-	18,474	-	-	-
3.2. Repayments	-	-	-	-	-	-	-	-
3.3. Losses attributed to:	67	-	-	67	-	-	-	-
3.3.1. Income Statement	67	-	-	67	-	-	-	-
- of which capital losses	67	-	-	67	-	-	-	-
3.3.2. Equity	-	X	X	X	-	-	-	-
3.4. Transfers to other levels	-	-	-	-	-	-	-	-
3.5. Other decreases	-	-	-	-	329	-	-	-
4. CLOSING BALANCES	**24,717**	**-**	**-**	**24,717**	**99,173**	**-**	**-**	**-**

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

At the reporting date, the Bank does not hold any liabilities measured at fair value on a recurring basis (level 3).

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

ASSETS AND LIABILITIES WHICH ARE NOT MEASURED AT FAIR VALUE OR WHICH ARE MEASURED AT FAIR VALUE ON A NON-RECURRING BASIS	31/12/2019				31/12/2018			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Financial assets measured at amortised cost	6,814,349	2,242,668	149,618	4,498,360	4,343,215	1,207,220	111,008	2,733,640
2. Tangible assets held for investment purposes								
3. Non-current assets and groups of assets held for disposal								
Total	**6,814,349**	**2,242,668**	**149,618**	**4,498,360**	**4,343,215**	**1,207,220**	**111,008**	**2,733,640**
1. Financial liabilities measured at amortised cost	7,060,784		10,087	7,050,696	5,322,802		10,141	5,312,714
2. Liabilities associated to assets held for disposal								
Total	**7,060,784**	**-**	**10,087**	**7,050,696**	**5,322,802**	**-**	**10,141**	**5,312,714**

KEY:

CA = Carrying amount

L1 = Level 1

L2 = Level 2

L3 = Level 3

A.5 - Information on the day one profit/loss

During the year, the Bank did not carry out any transactions for which, at the moment of first-time recognition of a financial instrument, a difference emerges between the purchase value and the value of the instrument obtained using internal valuation techniques.

Consequently, no disclosure is provided as required by IFRS 7, para. 28.

Part B - Information on the statement of financial position

Assets

Section 1 - Cash and cash equivalents - Item 10

1.1 Cash and cash equivalents: breakdown

	Total 31/12/2019	Total 31/12/2018
a) Cash	151,003	123,873
b) Deposits on demand at central banks	-	-
Total	**151,003**	**123,873**

The sub-item "Cash" includes foreign currencies for a value equal to EUR 8,591 thousand.

The sub-item 'Deposits on demand at central banks' refers to transactions with the Bank of Italy.

Section 2 - Financial assets measured at fair value through profit or loss - Item 20

2.1 Financial assets held for trading: breakdown by category

ITEMS/VALUES	Total 31/12/2019			Total 31/12/2018		
	L1	L2	L3	L1	L2	L3
A. CASH ASSETS						
1. Debt securities	-	-	-	-	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	-	-	-	-	-
2. Equities	-	-	-	3,309	-	-
3. UCITS units	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Repos	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total (A)	**-**	**-**	**-**	**3,309**	**-**	**-**
B. DERIVATIVE INSTRUMENTS						
1. Financial derivatives	-	25,036	-	-	12,361	-
1.1 trading	-	25,036	-	-	12,361	-
1.2 connected to the fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 trading	-	-	-	-	-	-
2.2 connected to the fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total (B)	**-**	**25,036**	**-**	**-**	**12,361**	**-**
Total (A+B)	**-**	**25,036**	**-**	**3,309**	**12,361**	**-**

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

2.2 Financial assets held for trading: breakdown by debtors/issuers/counterparties

ITEMS/VALUES	Total 31/12/2019	Total 31/12/2018
A. CASH ASSETS		
1. Debt securities	-	-
a) Central Banks	-	-
b) Public bodies	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
2. Equities	-	3,309
a) Banks	-	286
b) Other financial companies	-	408
of which: insurance companies	-	258
c) Non-financial companies	-	2,616
d) Other issuers	-	-
3. UCITS units	-	-
4. Loans	-	-
a) Central Banks	-	-
b) Public bodies	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total (A)	-	3,309
B. DERIVATIVE INSTRUMENTS	-	-
a) Central counterparties	-	-
b) Other	25,036	12,361
Total (B)	25,036	12,361
Total (A+B)	25,036	15,670

2.3 Financial assets measured at fair value: breakdown by category

ITEMS/VALUES	Total 31/12/2019			Total 31/12/2018		
	L1	L2	L3	L1	L2	L3
1. DEBT SECURITIES	-	3,187	-	-	3,098	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	3,187	-	-	3,098	-
2. LOANS	-	-	-	-	-	-
2.1 Structured	-	-	-	-	-	-
2.2 Other	-	-	-	-	-	-
Total	-	3,187	-	-	3,098	-

KEY:

L1 = Level 1

L2 = Level 2

L3 = Level 3

2.4 Financial assets measured at fair value: breakdown by debtors/issuers

ITEMS/VALUES	Total 31/12/2019	Total 31/12/2018
1. DEBT SECURITIES	3,187	3,098
a) Central Banks	-	-
b) Public bodies	-	-
c) Banks	3,187	3,098
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
2. LOANS	-	-
a) Central Banks	-	-
b) Public bodies	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	3,187	3,098

2.5 Other financial assets obligatorily measured at fair value: breakdown by category

ITEMS/VALUES	Total 31/12/2019			Total 31/12/2018		
	L1	L2	L3	L1	L2	L3
1. Debt securities	-	-	41	-	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	-	41	-	-	-
2. Equities	335	-	-	-	-	-
3. UCITS units	55,667	-	288	48,776	355	-
4. Loans	-	-	24,388	-	-	21,001
4.1 Repos	-	-	-	-	-	-
4.2 Other	-	-	24,388	-	-	21,001
Total	**56,002**	**-**	**24,717**	**48,776**	**355**	**21,001**

KEY:

L1 = Level 1

L2 = Level 2

L3 = Level 3

This item includes junior securities relating to securitisation transactions for approximately EUR 41 thousand.

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

	Total 31/12/2019	Total 31/12/2018
1. EQUITIES	**335**	**-**
of which: banks	48	-
of which: other financial companies	35	-
of which: non-financial companies	252	-
2. DEBT SECURITIES	**41**	**-**
a) Central Banks	-	-
b) Public bodies	-	-
c) Banks	-	-
d) Other financial companies	41	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
3. UCITS UNITS	**55,955**	**49,131**
4. LOANS	**24,388**	**21,001**
a) Central Banks	-	-
b) Public bodies	-	-
c) Banks	-	-
d) Other financial companies	15,957	16,011
of which: insurance companies	-	-
e) Non-financial companies	8,276	4,780
f) Households	155	209
Total	**80,719**	**70,132**

The item 'UCITS units' is composed of the following main categories of funds:

- bonds totalling EUR 20,480 thousand;
- stocks totalling EUR 3,057 thousand;
- balanced totalling EUR 32,130 thousand;
- real estate totalling EUR 288 thousand.

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

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

ITEMS/VALUES	Total 31/12/2019			Total 31/12/2018		
	L1	L2	L3	L1	L2	L3
1. DEBT SECURITIES	**899,899**	**-**	**-**	**1,753,867**	**-**	**-**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	899,899	-	-	1,753,867	-	-
2. EQUITIES	**-**	**-**	**99,173**	**-**	**10,723**	**44,124**
3. LOANS	**-**	**-**	**-**	**-**	**-**	**-**
Total	899,899	-	99,173	1,753,867	10,723	44,124

KEY:

L1 = Level 1

L2 = Level 2

L3 = Level 3

This item also includes equities relating to Cassa Centrale Banca's participation in the share capital increase of Banca Carige S.p.A. - Cassa di Risparmio di Genova e Imperia (hereinafter also "Carige") for EUR 63 million (8.34% of the share capital).

3.2. Financial assets measured at fair value through other comprehensive income: breakdown by debtors/issuers

ITEMS/VALUES	Total 31/12/2019	Total 31/12/2018
1. DEBT SECURITIES	**899,899**	**1,753,867**
a) Central Banks	-	-
b) Public bodies	899,899	1,753,867
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
2. EQUITIES	**99,173**	**65,570**
a) Banks	99,173	54,900
b) Other issuers:	-	10,671
- other financial companies	-	1,395
of which: insurance companies	-	-
- non-financial companies	-	9,276
- other	-	-
3. LOANS	**-**	**-**
a) Central Banks	-	-
b) Public bodies	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	999,072	1,819,438

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

	Gross value				Total value adjustments			Overall partial write-offs
	First stage	of which: Instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	
Debt securities	900,383	900,383	-	-	484	-	-	-
Loans	-	-	-	-	-	-	-	-
Total 31/12/2019	**900,383**	**900,383**	**-**	**-**	**484**	**-**	**-**	**-**
Total 31/12/2018	**1,756,365**	**-**	**-**	**-**	**2,498**	**-**	**-**	**-**
of which: impaired financial assets acquired or originated	X	X	-	-	X	-	-	-

The division by stage of risk of financial assets measured at fair value through other comprehensive income is applied in compliance with the provisions of the impairment model in application of IFRS 9.

For more detailed information, please refer to Part A - Accounting policies in paragraph "15.5 Methods of recognition of impairment losses" and part E - Information on risks and related hedging policies.

Section 4 - Financial assets measured at amortised cost - Item 40

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

TYPE OF TRANSACTIONS/ VALUES	Total 31/12/2019						Total 31/12/2018					
	Carrying amount			Fair value			Carrying amount			Fair value		
	First and second stage	Third stage	of which: impaired acquired or originated	L1	L2	L3	First and second stage	Third stage	of which: impaired acquired or originated	L1	L2	L3
A. LOANS TO CENTRAL BANKS	**455,354**	**-**	**-**	**-**	**-**	**455,354**	**173,126**	**-**	**-**	**-**	**-**	**173,126**
1. Fixed-term deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Compulsory reserve	455,354	-	-	X	X	X	173,126	-	-	X	X	X
3. Repos	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	-	-	-	X	X	X	-	-	-	X	X	X
B. LOANS TO BANKS	**3,036,181**	**-**	**-**	**78,169**	**149,618**	**2,812,540**	**1,919,207**	**-**	**-**	**-**	**110,308**	**1,803,901**
1. Loans	**2,812,540**	**-**	**-**	**-**	**-**	**2,812,540**	**1,803,901**	**-**	**-**	**-**	**-**	**1,803,901**
1.1 Current accounts and deposits on demand	68,196	-	-	X	X	X	78,906	-	-	X	X	X
1.2. Fixed-term deposits	134,617	-	-	X	X	X	116,909	-	-	X	X	X
1.3. Other loans:	2,609,727	-	-	X	X	X	1,608,085	-	-	X	X	X
- Repos receivables	-	-	-	X	X	X	-	-	-	X	X	X
- Financing for leases	-	-	-	X	X	X	-	-	-	X	X	X
- Other	2,609,727	-	-	X	X	X	1,608,085	-	-	X	X	X
2. Debt securities	**223,641**	**-**	**-**	**78,169**	**149,618**	**-**	**115,306**	**-**	**-**	**-**	**110,308**	**-**
2.1 Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt securities	223,641	-	-	78,169	149,618	-	115,306	-	-	-	110,308	-
Total	**3,491,535**	**-**	**-**	**78,169**	**149,618**	**3,267,894**	**2,092,333**	**-**	**-**	**-**	**110,308**	**1,977,027**

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

The sub-item 1.3 "Other loans" represents loans secured by ECB eligible securities offered to the affiliated Banks as part of the "Collateral Account" service, which is activated in order to broker the European Central Bank's refinancing operations as well as on the Repo market.

As part of these services, based on the financial guarantee agreements pursuant to Italian Legislative Decree no. 170 of 21 May 2004, Cassa Centrale Banca obtained the transfer of legal ownership of eligible securities from the affiliated Banks. These securities can therefore be used by the Bank to guarantee the participation in the refinancing operations of the European Central Bank and for the stipulation of transactions on the repo market.

The balance of "Other debt securities" includes the subscription, by Cassa Centrale Banca, of the subordinated bond issued by Carige at an annual rate of 8.25%, with a nominal value of EUR 12.4 million.

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

TYPE OF TRANSACTIONS/ VALUES	Total 31/12/2019						Total 31/12/2018					
	Carrying amount			Fair value			Carrying amount			Fair value		
	First and second stage	Third stage	of which: impaired acquired or originated	L1	L2	L3	First and second stage	Third stage	of which: impaired acquired or originated	L1	L2	L3
1. LOANS	**1,151,575**	**15,984**	**-**	**-**	**-**	**1,227,907**	**996,525**	**20,836**	**-**	**-**	**-**	**756,614**
1.1. Current accounts	53,997	1,482	-	X	X	X	40,320	3,443	-	X	X	X
1.2. Repos receivables	-	-	-	X	X	X	-	-	-	X	X	X
1.3. Mortgage loans	602,315	13,846	-	X	X	X	827,437	15,523	-	X	X	X
1.4. Credit cards, personal loans and salary-backed loans	-	-	-	X	X	X	-	-	-	X	X	X
1.5. Financing for leases	-	-	-	X	X	X	-	-	-	X	X	X
1.6. Factoring	-	-	-	X	X	X	-	-	-	X	X	X
1.7. Other loans	495,264	656	-	X	X	X	128,769	1,870	-	X	X	X
2. DEBT SECURITIES	**2,155,255**	**-**	**-**	**2,164,499**	**-**	**2,559**	**1,233,521**	**-**	**-**	**1,207,220**	**700**	**-**
2.1. Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2. Other debt securities	2,155,255	-	-	2,164,499	-	2,559	1,233,521	-	-	1,207,220	700	-
Total	**3,306,830**	**15,984**	**-**	**2,164,499**	**-**	**1,230,467**	**2,230,046**	**20,836**	**-**	**1,207,220**	**700**	**756,614**

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

This item includes senior securities relating to securitisation transactions for EUR 1,900 thousand.

The sub-item 1.7 "Other loans" consists of:

- fixed-term subsidies for EUR 360,823 thousand;
- security deposits in own name for EUR 79,086 thousand;
- initial margins relating to transactions with Cassa Compensazione e Garanzia for EUR 55,065 thousand;
- loans for advances of bills and other documents subject to payment in due course for EUR 552 thousand;
- subsidies repayable in instalments for EUR 341 thousand;
- other entries totalling EUR 53 thousand.

4.3 Financial assets measured at amortised cost: breakdown by debtors/issuers of loans to customers

TYPE OF TRANSACTIONS/ VALUES	Total 31/12/2019			Total 31/12/2018		
	First and second stage	Third stage	of which: impaired assets acquired or originated	First and second stage	Third stage	of which: impaired assets acquired or originated
1. DEBT SECURITIES	**2,155,255**	**-**	**-**	**1,233,521**	**-**	**-**
a) Public bodies	2,152,916	-	-	1,232,623	-	-
b) Other financial companies	2,339	-	-	898	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	-	-	-	-	-	-
2. LOANS TO:	**1,151,575**	**15,984**	**-**	**996,526**	**20,836**	**-**
a) Public bodies	22,457	-	-	1,411	-	-
b) Other financial companies	535,106	187	-	514,482	359	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	566,406	13,354	-	450,908	17,751	-
d) Households	27,606	2,443	-	29,725	2,726	-
Total	**3,306,830**	**15,984**	**-**	**2,230,047**	**20,836**	**-**

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

	Gross value				Total value adjustments			Overall partial write-offs*
	First stage	of which: Instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	
Debt securities	2,379,425	2,232,872	3,162	-	2,938	753	-	-
Loans	4,368,047	4,920	59,371	52,949	6,230	1,719	36,965	7,829
Total 31/12/2019	**6,747,472**	**2,237,792**	**62,533**	**52,949**	**9,168**	**2,472**	**36,965**	**7,829**
Total 31/12/2018	**4,204,341**	**42,206**	**127,466**	**74,466**	**7,290**	**2,137**	**53,630**	**7,631**
of which: impaired financial assets acquired or originated	X	X	-	-	X	-	-	-

*Value to be displayed for information purposes

The division by stage of risk of financial assets measured at amortised cost is applied in compliance with the provisions of the impairment model in application of IFRS 9.

For more detailed information on the impairment model, please refer to Part A - Accounting policies in paragraph "15.5 Methods of recognition of impairment losses" and Part E - "Information on risks and related hedging policies".

Section 5 - Hedging derivatives - Item 50

As at the reporting date, the Bank had not entered into hedging transactions. This section does not contain any evaluation and is therefore omitted.

Section 6 - Adjustment of the financial assets subject to macro-hedging - Item 60

As at the reporting date, there are no financial assets subject to macro-hedging. This section does not contain any evaluation and is therefore omitted.

Section 7 - Equity investments - Item 70

7.1 Equity investments: information on investment ratios

NAME	Registered office	Operating headquarters	% interest	Votes available %
A. WHOLLY-OWNED SUBSIDIARIES				
Assicura Agenzia S.r.l.	Udine	Udine	100.00%	100.00%
Centrale Credit Solutions S.r.l.	Trento	Trento	100.00%	100.00%
Centrale Soluzioni Immobiliare S.r.l.	Trento	Trento	100.00%	100.00%
Centrale Casa S.r.l.	Trento	Trento	100.00%	100.00%
Nord Est Asset Management S.A.	Luxembourg	Luxembourg	100.00%	100.00%
Claris Leasing S.p.A.	Treviso	Treviso	100.00%	100.00%
Phoenix Informatica Bancaria S.p.A. (now Allitude S.p.A.)	Trento	Trento	89.58%	89.58%
CESVE S.p.A. Consortile	Padua	Padua	71.43%	98.30%
Informatica bancaria Finanziaria S.p.A.	Trento	Trento	69.75%	69.75%
Servizi Bancari Associati S.p.A.	Cuneo	Cuneo	67.35%	67.35%
Prestipay S.p.A.	Udine	Udine	60.00%	60.00%
Centro Sistemi Direzionali S.r.l.	Palazzolo sull'Oglio	Palazzolo sull'Oglio	5.33%	98.00%
B. JOINTLY CONTROLLED COMPANIES				
Casse Rurali Raiffeisen Finanziaria S.p.A.	Bolzano	Bolzano	50.00%	50.00%
C. COMPANIES SUBJECT TO A SIGNIFICANT INFLUENCE				
Centrale Trading S.r.l.	Trento	Trento	32.50%	42.50%
Servizi e Finanza Friuli-Venezia Giulia S.r.l.	Udine	Udine	24.51%	24.51%
Formazione Lavoro S.c.a.r.l. in liquidation	Trento	Trento	22.21%	35.16%
Partecipazioni cooperative S.r.l.	Trento	Trento	13.92%	29.17%
Scouting S.p.A.	Bellaria Igea Marina	Bellaria Igea Marina	8.26%	30.15%
Cabel Holding S.p.A.	Empoli	Empoli	7.66%	47.38%
Finanziaria Trentina della cooperazione S.p.A.	Trento	Trento	4.08%	47.67%

7.2 Significant equity investments: carrying amount, fair value and dividends received

This information is included in the section with the same heading in the Consolidated Explanatory Notes.

7.3 Significant equity investments: accounting information

This information is included in the section with the same heading in the Consolidated Explanatory Notes.

7.4 Non significant equity investments: accounting information

This information is included in the section with the same heading in the Consolidated Explanatory Notes.

7.5 Equity investments: annual changes

	Total 31/12/2019	Total 31/12/2018
A. OPENING BALANCES	**207,586**	**161,340**
B. INCREASES	**49,039**	**46,328**
B.1 Purchases	30,192	46,278
B.2 Write-backs	-	-
B.3 Revaluations	-	-
B.4 Other changes	18,848	50
C. DECREASES	**15,886**	**83**
C.1 Sales	3,083	83
C.2 Value adjustments	-	-
C.3 Write-downs	-	-
C.4 Other changes	12,803	-
D. CLOSING BALANCES	**240,739**	**207,586**
E. TOTAL REVALUATIONS	**-**	**199**
F. TOTAL ADJUSTMENTS	**-**	**-**

The main changes in the item “Equity investments” during the current year are summarised below:

Purchases of additional shares already in the portfolio:

- Phoenix Informatica Bancaria S.p.A. totalling EUR 11,990 thousand;
- CESVE S.p.A. totalling EUR 10,761 thousand;
- Prestipay S.p.A. totalling EUR 4,800 thousand;
- Centrale Soluzioni Immobiliari S.p.A. totalling EUR 2,000 thousand;

Purchases:

- Centro Servizi Direzionali S.p.A. totalling EUR 390 thousand;
- Servizi e Finanza Friuli-Venezia Giulia S.r.l. totalling EUR 250 thousand;

Sales:

- Servizi Bancari Associati S.p.A. totalling EUR 32 thousand;
- Assicura Cooperazione Trentina S.r.l. totalling Euro 3,051 thousand.

7.6 Commitments referring to equity investments in subsidiaries under joint control

This information is included in the section with the same heading in the Consolidated Explanatory Notes.

7.7 Commitments referring to equity investments in companies subject to a significant influence

This information is included in the section with the same heading in the Consolidated Explanatory Notes.

7.8 Significant restrictions

This information is included in the section with the same heading in the Consolidated Explanatory Notes.

7.9 Other information

This information is included in the section with the same heading in the Consolidated Explanatory Notes.

Section 8 - Tangible assets - Item 80

8.1 Tangible assets for business use: breakdown of the assets measured at cost

ASSETS/VALUES	Total 31/12/2019	Total 31/12/2018
1. ASSETS OWNED	13,880	13,888
a) land	3,665	3,665
b) buildings	5,703	5,992
c) furniture	1,679	1,475
d) electronic systems	1,431	1,353
e) other	1,402	1,403
2. RIGHTS OF USE ACQUIRED THROUGH LEASE	8,033	-
a) land	-	-
b) buildings	7,650	-
c) furniture	-	-
d) electronic systems	-	-
e) other	384	-
Total	21,913	13,888
of which: obtained through the enforcement of guarantees received	-	-

8.2 Tangible assets held for investment purposes: breakdown of the assets measured at cost

There are no tangible assets held for investment purposes valued at cost.

8.3 Tangible assets for business use: breakdown of the revalued assets

There are no revalued tangible assets for business use.

8.4 Tangible assets held for investment purposes: breakdown of the assets measured at fair value

There are no tangible assets held for investment purposes measured at fair value.

8.5 Inventories of tangible assets disciplined by IAS 2: breakdown

There are no tangible assets disciplined by IAS 2.

8.6 Tangible assets for business use: annual changes

	Land	Buildings	Furniture	Electronic systems	Other	Total
A. GROSS OPENING BALANCES	3,665	17,471	6,326	5,705	6,566	39,734
A.1 Total net impairment	-	7,812	4,852	4,352	4,927	21,942
A.2 NET OPENING BALANCES	3,665	9,659	1,475	1,353	1,639	17,792
B. INCREASES:	-	4,709	493	590	794	6,586
B.1 Purchases	-	4,709	493	590	794	6,586
- of which business combinations	-	-	-	-	-	-
B.2 Expenditures for capitalised improvements	-	-	-	-	-	-
B.3 Write-backs	-	-	-	-	-	-
B.4 Positive fair value changes charged to	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Positive exchange rate differences	-	-	-	-	-	-
B.6 Transfers from properties held for investment purposes	-	-	X	X	X	-
B.7 Other changes	-	-	-	-	-	-
C. DECREASES:	-	1,016	289	512	647	2,464
C.1 Sales	-	-	-	-	-	-
- of which business combinations	-	-	-	-	-	-
C.2 Depreciation	-	1,016	289	512	647	2,464
C.3 Value adjustments for impairment charged to	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.4 Negative fair value changes charged to	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Negative exchange rate differences	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) tangible assets held for investment purposes	-	-	X	X	X	-
b) non-current assets and groups of assets held for disposal	-	-	-	-	-	-
C.7 Other changes	-	-	-	-	-	-
D. NET CLOSING BALANCES	3,665	13,352	1,679	1,431	1,786	21,913
D.1 Total net impairment	-	8,828	5,141	4,857	5,574	24,399
D.2 GROSS CLOSING BALANCES	3,665	22,180	6,820	6,287	7,360	46,312
E. Valuation at cost	-	-	-	-	-	-

It should be noted that the balances relating to the gross and net opening balances of tangible assets have been restated to take account of the effects of the first-time adoption of IFRS 16. For further details in this regard, please refer to Part A - Accounting Policies, A.1 - General Part, Section 4 - Other matters, "Transition to IFRS 16".

The amounts referring to the rights of use acquired through lease, present in the opening balances, refer to cars for approximately EUR 237 thousand and buildings for approximately EUR 3,667 thousand.

The item E. 'Valuation at cost' is not measured since its compilation is only set for tangible assets measured at fair value in the financial statements. This case does not apply to the Bank.

Below are the annual changes in the rights of use acquired through lease.

8.6 bis Assets by right of use

	Branches	Cars	Land	Real estate per employees	Offices	Warehouses and other areas	Equipment	Other	Buildings	Total
Balance as at 1 January	-	**237**	-	-	-	-	-	-	**3,667**	**3,904**
Of which:										
- Historical cost	-	237	-	-	-	-	-	-	3,667	**3,904**
- Depreciation fund	-	-	-	-	-	-	-	-	-	**-**
Increases	-	291	-	-	-	-	-	-	4,709	**5,000**
Decreases	-	-	-	-	-	-	-	-	-	**-**
Depreciation	-	(144)	-	-	-	-	-	-	(726)	**(870)**
Impairment	-	-	-	-	-	-	-	-	-	**-**
Balance as at 31 December	-	**384**	-	-	-	-	-	-	**7,650**	**8,033**
Of which:										
- Historical cost	-	528	-	-	-	-	-	-	8,376	**8,904**
- Depreciation fund	-	(144)	-	-	-	-	-	-	(726)	**(870)**

The item "Increases" includes rights of use relating to contracts signed during the period. Changes in assets per right of use due to contractual changes are recorded under "Increases" and "Decreases".

As at the reporting date, the Bank had not entered into leaseback transactions.

8.7 Tangible assets held for investment purposes: annual changes

There are no tangible assets held for investment purposes.

8.8 Inventories of tangible assets disciplined by IAS 2: annual changes

As at the reporting date, there were no such circumstances.

8.9 Commitments for tangible asset purchases

As at the reporting date, the Bank had not assumed any commitment to purchase tangible assets.

Section 9 - Intangible assets - Item 90

9.1 Intangible assets: breakdown by type of asset

ASSETS/VALUES	Total 31/12/2019		Total 31/12/2018	
	Definite duration	Indefinite duration	Definite duration	Indefinite duration
A.1 GOODWILL	**X**	**-**	**X**	**-**
A.2 OTHER INTANGIBLE ASSETS	**1,929**	**-**	**1,055**	**-**
A.2.1 Assets valued at cost:	1,929	-	1,055	-
a) intangible assets generated internally	-	-	-	-
b) other assets	1,929	-	1,055	-
A.2.2 Assets measured at fair value:	-	-	-	-
a) intangible assets generated internally	-	-	-	-
b) other assets	-	-	-	-
Total	**1,929**	**-**	**1,055**	**-**

All the Bank's intangible assets are valued at cost.

In compliance with the relevant accounting regulations:

- no amortisation has been calculated for intangible assets with an indefinite life;
- the amortisation rates used for software are 33.3%

No internally generated intangible assets were posted.

9.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total
		DEF	INDEF	DEF	INDEF	
A. OPENING BALANCES	-	-	-	1,055	-	1,055
A.1 Total net impairment	-	-	-	-	-	-
A.2 NET OPENING BALANCES	-	-	-	1,055	-	1,055
B. INCREASES	-	-	-	1,471	-	1,471
B.1 Purchases	-	-	-	1,471	-	1,471
B.2 Increase in internal intangible assets	X	-	-	-	-	-
B.3 Write-backs	X	-	-	-	-	-
B.4 Positive fair value changes	-	-	-	-	-	-
- to Equity	X	-	-	-	-	-
- to Income Statement	X	-	-	-	-	-
B.5 Positive exchange rate differences	-	-	-	-	-	-
B.6 Other changes	-	-	-	-	-	-
C. DECREASES	-	-	-	598	-	598
C.1 Sales	-	-	-	-	-	-
C.2 Value adjustments	-	-	-	598	-	598
- Amortisation	X	-	-	598	-	598
- Write-downs	-	-	-	-	-	-
+ equity	X	-	-	-	-	-
+ income statement	-	-	-	-	-	-
C.3 Negative fair value changes:	-	-	-	-	-	-
- to Equity	X	-	-	-	-	-
- to Income Statement	X	-	-	-	-	-
C.4 Transfers to non-current assets held for disposal	-	-	-	-	-	-
C.5 Negative exchange rate differences	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
D. NET CLOSING BALANCES	-	-	-	1,929	-	1,929
D.1 Total net value adjustments	-	-	-	-	-	-
E. GROSS CLOSING BALANCES	-	-	-	1,929	-	1,929
F. Valuation at cost	-	-	-	-	-	-

KEY:

DEF = with definite duration

INDEF = with indefinite duration

The intangible assets described were entirely acquired externally and valued at cost.

The sub-item "F. Valuation at cost" is not measured since its compilation is only set for intangible assets measured at fair value in the financial statements.

9.3 Intangible assets: other information

In accordance with the requirements of IAS 38, it should be noted that the Bank does not have any:

- impediments to the distribution to shareholders of capital gains on revalued intangible assets (see IAS 38, paragraph 124, letter b);
- established intangible assets to secure its debts (see IAS 38, paragraph 122, letter d);
- outstanding intangible assets acquired by government concession (see IAS 38, paragraph 122, letter c);
- commitments to purchase intangible assets (see IAS 38, paragraph 122, letter e);
- existing intangible assets subject to lease operations;
- outstanding allocation of goodwill among the various cash generating units (see IAS 36, paragraph 134, letter a).

Section 10 - Tax assets and tax liabilities - Item 100 of assets and item 60 of liabilities

10.1 Deferred tax assets: breakdown

THROUGH THE INCOME STATEMENT	IRES	IRAP	TOTAL
Loans	17,470	2,340	19,810
Tangible fixed assets	19	16	35
Provisions for risks and charges	3,314	566	3,880
Tax losses	-	-	-
Administrative expenses	21	-	21
Other items	2,624	472	3,096
TOTAL	**23,449**	**3,394**	**26,842**

THROUGH EQUITY	IRES	IRAP	TOTAL
Negative reserves for HTCS financial assets	270	131	400
TFR	27	-	27
Other items	-	-	-
TOTAL	**297**	**131**	**428**

The item "Loans" in the table above shows deferred tax assets ("DTA") relating to write-downs and losses on loans to customers not yet deducted from taxable income pursuant to paragraph 3 of Article 106 of the Consolidated Income Tax Act (TUIR) and Article 6, paragraph 1, letter c-bis) of IRAP Decree 446/1997 that may be converted into a tax credit, regardless of the future profitability of the company, both in the event of statutory loss and IRES tax loss or negative IRAP value of production pursuant to Law no. 214 of 22 December 2011 (so-called "Qualified DTA") for EUR 19,398 thousand.

In addition, it should be noted that the tax regulations relating to the convertibility of advance taxes relating to adjustments to loans and intangible assets into tax credits, in providing "certainty" to the recovery of qualified DTAs, affect the "probability test" provided for by IAS 12, making it automatically satisfied for all the aforementioned DTAs.

10.2 Deferred tax liabilities: breakdown

THROUGH THE INCOME STATEMENT	IRES	IRAP	TOTAL
Tangible fixed assets	-	-	-
Capital gains by instalments	-	-	-
Other items	-	-	-
TOTAL	-	-	-

THROUGH EQUITY	IRES	IRAP	TOTAL
Positive reserves for HTCS financial assets	572	147	719
Other items	-	-	-
TOTAL	572	147	719

10.3 Changes in advance taxes (through the income statement)

	Total 31/12/2019	Total 31/12/2018
1. OPENING AMOUNT	28,357	24,109
2. INCREASES	26,842	28,357
2.1 Advance taxes recorded in the year	26,842	28,357
a) relating to previous years	-	-
b) due to changed accounting criteria	-	-
c) write-backs	-	-
d) other	26,842	28,357
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. DECREASES	28,357	24,109
3.1 Advance taxes cancelled in the year	28,357	24,109
a) reversals	28,357	24,109
b) write-downs for uncollectable amounts	-	-
c) changed accounting criteria	-	-
d) other	-	-
3.2 Decrease in tax rates	-	-
3.3 Other decreases:	-	-
a) transformation into tax credits under Law no. 214/2011	-	-
b) other	-	-
4. CLOSING AMOUNT	26,842	28,357

The deferred tax assets recognised during the year, amounting to EUR 26,842 thousand, derive mainly from the recognition of the following deferred tax assets referring to:

- non-deductible provisions for risks and charges;
- value adjustments to properties deductible in subsequent years;
- provisions for severance indemnities;
- administrative expenses.

The decreases in advance taxes mainly include the discharge of their balance prior to the reporting date.

10.3bis Changes in advance taxes according to Law 214/2011

	Total 31/12/2019	Total 31/12/2018
1. OPENING AMOUNT	19,064	19,055
2. INCREASES	333	9
3. DECREASES	-	-
3.1 Reversals	-	-
3.2 Transformation into tax credits	-	-
a) deriving from losses for the year	-	-
b) deriving from tax losses	-	-
3.3 Other decreases	-	-
4. CLOSING AMOUNT	19,398	19,064

Table 10.3 bis shows changes in advance taxes recognised on value adjustments to loans to customers pursuant to Law no. 214/2011. As a result of the rules introduced with the 2020 Stability Law, during the year there are no:

- reversals referring to adjustments to loans to customers, as the deduction of the portion of these negative components envisaged for the tax period in progress as at 31 December 2019 is deferred for both IRES and IRAP purposes, on a straight-line basis, to 2022 and the following three years;
- reversals relating to goodwill, as the deduction of the 5% portion of the amount of these negative components envisaged for the tax period in progress as at 31 December 2019 is deferred for both IRES and IRAP purposes, on a straight-line basis, to 2025 and the following 4 years.

The "Increases" are attributable to effects resulting from changes in future IRAP rates.

10.4 Changes in deferred taxes (through the income statement)

During the year, and in the previous year, no changes were recorded with respect to the zero balance at the start of the period.

10.5 Changes in advance taxes (through Equity)

	Total 31/12/2019	Total 31/12/2018
1. OPENING AMOUNT	9,104	2,409
2. INCREASES	428	9,104
2.1 Advance taxes recorded in the year	428	9,104
a) relating to previous years	-	-
b) due to changed accounting criteria	-	-
c) other	428	9,104
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. DECREASES	9,104	2,409
3.1 Advance taxes cancelled in the year	9,104	2,409
a) reversals	9,104	2,409
b) write-downs for uncollectable amounts	-	-
c) due to changed accounting criteria	-	-
d) other	-	-
3.2 Decrease in tax rates	-	-
3.3 Other decreases	-	-
4. CLOSING AMOUNT	428	9,104

10.6 Changes in deferred taxes (through Equity)

	Total 31/12/2019	Total 31/12/2018
1. OPENING AMOUNT	**481**	**949**
2. INCREASES	**719**	**481**
2.1 Deferred taxes recorded in the year	719	481
a) relating to previous years	-	-
b) due to changed accounting criteria	-	-
c) other	719	481
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. DECREASES	**481**	**949**
3.1 Deferred taxes cancelled in the year	481	949
a) reversals	481	949
b) due to changed accounting criteria	-	-
c) other	-	-
3.2 Decrease in tax rates	-	-
3.3 Other decreases	-	-
4. CLOSING AMOUNT	**719**	**481**

Deferred tax assets recognised during the year refer to taxes calculated on the write-downs and revaluations of "Financial assets measured at fair value through other comprehensive income".

These changes have a contra-entry in the reserve on 'Financial assets measured at fair value through other comprehensive income'.

10.7 Other information

BREAKDOWN OF CURRENT TAXES	IRES	IRAP	Other	Total
Current tax liabilities	(8,611)	(4,051)	-	(12,661)
Advances paid/tax credits	7,940	2,583	-	10,523
Withholding taxes incurred	715	-	-	715
Other tax credits	-	-	-	-
Tax credits under Law 214/2011	-	-	25	25
BREAKDOWN OF CURRENT TAXES	**44**	**(1,468)**	**25**	**(1,399)**
of which debt balance of item 60 a) of liabilities	**-**	**(1,468)**	**-**	**(1,468)**
of which credit balance of item 100 a) of assets	**44**	**-**	**25**	**69**
Tax credits that cannot be offset: capital portion	-	-	-	-
Tax credits that cannot be offset: interest portion	-	-	-	-
of which credit balance of item 100 a) of assets	**44**	**-**	**25**	**69**

With regard to the Bank's tax position, for the financial years not yet prescribed, there have been no assessment notices received to date.

Section 11 - Non-current assets and groups of assets held for disposal and associated liabilities - Item 110 of assets and item 70 of liabilities

11.1 Non-current assets and groups of assets held for disposal: breakdown by type of asset

No non-current assets or groups of assets held for disposal and related associated liabilities were present on the date of the financial statements.

11.2 Other information

As at the reporting date there is no significant additional information.

Section 12 - Other assets - Item 120

12.1 Other assets: breakdown

ITEMS	Total 31/12/2019	Total 31/12/2018
Tax receivables from tax authorities and other tax bodies	26,618	18,569
Cheques to be settled at the Clearing House or with Associates	-	118,219
Items in transit - other	-	-
Work in progress	131,138	61,310
Adjustments for illiquid items in the portfolio	31,190	17,076
Other debtors for security transactions	1	-
Customers and revenues to be collected	7,941	6,320
Prepayments and accrued income not capitalised	3,355	2,158
Improvement and enhancement expenses on non-separable third-party assets	433	92
Advances to suppliers	20	424
Intrinsic value of securities transactions and exchanges to be settled	39	30
Other lenders	29,716	543
Total	**230,452**	**224,741**

The sub-item "Work in progress" refers mainly to the positive balance of electronic flows related to transactions not settled yet and that Cassa Centrale Banca sorts on behalf of affiliated Banks towards the interbanking system and in the opposite direction.

The sub-item "Adjustments for illiquid items in the portfolio" shows the imbalance between the debt adjustments and the credit adjustments of the portfolio "subject to payment in due course", for which details are stated in the specific table "Other information" of part B of these Explanatory Notes.

The sub-item "Other lenders" mainly includes the contra-entry of revenues recorded on an accrual basis during the year but not yet collected for EUR 22,013 thousand and EUR 3,215 thousand in VAT receivables from VAT Group participants.

Liabilities

Section 1 - Financial liabilities measured at amortised cost - Item 10

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

TYPE OF TRANSACTIONS/VALUES	Total 31/12/2019				Total 31/12/2018			
	CA	Fair value			CA	Fair value		
		L1	L2	L3		L1	L2	L3
1. DUE TO CENTRAL BANKS	**675,269**	**X**	**X**	**X**	**297,177**	**X**	**X**	**X**
2. DUE TO BANKS	**4,035,927**	**X**	**X**	**X**	**2,291,553**	**X**	**X**	**X**
2.1 Current accounts and deposits on demand	2,461,354	X	X	X	1,433,194	X	X	X
2.2 Fixed-term deposits	1,104,401	X	X	X	812,588	X	X	X
2.3 Loans	468,809	X	X	X	45,770	X	X	X
2.3.1 Repos payables	468,809	X	X	X	45,770	X	X	X
2.3.2 Other	-	X	X	X	-	X	X	X
2.4 Liabilities for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
2.5 Payables for leases	-	X	X	X	-	X	X	X
2.6 Other payables	1,363	X	X	X	-	X	X	X
Total	**4,711,196**	**-**	**-**	**4,711,196**	**2,588,730**	**-**	**-**	**2,588,730**

KEY:

CA = Carrying amount

L1 = Level 1

L2 = Level 2

L3 = Level 3

The fair value valuation of the financial liabilities measured at amortised cost, included only for the purpose of fulfilling reporting requirements, is broken down into levels pursuant to the requirements set forth in IFRS 13 and depending on the characteristics and significance of the inputs used in the valuation process. For more details, please refer to Part A - Accounting policies, A.4 - Information on fair value in the Explanatory Notes.

The repos payables implemented against financial assets transferred but not derecognised are reported in Part E - Information on risks and related hedging policies, Section E - Disposal Transactions in the Explanatory Notes.

The repos payables implemented against financial assets transferred but not derecognised are reported in Part E - Information on risks and related hedging policies, Section E - Disposal Transactions in the Explanatory Notes.

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

TYPE OF TRANSACTIONS/VALUES	Total 31/12/2019				Total 31/12/2018			
	CA	Fair value			CA	Fair value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and deposits on demand	497,048	X	X	X	372,929	X	X	X
2. Fixed-term deposits	35,220	X	X	X	35,943	X	X	X
3. Loans	1,494,266	X	X	X	2,041,813	X	X	X
3.1 Repos payables	1,491,343	X	X	X	2,040,923	X	X	X
3.2 Other	2,923	X	X	X	889	X	X	X
4. Liabilities for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Payables for leases	8,144	X	X	X	-	X	X	X
6. Other payables	304,822	X	X	X	273,300	X	X	X
Total	**2,339,500**	**-**	**-**	**2,339,500**	**2,723,984**	**-**	**-**	**2,723,984**

KEY:
CA = Carrying amount
L1 = Level 1
L2 = Level 2
L3 = Level 3

The sub-item "6. Other payables" represents:

- outstanding balances on prepaid cards in circulation issued by the Bank for EUR 115,426 thousand;
- countervalue of banker's drafts in circulation issued by the Bank for EUR 189,396 thousand.

The repos payables implemented against financial assets transferred but not derecognised are reported in Part E - Information on risks and related hedging policies, Section E - Disposal Transactions in the Explanatory Notes.

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

TYPE OF SECURITIES/ VALUES	Total 31/12/2019				Total 31/12/2018			
	CA	Fair value			CA	Fair value		
		L1	L2	L3		L1	L2	L3
A. SECURITIES								
1. bonds	10,087	-	10,087	-	10,087	-	10,141	-
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	10,087	-	10,087	-	10,087	-	10,141	-
2. other securities	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	-	-	-	-	-	-	-	-
Total	**10,087**	**-**	**10,087**	**-**	**10,087**	**-**	**10,141**	**-**

KEY:
CA = Carrying amount
L1 = Level 1
L2 = Level 2
L3 = Level 3

This item includes issued securities measured at amortised cost. Securities that as at the reporting date are expired but still not repaid are included. The portion of own issue debt securities not yet placed with third parties is excluded.

The fair value valuation of the debt securities in issue in the table above is presented solely for the purpose of fulfilling reporting requirements, is broken down into levels pursuant to the requirements set forth in IFRS 13 and depending on the characteristics and significance of the inputs used in the valuation process.

For more details, please refer to Part A - Accounting policies, A.4 - Information on fair value in the Explanatory Notes.

1.4 Details of subordinated debts/securities

ITEMS	Total 31/12/2019	Total 31/12/2018
a. Due to banks	-	-
b. Due to customers	-	-
c. Debt securities in issue	10,087	-
Total	**10,087**	**-**

A subordinated nature characterises the securities whose right to reimbursement, in the event of liquidation of the issuing entity or if it is subject to other bankruptcy proceedings, can be exercised by the creditor only after other creditors who are not equally subordinated. Equity instruments which, according to international accounting standards, have equity characteristics, are excluded.

As at the reporting date, there are subordinated relationships with customers for EUR 10,087 thousand.

1.5 Details of structured debts

As at the reporting date, there are no structured debts.

1.6 Payables for leases

Financial lease liabilities

	Branches	Cars	Land	Real estate per employees	Offices	Warehouses and other areas	Equipment	Other	Buildings	Total
Balance as at 1 January	-	141	-	-	3,250	-	-	23	-	**3,415**
New contracts	-	239	-	-	4,490	-	-	-	-	**4,729**
Repayments	-	-	-	-	-	-	-	-	-	-
Other non-monetary movements*	-	-	-	-	-	-	-	-	-	-
Terminated contracts for modification/revaluation	-	-	-	-	-	-	-	-	-	-
Balance as at 31 December	**-**	**380**	**-**	**-**	**7,740**	**-**	**-**	**23**	**-**	**8,144**

*includes increments for indexing

The item "New contracts" includes the lease liability relating to contracts signed into during the period. Changes in the financial lease liability due to contractual changes are recorded under "New contracts" and "Terminated contracts for modification/revaluation".

The table below shows the maturity date of financial payables for leases, as required by IFRS 16, para. 58.

Distribution by residual duration of financial payables for leases

	Branches	Cars	Land	Real estate per employees	Offices	Warehouses and other areas	Equipment	Other	Buildings	Total
Within 12 months	-	-	-	-	-	-	-	-	-	**-**
Between 1-5 years	-	380	-	-	-	-	-	-	-	**380**
Beyond 5 years	-	-	-	-	7,740	-	-	23	-	**7,764**
Total lease liabilities as at 31 December	**-**	**380**	**-**	**-**	**7,740**	**-**	**-**	**23**	**-**	**8,144**

As at the reporting date, the Bank is subject to contractual obligations with reference to lease contracts for EUR 8,144 thousand, of which EUR 380 thousand between one and five years and EUR 7,764 thousand after five years.

During 2019, the Bank's lease contracts involved a cash outlay of EUR 857 thousand, mainly due to branch leases.

Section 2 - Financial liabilities held for trading - Item 20

2.1 Financial liabilities held for trading: breakdown by category

TYPE OF TRANSACTIONS/VALUES	Total 31/12/2019					Total 31/12/2018				
	NV	Fair value			Fair Value*	NV	Fair value			Fair Value*
		L1	L2	L3			L1	L2	L3	
A. CASH LIABILITIES										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	X	-	-	-	-	X
3.1 Bonds	-	-	-	-	X	-	-	-	-	X
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	X	-	-	-	-	X
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total (A)	-	-	-	-	-	-	-	-	-	-
B. DERIVATIVE INSTRUMENTS										
1. Financial derivatives	X	-	24,163	-	X	X	-	11,597	-	X
1.1 Trading	X	-	24,162	-	X	X	-	11,595	-	X
1.2 Connected to the fair value option	X	-	1	-	X	X	-	2	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	X	-	-	-	X	X	-	-	-	X
2.1 Trading	X	-	-	-	X	X	-	-	-	X
2.2 Connected to the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total (B)	X	-	24,163	-	X	X	-	11,597	-	X
Total (A+B)	X	-	24,163	-	X	X	-	11,597	-	X

KEY:

NV = nominal or notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

Fair value* = Fair value calculated excluding the changes in value due to change in credit quality of the issuer with respect to the date of issue.

2.2 Details of 'Financial liabilities held for trading': subordinated liabilities

As at the reporting date, there are no subordinated financial liabilities held for trading.

2.3 Details of 'Financial liabilities held for trading': structured debts

As at the reporting date, there are no financial liabilities held for trading related to structured debts.

Section 3 - Financial liabilities measured at fair value - Item 30

3.1 Financial liabilities measured at fair value: breakdown by category

TYPE OF TRANSACTIONS/ VALUES	Total 31/12/2019					Total 31/12/2018				
	NV	Fair value			Fair Value*	NV	Fair value			Fair Value*
		L1	L2	L3			L1	L2	L3	
1. DUE TO BANKS	-	-	-	-	-	-	-	-	-	-
1.1 Structured	-	-	-	-	X	-	-	-	-	X
1.2 Other	-	-	-	-	X	-	-	-	-	X
of which:					-					
- commitments to disburse funds	-	X	X	X	X	-	X	X	X	X
- financial guarantees issued	-	X	X	X	X	-	X	X	X	X
2. DUE TO CUSTOMERS	-	-	-	-	-	-	-	-	-	-
2.1 Structured	-	-	-	-	X	-	-	-	-	X
2.2 Other	-	-	-	-	X	-	-	-	-	X
of which:					-					
- commitments to disburse funds	-	X	X	X	X	-	X	X	X	X
- financial guarantees issued	-	X	X	X	X	-	X	X	X	X
3. DEBT SECURITIES	3,117	-	3,286	-	3,286	9,292	-	9,449	-	-
3.1 Structured	-	-	-	-	X	6,000	-	6,255	-	X
3.2 Other	3,117	-	3,286	-	X	3,292	-	3,194	-	X
Total	3,117	-	3,286	-	3,286	9,292	-	9,449	-	-

KEY:

NV = nominal or notional value

L1 = Level 1

L2 = Level 2

L3 = Level 3

Fair value* = Fair value calculated excluding the changes in value due to change in credit quality of the issuer with respect to the date of issue.

This item includes the financial liabilities for which the so-called "Fair Value Option" has been exercised. In this regard, it should be noted that the aforementioned Fair Value Option was exercised mainly in relation to debt instruments containing an implicit derivative for which it was considered that the fair value measurement of the entire instrument was less costly than the separate measurement and presentation in the financial statements of the main instrument and derivative.

The illustration of the criteria to determine the fair value is reported in Part A - Accounting policies.

3.2 Details of 'Financial liabilities measured at fair value': subordinated liabilities

As at the reporting date, there are no financial liabilities measured at fair value with a subordination restriction.

Section 4 - Hedging derivatives - Item 40

As at the reporting date, the Bank had not entered into hedging transactions. This section does not contain any evaluation and is therefore omitted.

Section 5 - Adjustment of the financial liabilities subject to macro-hedging - Item 50

As at the reporting date, there are no financial assets subject to macro-hedging. This section does not contain any evaluation and is therefore omitted.

Section 6 - Tax liabilities - Item 60

For information on tax liabilities reference is made to Section 10 of the Assets.

Section 7 - Liabilities associated to assets held for disposal - Item 70

For information on liabilities associated with assets held for disposal, reference is made to Section 11 of the assets.

Section 8 - Other liabilities - Item 80

8.1 Other liabilities: breakdown

ITEMS	Total 31/12/2019	Total 31/12/2018
Tax payables to tax authorities and other tax bodies for indirect taxes	19,808	17,680
Temporary items Centralised Treasury management	1,854	3,309
Wire transfers to be settled	-	-
Housing contributions - Public bodies	1,819	2,181
Due to suppliers and expenses to be settled	26,057	30,391
Collection on behalf of third parties and amounts available to customers or third parties	6,760	53,154
Payables for guarantees issued and commitments	-	-
Due to employees	10,314	5,527
Due to social security institutions and external pension funds	1,539	1,217
Other work in progress	258,938	274,236
Accrued expenses and deferred income not attributable to own items	12,483	258
Intrinsic value of securities transactions and exchanges to be settled	132	82
Payables to Depositors' Guarantee Fund	-	-
Balance of illiquid items in the portfolio	-	-
Debit items in transit	-	-
Advances received from third parties for property disposals to be completed	-	-
Payables for educational, cultural, charitable and social purposes	-	-
Sundry creditors - other	11,936	500
Total	**351,639**	**388,535**

This item includes the liabilities that are not attributable to other items in the statement of financial position liabilities.

The sub-item "Other work in progress" mainly includes the negative balance of electronic flows related to transactions not settled yet and that Cassa Centrale Banca sorts on behalf of affiliated Banks towards the interbanking system and in the opposite direction.

Other liabilities include deferred income from contracts with customers in accordance with IFRS 15, paragraphs 116, letter a), 118, 120 and 128, for EUR 75 thousand.

Section 9 - Provision for severance indemnity - Item 90

9.1 Provision for severance indemnity: annual changes

	Total 31/12/2019	Total 31/12/2018
A. OPENING BALANCES	**2,384**	**2,410**
B. INCREASES	**117**	**31**
B.1 Allocation for the year	17	31
B.2 Other changes	100	-
C. DECREASES	**133**	**57**
C.1 Payments made	-	8
C.2 Other changes	133	50
D. CLOSING BALANCES	**2,368**	**2,384**
Total	**2,368**	**2,384**

As at the reporting date, the Bank recognised the provision for severance indemnity in accordance with IAS 19 Employee benefits. Therefore, item D. 'Closing balances' of the provision recorded coincides with its actuarial value (Defined Benefit Obligation - DBO).

The sub-item "B.1 Allocation for the year" consists exclusively of interest cost equal to EUR 17 thousand.

The sub-item "B.2 Other changes" includes actuarial changes with an impact on equity of EUR 100 thousand.

The sub-item "C.2 Other changes" includes the actuarial gains amounting to EUR 133 thousand.

The amount of the "Interest Cost" is included in the income statement in table "10.1 Personnel costs".

The actuarial gain was recognised in the "Valuation reserves" in accordance with IAS 19.

Finally, it should be noted that according to Law no. 296 of 27 December 2006 (2007 Finance Law), companies with at least 50 employees pay severance indemnities (TFR) accrued after 1 January 2007 on a monthly basis and obligatorily, in accordance with the choice made by the employee, to the supplementary pension funds referred to in Legislative Decree no. 252/05 or to a specific Fund for the payment to employees in the private sector of severance indemnities pursuant to Article 2120 of the Italian Civil Code (hereinafter Treasury Fund) set up at the INPS.

9.2 Other information

ITEMS	Total 31/12/2019	Total 31/12/2018
ALLOCATION FOR THE YEAR	**(116)**	**31**
- Service cost related to current employment benefits	-	-
- Interest expense on the defined benefit obligation	17	31
- Profits and losses from reductions or settlements	-	-
- Service cost related to past employment benefits	-	-
- Transfers	-	-
- Decreases	(133)	-
ACTUARIAL (PROFITS) LOSSES RECOGNISED IN VALUATION RESERVES (OCI)	**100**	**(50)**
Description of the main assumptions		
- Discount rate	0.77%	1.57%
- Expected inflation rate	1.20%	1.50%

Description of the main actuarial assumptions for the valuation of severance indemnity

The amounts relating to the provision for severance indemnity liability are based on a special actuarial appraisal commissioned from an external actuary.

The actuarial model used as a reference for the valuation of the severance indemnity ("Projected Unit Credit Method") is based on various demographic and economic assumptions. For some of the assumptions used, where possible, explicit reference has been made to direct experience, for the others, best practice has been taken into account.

In particular, it should be noted how:

- the annual discount rate used to determine the current value of the bond was deducted, in accordance with the provisions of para. 83 of IAS 19 with reference to the IBoxx Eurozone Corporate AA index with duration 10+ recognised at the valuation date. To this end, the performance with a duration comparable to the duration of the workers' collective agreement subject to valuation was chosen;
- the annual rate of increase of the severance indemnity as provided for by Article 2120 of the Italian Civil Code is 75% of inflation plus 1.5 percentage points;
- the annual rate of salary increase has been determined on the basis of the amounts recorded by Group companies.

As a consequence of the above, the economic technical bases used are shown below:

- Annual discount rate: 0.77%;
- Annual rate of increase in provision for severance indemnity: 2.40%;
- Annual inflation rate: 1.20%;

- Annual rate of actual salary increase:
  - Executives: 2.50%;
  - Middle managers: 1.0%;
  - Employees: 1.0%;
  - Blue-collar workers: 1.0%.

With reference to the demographic technical bases used, the relevant references are provided below:

- Death: RG48 mortality tables published by the State General Accounting Office;
- Disability: INPS tables separated by age and gender;
- Retirement: 100% upon attainment of the AGO requirements as per Law Decree no. 4/2019.

The annual frequency of advances (3.00%) and turnover (1.00%) are deduced from the Bank's historical experience and frequencies triggered by the experience of the actuary in charge of a significant number of similar companies.

In conclusion, we provide the sensitivity analyses on the Actuarial Value (Defined Benefit Obligation - DBO) for the end of the period using:

a. a discount rate of +0.25% and of -0.25% compared to the one applied:

- in the event of an increase of 0.25%, the TFR provision would equal EUR 2,326 thousand;
- in the event of a decrease of 0.25%, the TFR provision would equal EUR 2,411 thousand;

b. an inflation rate of +0.25% and of -0.25% compared to the one applied:

- in the event of an increase of 0.25%, the TFR provision would equal EUR 2,394 thousand;
- in the event of a decrease of 0.25%, the TFR provision would equal EUR 2,342 thousand;

c. a turnover rate of +1% and -1% compared to the one applied:

- in the event of an increase of 1%, the TFR provision would equal EUR 2,358 thousand;
- in the event of a decrease of 1%, the TFR provision would equal EUR 2,379 thousand.

Section 10 - Provisions for risks and charges - Item 100

10.1 Provisions for risks and charges: breakdown

ITEMS/VALUES	Total 31/12/2019	Total 31/12/2018
1. Provision for credit risk relative to commitments and financial guarantees issued	5,085	7,813
2. Provision for other commitments and guarantees issued	-	-
3. Company pension funds	-	-
4. Other provisions for risks and charges	12,045	13,231
4.1 legal and tax disputes	1,893	2,097
4.2 personnel expenses	248	239
4.3 other	9,904	10,894
Total	**17,130**	**21,045**

The item 'Provision for credit risk relative to commitments and financial guarantees issued' includes the value of the total allocations for credit risk in respect of the commitments to disburse funds and financial guarantees issued which are subject to the impairment rules of IFRS 9 (paragraph 2.1, letter e); paragraph 5.5; appendix A), including therein the financial guarantees issued and the commitments to disburse funds which are measured at the first-time recognition value, net of the total revenues booked in compliance with IFRS 15 (see IFRS 9, paragraph 4.2.1, letters c) and d)).

The item 'Provision for other commitments and guarantees issued', on the other hand, includes the value of the total allocations in respect of other commitments and other guarantees issued, which are not subject to the impairment rules of IFRS 9 (IFRS 9, paragraph 2.1, letters e) and g)).

The item "Other provisions for risks and charges" under the sub-item "other" includes the value of provisions for potential requests by the National Resolution Fund for EUR 9,415 thousand and the provision for charity, which originates from the Articles of Association, for EUR 489 thousand.

10.2 Provisions for risks and charges: annual changes

	Provision for other commitments and guarantees issued	Pension funds	Other provisions for risks and charges	Total
A. OPENING BALANCES	**-**	**-**	**13,231**	**13,231**
B. INCREASES	**-**	**-**	**308**	**308**
B.1 Allocation for the year	-	-	8	8
B.2 Changes due to the passing of time	-	-	-	-
B.3 Changes due to modifications in the discount rate	-	-	-	-
B.4 Other changes	-	-	300	300
C. DECREASES	**-**	**-**	**1,495**	**1,495**
C.1 Use for the year	-	-	1,495	1,495
C.2 Changes due to modifications in the discount rate	-	-	-	-
C.3 Other changes	-	-	-	-
D. CLOSING BALANCES	**-**	**-**	**12,045**	**12,045**

It should be noted that the table above shows the annual changes in the provisions for risks and charges with the exception of those in the item "Provision for credit risk relative to commitments and financial guarantees issued", which are shown in Table A.1.4 in Part E.

With reference to "Other provisions for risks and charges":

- the sub-item "B.1 - Allocation for the year" includes the increase in future estimated debt related to both existing provisions and provisions established in the year;
- the sub-item "B.2 - Changes due to the passing of time" includes value reversals linked to the passing of time corresponding to accrued interest, calculated on the basis of the discount rates used in the previous year for the discounting of provisions;
- the sub-item "B.3 - Changes due to modifications in the discount rate" includes the increases in the value of provisions determined by the application of discount rates lower than those used in the previous year;
- the sub-item "B.4 - Other changes" includes:
  - the portion of the profit for the previous year to be allocated to the provision for charity;
  - increases in debt generated in case of payment earlier than at the previously estimated times;
- the sub-item "C.1 - Use for the year" refers to payments made;
- the sub-item "C.2 - Changes due to modifications in the discount rate" includes the decreases in the value of provisions determined by the application of discount rates higher than those used in the previous year;
- the sub-item C.3 - Other changes- includes:
  - the decrease due to a lower estimate of future debt relative to already existing provisions;
  - the decreases in the provision for charity after using the specific allocations.

10.3 Provision for credit risk relative to commitments and financial guarantees issued

	Provision for credit risk relative to commitments and financial guarantees issued			
	First stage	Second stage	Third stage	Total
1. Commitments to disburse funds	2,725	1,693	424	4,842
2. Financial guarantees issued	106	64	73	243
Total	**2,831**	**1,757**	**497**	**5,085**

As shown above, this table includes the value of the total allocations for credit risk in respect of the commitments to disburse funds and financial guarantees issued which are subject to the impairment rules of IFRS 9, including therein the financial guarantees issued and the commitments to disburse funds which are measured at the first-time recognition value, net of the total revenues booked in compliance with IFRS 15.

The breakdown of the provisions in question by stage of risk is applied in accordance with the provisions of the IFRS 9 impairment model. For more detailed information, please refer to Part A - Accounting policies in paragraph "15.5 Methods of recognition of impairment losses" and Part E - Information on risks and related hedging policies.

10.4 Provision for other commitments and guarantees issued

As at the reporting date, the Bank has no provisions of this kind.

10.5 Defined benefit company pension funds

The Bank does not have defined benefit pension funds.

10.6 Provisions for risks and charges - other provisions

ITEMS	Total 31/12/2019	Total 31/12/2018
OTHER PROVISIONS FOR RISKS AND CHARGES		
1. Provision for risks on revocatory actions	-	-
2. Provision for charity	489	-
3. Personnel risks and expenses	248	239
4. Legal and tax disputes	1,893	2,097
5. Other provisions for risks and charges	9,415	10,894
Total	12,045	13,231

Provision for charity for EUR 489 thousand

The provision for charity, which originates from the Articles of Association (Article 49), is included under other provisions. The allocation is determined on an annual basis, at the time of allocation of profits, by the Shareholders' Meeting; the relative use is decided by the Board of Directors. The provision has not been discounted as its use is anticipated in the course of the following year.

Personnel risks and expenses for EUR 248 thousand

The amount recorded in sub-item 4.2 'personnel expenses' - of Table 10.1 refers to: seniority/loyalty bonuses regarding the financial charge that the Bank must incur in future years in favour of the employees in relation to seniority of service.

In terms of operations, the application of the Project Unit Credit Method required the defined demographic and economic-financial hypotheses applied analytically to each employee.

Provision for future charges for legal disputes for EUR 1,893 thousand

The "Provision for future charges for legal disputes" protects the Bank from probable negative outcomes deriving from court procedures against the Bank and complaints still pending. In particular, as at 31 December 2019 it only includes provisions for presumed losses on lawsuits.

The nature of legal court procedures against the Bank is wide ranging and diversified. In fact, even though they generally have in common a demand for compensation from the Bank, they arise from events which can be very different from each other. Simply put, the most frequent reasons relate to the disputes on interests (compound interest, usury, rate not agreed, etc.), the implementation of investment services and the erroneous negotiation of cheques.

The timings of judgements are difficult to predict. With regard to the amounts of foreseeable disbursements, the hypothesis formulated for judgements with likely negative outcome refers to the overall estimate disbursement. It is specified, also in relation to that stated earlier, that both the amounts and the time of foreseeable disbursement of every individual dispute must necessarily be considered to be indicative as, especially for judgements of a compensatory nature, the judge's discretion in the assessment of the damage is very wide.

Revocatory action disputes are promoted to obtain, with reference to the periods before subjecting the customer to insolvency procedures, an order for the Bank to return sums deposited on current accounts or the declaration of ineffectiveness of acquired guarantees. In relation to negative outcomes provisions are made, on the occurrence of adverse events that may lead to determine reliable predictions of a negative outcome, to the extent of the amount of the anticipated disbursement.

On 16 January 2020 the financial holding company Malacalza Investimenti S.r.l. (hereinafter "Malacalza Investimenti") brought a civil action against Carige, the Interbank Deposit Protection Fund, the Voluntary Intervention Scheme and Cassa Centrale Banca, contesting the validity of the resolution to increase the share capital by EUR 700 million approved by the shareholders of Carige at the Shareholders' Meeting held on 20 September 2019 and submitting a claim for damages of over EUR 480 million.

The reasons for the disputed invalidity of the shareholders' resolution consist essentially in the alleged illegitimate exclusion of option rights, failure to comply with the principle of accounting parity and a determination of the issue price of the new shares that does not comply with the criteria set out in the company's regulations.

Compensation for damages is claimed because of the allegedly hyperdilutive nature of the resolution (with a reduction of Malacalza Investimenti's shareholding from 27.555% to 2.016%), as the cancellation of the shareholders' resolution can no longer be requested since it was already carried out with the subscription of the capital increase (as a result of which, Cassa Centrale Banca acquired an 8.34% shareholding).

The first appearance hearing, originally scheduled for 19 May 2020, has been postponed due to the health emergency.

The same defendants, including Cassa Centrale Banca, were then sued in two further disputes by the shareholder Vittorio Malacalza and 42 other shareholders of Carige, with a claim for compensation totalling a further EUR 11.4 million, plus revaluation and interest.

The assumptions and the arguments underlying the claims for damages are essentially the same as those put forward by Malacalza Investimenti.

For these two further cases, the first hearings were set for 5 May 2020 and 6 May 2020 respectively, but they have also been postponed to a later date.

As a result of the assessments carried out with the support of solicitors, Cassa Centrale Banca, considering the risk of losing the case, decided not to make provisions for risks and charges.

Other provisions for risks and charges amounting to EUR 9,415 thousand

The amount shown refers to provisions made in previous years for potential requests for intervention by the National Resolution Fund.

The charge connected with these liabilities was not discounted as it was deemed to be negligible.

Contingent liabilities

No contingent liabilities exist at year-end for which a financial disbursement is likely.

Section 11 - Repayable shares - Item 120

11.1 Repayable shares: breakdown

The Bank has issued no repayable shares.

Section 12 - Equity - Items 110, 130, 140, 150, 160, 170 and 180

12.1 "Capital" and "Own shares": breakdown

Values expressed in units

ITEMS	Total 31/12/2019			Total 31/12/2018		
	Number of shares issued	Number of shares subscribed and not yet paid-up	Total	Number of shares issued	Number of shares subscribed and not yet paid-up	Total
A. SHARE CAPITAL						
A.1 Ordinary shares	18,158,304	-	18,158,304	18,158,304	-	18,158,304
A.2 Preference shares	150,000	-	150,000	150,000	-	150,000
A.3 Other shares	-	-	-	-	-	-
Total A	**18,308,304**	**-**	**18,308,304**	**18,308,304**	**-**	**18,308,304**
B. OWN SHARES						
B.1 Ordinary shares	-	-	-	-	-	-
B.2 Preference shares	-	-	-	-	-	-
B.3 Other shares	-	-	-	-	-	-
Total B	**-**	**-**	**-**	**-**	**-**	**-**
Total A+B	**18,308,304**	**-**	**18,308,304**	**18,308,304**	**-**	**18,308,304**

There are no shares subscribed and not yet paid-up.

There are no own shares in the portfolio.

12.2 Capital - Number of shares: annual changes

Values expressed in units

ITEMS/TYPES	Ordinary	Other
A. SHARES AT START OF YEAR	**18,158,304**	**150,000**
- fully paid-up	18,158,304	150,000
- not fully paid-up	-	-
A.1 Own shares (-)	-	-
A.2 Outstanding shares: opening balances	18,158,304	150,000
B. INCREASES	**-**	**-**
B.1 New issues	-	-
- paid:	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- other	-	-
- free of charge:	-	-
- in favour of employees	-	-
- in favour of directors	-	-
- other	-	-
B.2 Sale of own shares	-	-
B.3 Other changes	-	-
C. DECREASES	**-**	**-**
C.1 Cancellation	-	-
C.2 Purchase of own shares	-	-
C.3 Company transfers	-	-
C.4 Other changes	-	-
D. OUTSTANDING SHARES: CLOSING BALANCES	**18,158,304**	**150,000**
D.1 Own shares (+)	-	-
D.2 Shares at year-end	18,158,304	150,000
- fully paid-up	18,158,304	150,000
- not fully paid-up	-	-

12.3 Capital: other information

ITEM	Total 31/12/2019	Total 31/12/2018
NOMINAL VALUE PER SHARE		
Fully paid-up		
Number*	18,158,304	18,158,304
Value	944,232	944,232
Existing contracts for the sale of shares		
Number of shares under contract	-	-
Total value	-	-

* Value expressed in units

The nominal value per share has not changed.

The Bank's share capital consists of 18,308,304 shares, including 150,000 preference shares and 18,158,304 ordinary shares. There are no dividend distribution restrictions or capital reimbursement restrictions on these shares.

The Bank does not hold, directly or indirectly, through subsidiaries or associates, own shares.

12.4 Profit reserves: other information

ITEMS/COMPONENTS	Amount	Portion available	Possibility of use
a) Legal reserve	27,252	27,252	B: to cover losses
b) Extraordinary reserve	-	-	-
c) Statutory reserve	-	-	-
d) Other reserves	104,023	104,023	B: to cover losses
Total	**131,275**	**131,275**	**-**

The "Legal reserve" is formed with an allocation of at least 5% of the net profit for the year.

The "Legal reserve" is available to the Bank to cover losses for the year, in the same way as the other profit reserves recognised in equity, due to legal and statutory constraints.

"Other reserves" also includes the portion of the residual net profits after the allocations established by law and the Articles of Association and resolved by the shareholders' meeting.

With reference to the valuation reserves, unavailable, where positive, pursuant to Article 6 of Italian Legislative Decree no. 38/2005, the following should be mentioned:

- the valuation reserves of financial instruments measured at fair value through other comprehensive income represent the gains or losses deriving from a change in fair value of the quoted financial activity;
- the reserves for the hedging of financial flows include changes in fair value of the hedging derivative for the effective portion of the hedge;
- the reserves from IAS 19 actuarial gains/losses relate to the valuation of severance indemnity and defined provisions for retirement.

Pursuant to Article 2427, paragraph 22-septies, of the Italian Civil Code, for the proposed allocation of the profit for the year, reference should be made to the information contained in the Report on Operations (document accompanying these financial statements) in the chapter "Proposed appropriation of the result for the year".

12.5 Equity instruments: breakdown and annual changes

There are no equity instruments other than the capital and reserves.

12.6 Other information

During the year, following the settlement agreement between Cassa Centrale Banca and Iccrea concerning, among other things, the definition of reciprocal ownership structures, the affiliated Banks of the Cassa Centrale Cooperative Banking Group purchased 84,607 ordinary shares, for a value of EUR 4,945,956, held by the Iccrea Group Banks.

There is no other information on equity instruments other than the capital and reserves.

Other information

1. Commitments and financial guarantees issued (other than those measured at fair value)

	Nominal value of commitments and financial guarantees issued			Total 31/12/2019	Total 31/12/2018
	First stage	Second stage	Third stage		
1. COMMITMENTS TO DISBURSE FUNDS	**15,882,805**	**111,998**	**719**	**15,995,521**	**10,373,456**
a) Central Banks	-	-	-	-	-
b) Public bodies	1,960	-	-	1,960	6,010
c) Banks	15,140,603	101,600	-	15,242,202	10,153,679
d) Other financial companies	608,875	1,729	335	610,939	67,397
e) Non-financial companies	123,669	8,395	384	132,448	135,090
f) Households	7,698	274	-	7,972	11,280
2. FINANCIAL GUARANTEES ISSUED	**46,350**	**3,030**	**102**	**49,482**	**59,778**
a) Central Banks	-	-	-	-	-
b) Public bodies	-	-	-	-	-
c) Banks	22,781	-	-	22,781	29,385
d) Other financial companies	7,698	-	-	7,698	10,612
e) Non-financial companies	11,611	3,028	102	14,741	12,269
f) Households	4,261	2	-	4,263	7,512

This table shows the commitments to disburse funds and the financial guarantees issued which are subject to the impairment rules of IFRS 9. Commitments to disburse funds and financial guarantees issued that are considered derivatives are excluded, as are commitments to disburse funds and financial guarantees issued that are measured at fair value.

"Commitments to disburse funds" are commitments that may give rise to credit risks that are subject to the write-down rules of IFRS 9 (e.g. margins available on credit lines granted to customers or banks).

The item "Commitments to disburse funds" includes:

- purchases (spot and forward) of securities not yet settled for EUR 1,246 thousand;
- deposits and loans to be disbursed on a pre-set future date for EUR 1,194 thousand;
- margins usable on irrevocable credit facilities for EUR 15,993 thousand.

The item "Financial guarantees issued" mainly includes guarantees securing the regular fulfilment of the debt service by the ordering party.

2. Other commitments and guarantees issued

	Nominal value Total 31/12/2019	Nominal value Total 31/12/2018
1. Other guarantees issued	**2,352**	**-**
of which: impaired	-	-
a) Central Banks	-	-
b) Public bodies	-	-
c) Banks	2,352	-
d) Other financial companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
2. Other commitments	**-**	**2,425**
of which: impaired	-	-
a) Central Banks	-	-
b) Public bodies	-	-
c) Banks	-	-
d) Other financial companies	-	-
e) Non-financial companies	-	2,425
f) Households	-	-

This table shows the nominal value of other commitments and other guarantees issued which fall within the scope of IAS 37 and IFRS 4 respectively and are therefore not subject to the impairment rules of IFRS 9.

3. Asset-backed own liabilities and commitments

PORTFOLIOS	Amount 31/12/2019	Amount 31/12/2018
1. Financial assets measured at fair value through profit or loss	-	-
2. Financial assets measured at fair value through other comprehensive income	-	182,792
3. Financial assets measured at amortised cost	1,188,407	1,010,646
4. Tangible assets	-	-
of which: tangible assets that constitute inventories	-	-

The item "3. Financial assets measured at amortised cost" include the value of securities pledged as collateral:

- issues of banker's drafts for EUR 55,859 thousand;
- repurchase agreements with Cassa di Compensazione e Garanzia for EUR 833,321 thousand;
- daily margining on positions in derivatives for EUR 65,725 thousand;
- guarantee agreement with the affiliated Banks for EUR 233,199 thousand:
- other for EUR 301 thousand.

4. Management and intermediation on behalf of third parties

TYPE OF SERVICES	Amount
1. EXECUTION OF ORDERS ON BEHALF OF CUSTOMERS	**28,084**
a) purchases	4,024
1. settled	4,024
2. not settled	-
b) sales	24,060
1. settled	22,984
2. not settled	1,076
2. INDIVIDUAL PORTFOLIO MANAGEMENT	**7,002,703**
3. CUSTODY AND ADMINISTRATION OF SECURITIES	**36,311,746**
a) third-party securities under custody: connected to the role as depositary bank (excluding portfolio management)	-
1. securities issued by the bank that prepares the financial statements	-
2. other securities	-
b) third-party securities under custody (excluding portfolio management): other	32,673,084
1. securities issued by the bank that prepares the financial statements	1,071,961
2. other securities	31,601,124
c) third-party securities deposited with third parties	31,595,450
d) own securities deposited with third parties	3,638,661
4. OTHER TRANSACTIONS	-

The Bank provides brokerage services on behalf of third parties.

With regard to the asset management described in point 2, the following should be noted:

- the amounts refer to the value of assets under management at the end of the year, at market values;
- personnel expenses: the provision includes charges for leaving incentives, charges for employee seniority bonuses, determined on the basis of actuarial valuations, provisions for bonuses and other amounts refer to both the management component consisting of securities and the liquidity component (current accounts and deposits), which amounted to EUR 199,398 thousand in the current year;
- the amounts in point 3. refer to the nominal value of the securities and sub-item b) also includes securities on deposit as collateral.

5. Financial assets which are offset or subject to framework offsetting agreements or similar agreements

TECHNICAL FORMS	Gross amount of financial assets (a)	Amount of financial liabilities offset in the financial statements (b)	Net amount of financial assets reported in the financial statements (c=a-b)	Correlated amount not offset in the financial statements		Net amount (f=c-d-e) 31/12/2019	Net amount 31/12/2018
				Financial instruments (d)	Cash deposits received as guarantee (e)		
1. Derivatives	24,728	-	24,728	-	24,390	(338)	(4,435)
2. Repos	-	-	-	-	-	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total 31/12/2019	**24,728**	**-**	**24,728**	**-**	**24,390**	**(338)**	**X**
Total 31/12/2018	**12,025**	**-**	**12,025**	**-**	**7,590**	**X**	**(4,435)**

Please note that the figures for 2018 have been restated compared with the figures published in the previous financial statements in order to make them consistent with the presentation method described below.

6. Financial liabilities which are offset or subject to framework offsetting agreements or similar agreements

TECHNICAL FORMS	Gross amount of financial liabilities (a)	Amount of financial assets offset in the financial statements (b)	Net amount of financial liabilities reported in the financial statements (c=a-b)	Correlated amount not offset in the financial statements		Net amount (f=c-d-e) 31/12/2019	Net amount 31/12/2018
				Financial instruments (d)	Cash deposits issued as guarantee (e)		
1. Derivatives	24,155	-	24,155	297	22,580	1,278	3,047
2. Repos	468,809	-	468,809	468,598	211	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total 31/12/2019	**492,964**	**-**	**492,964**	**468,895**	**22,791**	**1,278**	**X**
Total 31/12/2018	**57,309**	**-**	**57,309**	**47,952**	**6,310**	**X**	**3,047**

Please note that the figures for 2018 have been restated compared with the figures published in the previous financial statements in order to make them consistent with the presentation method described below.

With regard to the disclosures required by IFRS 7 about financial instruments that have been offset in the statement of financial position in accordance with IAS 32 or that are potentially offsettable, if certain conditions are met, but are presented in the statement of financial position without offsetting because they are governed by "framework offsetting agreements or similar" that do not meet all the criteria set out in IAS 32 paragraph 42, it should be noted that Cassa Centrale Banca does not have offsetting agreements in place that meet the requirements of IAS 32 para. 42 for their budgetary offsetting.

With regard to the instruments that can potentially be offset when certain events occur, shown in Tables 5 and 6, Cassa Centrale Banca uses bilateral netting agreements that allow for, in the event of default by the counterparty, the offsetting of credit and debit positions relating to financial derivatives, as well as SFT (Securities Financing Transactions). In particular, there are ISDA (for derivative transactions) contracts and GMRA (for repurchase agreements) contracts.

For the purposes of compiling the tables and in line with the provisions of IFRS 7, please note that:

- the effects of potential offsetting of the financial statements values of financial assets and liabilities are shown in column (d) "Financial instruments", together with the fair value of financial collateral represented by securities;
- the effects of the potential offsetting of the exposure against the related cash guarantees are shown under column (e) 'Cash deposits received/issued as guarantee';
- repos are shown in the tables according to the amortised cost measurement criterion, while the related financial collateral is shown at its fair value;
- derivative transactions are represented at fair value.

The effects of offsetting shall be calculated individually for each individual counterparty assisted by a netting framework agreement within the exposure limits indicated in column (c).

Netting agreements between financial instruments and related guarantees significantly reduce the credit/debit exposure to the counterparty, as can be seen in column (f) "Net amount". The effects shall be calculated for each individual counterparty assisted by a netting framework agreement within the exposure limits indicated in column (c).

7. Securities lending transactions

The Bank has not carried out securities lending transactions.

8. Information on joint operations

This information is included in the section with the same heading in the Consolidated Explanatory Notes.

PART C - Information on the income statement

Section 1 - Interest - Items 10 and 20

1.1 Interest income and similar revenues: breakdown

ITEMS/TECHNICAL FORMS	Debt securities	Loans	Other transactions	Total 31/12/2019	Total 31/12/2018
1. Financial assets measured at fair value through profit or loss:	**208**	**41**	**-**	**248**	**321**
1.1 Financial assets held for trading	-	-	-	-	-
1.2 Financial assets measured at fair value	207	-	-	207	193
1.3 Other financial assets obligatorily measured at fair value	-	41	-	41	127
2. Financial assets measured at fair value through other comprehensive income	**4,140**	**-**	**X**	**4,140**	**5,177**
3. Financial assets measured at amortised cost:	**11,757**	**17,038**	**X**	**28,795**	**19,253**
3.1 Loans to banks	3,577	1,637	X	5,215	2,456
3.2 Loans to customers	8,180	15,401	X	23,581	16,798
4. Hedging derivatives	**X**	**X**	**-**	**-**	**-**
5. Other assets	**X**	**X**	**-**	**-**	**-**
6. Financial liabilities	**X**	**X**	**X**	**28,758**	**9,783**
Total	**16,105**	**17,079**	**-**	**61,942**	**34,535**
of which: interest income from impaired financial assets	-	286	-	286	249
of which: interest income from finance lease	-	-	-	-	-

The item "6. Financial liabilities" comprises interest income accrued on funding transactions at negative rates.

The line "of which: interest income from impaired financial assets" shows interest determined on the basis of the effective interest rate, including interest due to the passage of time. This interest relates to loans to customers.

1.2 Interest income and similar revenues: other information

1.2.1 Interest income from financial assets in foreign currency

ITEMS	Total 31/12/2019	Total 31/12/2018
Interest income from financial assets in foreign currency	789	479

1.3 Interest expenses and similar charges paid: breakdown

ITEMS/TECHNICAL FORMS	Payables	Securities	Other transactions	Total 31/12/2019	Total 31/12/2018
1. Financial liabilities measured at amortised cost	**(22,526)**	**(300)**	**-**	**(22,825)**	**(5,994)**
1.1 Due to central banks	-	X	X	-	-
1.2 Due to banks	(4,691)	X	X	(4,691)	(3,641)
1.3 Due to customers	(17,835)	X	X	(17,835)	(2,053)
1.4 Debt securities in issue	X	(300)	X	(300)	(300)
2. Financial liabilities held for trading	**-**	**-**	**(1)**	**(1)**	**-**
3. Financial liabilities measured at fair value	**-**	**(418)**	**-**	**(418)**	**(502)**
4. Other liabilities and provisions	**X**	**X**	**-**	**-**	**-**
5. Hedging derivatives	**X**	**X**	**-**	**-**	**-**
6. Financial assets	**X**	**X**	**X**	**(7,110)**	**(7,229)**
Total	**(22,526)**	**(718)**	**(1)**	**(30,355)**	**(13,725)**
of which: interest expense on payables for leases	-	-	(98)	(98)	-

The item "Financial assets" includes negative interest accrued on financial assets.

1.4 Interest expenses and similar charges paid: other information

1.4.1 Interest expenses from liabilities in foreign currency

ITEMS	Total 31/12/2019	Total 31/12/2018
Interest expenses from liabilities in foreign currency	(1,667)	(1,175)

Section 2 - Commissions - Items 40 and 50

2.1 Commission income: breakdown

TYPE OF SERVICES/VALUES	Total 31/12/2019	Total 31/12/2018
a) guarantees issued	369	369
b) credit derivatives	-	-
c) management, trading and consulting services:	68,783	64,893
1. trading of financial instruments	36	75
2. foreign currency trading	38	22
3. individual portfolio management	50,085	49,822
4. custody and administration of securities	3,088	3,032
5. custodian bank	-	-
6. placement of securities	2,365	1,576
7. order receipt and transmission	6,107	4,948
8. consulting	150	153
8.1. pertaining to investments	150	153
8.2. pertaining to financial structures	-	-
9. distribution of third party services	6,914	5,265
9.1. portfolio management	-	-
9.1.1. individual	-	-
9.1.2. collective	-	-
9.2. insurance products	36	32
9.3. other products	6,878	5,233
d) collection and payment services	21,673	20,231
e) servicing activities for securitisation operations	-	-
f) services for factoring operations	-	-
g) collection and receiving operations	-	-
h) activities for the management of multilateral trading systems	-	-
i) current account maintenance and management	143	146
j) other services	57,461	42,296
Total	**148,429**	**127,937**

It should be noted that revenues deriving from commissions (other than the amounts included in the calculation of the effective interest rate) from financial assets not measured at fair value through profit or loss for the year are not recorded.

It should be noted that following the reclassification from sub-item "d) collection and payment services" to "j) other services" mainly of commissions relating to ATM, debit and credit card services, the comparative figures for 2018 are different from those published in the 2018 Financial Statements, although the total value of the "Commission income" item does not change.

The amount shown under the sub-item "other services" is composed of commissions mainly relating to:

- ATM services;
- debit and credit cards;
- payment intermediation services related to the participation in UCITS;
- centralised securities database;
- provision of financial information;
- Asset Liability Management;
- Value at Risk;
- valuation of unlisted securities prices;
- lease and factoring brokerage;
- structured finance;
- credit line and other residual services.

2.2 Commission income: distribution channels of products and services

CHANNELS/VALUES	Total 31/12/2019	Total 31/12/2018
A) WITHIN ITS OWN COUNTERS:	**59,364**	**56,663**
1. portfolio management	50,085	49,822
2. placement of securities	2,365	1,576
3. third party services and products	6,914	5,265
B) OFFERS OUTSIDE THE BRANCH:	**-**	**-**
1. portfolio management	-	-
2. placement of securities	-	-
3. third party services and products	-	-
C) OTHER DISTRIBUTION CHANNELS:	**-**	**-**
1. portfolio management	-	-
2. placement of securities	-	-
3. third party services and products	-	-

2.2 bis. Commission income: type and timing of recognition

TYPE OF SERVICES	31/12/2019			31/12/2018		
	At a given moment in time	Over a period of time	Total	At a given moment in time	Over a period of time	Total
a) guarantees issued	-	369	**369**	-	369	**369**
b) credit derivatives	-	-	**-**	-	-	**-**
c) management, trading and consulting services	68,783	-	**68,783**	64,893	-	**64,893**
d) collection and payment services	21,673	-	**21,673**	20,231	-	**20,231**
e) servicing activities for securitisation operations	-	-	**-**	-	-	**-**
f) services for factoring operations	-	-	**-**	-	-	**-**
g) collection and receiving operations	-	-	**-**	-	-	**-**
h) activities for the management of multilateral trading systems	-	-	**-**	-	-	**-**
i) current account maintenance and management	143	-	**143**	146	-	**146**
j) other services	57,461	-	**57,461**	42,296	-	**42,296**
Total	**148,060**	**369**	**148,060**	**127,568**	**369**	**127,937**

2.3 Commission expense: breakdown

SERVICES/VALUES	Total 31/12/2019	Total 31/12/2018
a) guarantees received	(58)	(39)
b) credit derivatives	-	-
c) management and trading services:	(39,043)	(39,301)
1. trading of financial instruments	(1,287)	(1,133)
2. foreign currency trading	-	-
3. portfolio management:	(36,403)	(36,968)
3.1 own portfolios	(36,403)	(36,949)
3.2 delegated to third parties	-	(19)
4. custody and administration of securities	(1,236)	(1,036)
5. placement of financial instruments	(117)	(164)
6. out-of-branch offer of financial instruments, products and services	-	-
d) collection and payment services	(3,653)	(2,760)
e) other services	(27,982)	(22,016)
Total	**(70,736)**	**(64,115)**

It should be noted that no costs deriving from commissions (other than the amounts included in the calculation of the effective interest rate) arising from financial liabilities not measured at fair value recognised in profit or loss for the year are recognised (IFRS 7, paragraph 20, letter c (i)).

It should be noted that following the reclassification from sub-item "d) collection and payment services" to "j) other services" mainly of commissions relating to ATM, debit and credit card services, the comparative figures for 2018 are different from those published in the 2018 Financial Statements, although the total value of the "Commission expense" item does not change.

The amount shown under the sub-item "other services" is composed of commissions mainly relating to:

- ATM services;
- debit and credit cards.

Section 3 - Dividend and similar income - Item 70

3.1 Dividend and similar income: breakdown

ITEMS/INCOME	Total 31/12/2019		Total 31/12/2018	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	42	-	97	-
B. Other financial assets obligatorily measured at fair value	64	-	-	-
C. Financial assets measured at fair value through other comprehensive income	409	-	389	-
D. Equity investments	6,515	-	12,451	-
Total	**7,030**	**-**	**12,938**	**-**

The item D "Equity investments" includes the dividends relative to controlling interests and shareholdings in associates measured at cost and distributed by:

- Nord Est Asset Management S.A. for EUR 4,000 thousand;
- Centrale Credit Solutions S.r.l. for EUR 2,500 thousand;
- Finanziaria Trentina della Cooperazione S.p.A. for EUR 15 thousand.

Section 4 - Net result from trading - Item 80

4.1 Net result from trading: breakdown

TRANSACTIONS/INCOME COMPONENTS	Capital gains (A)	Trading profits (B)	Capital losses (C)	Trading losses (D)	Net result [(A+B) - (C+D)]
1. FINANCIAL ASSETS HELD FOR TRADING	**-**	**384**	**-**	**(115)**	**270**
1.1 Debt securities	-	12	-	(23)	(11)
1.2 Equities	-	372	-	(91)	281
1.3 UCITS units	-	-	-	-	-
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. FINANCIAL LIABILITIES HELD FOR TRADING	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. FINANCIAL ASSETS AND LIABILITIES: EXCHANGE RATE DIFFERENCES	**X**	**X**	**X**	**X**	**(527)**
4. DERIVATIVE INSTRUMENTS	**16,768**	**4,332**	**(16,329)**	**(4,231)**	**3,434**
4.1 Financial derivatives:	16,768	4,332	(16,329)	(4,231)	3,434
- On debt securities and interest rates	16,768	4,332	(16,329)	(4,231)	540
- On equities and stock market indices	-	-	-	-	-
- On currencies and gold	X	X	X	X	2,895
- Other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges connected to the fair value option	X	X	X	X	-
Total	**16,768**	**4,716**	**(16,329)**	**(4,346)**	**3,177**

Section 5 - Net result from hedging - Item 90

5.1 Net result from hedging: breakdown

The Bank did not hold hedging derivatives during the course of the year.

Section 6 - Profit (loss) from disposal/repurchase - Item 100

6.1 Profit (loss) from disposal/repurchase: breakdown

ITEMS/INCOME COMPONENTS	Total 31/12/2019			Total 31/12/2018		
	Profit	Loss	Net result	Profit	Loss	Net result
A. FINANCIAL ASSETS						
1. Financial assets measured at amortised cost	14,169	(30)	14,139	4,853	-	4,853
1.1 Loans to banks	-	-	-	-	-	-
1.2 Loans to customers	14,169	(30)	14,139	4,853	-	4,853
2. Financial assets measured at fair value through other comprehensive income	5,616	(29)	5,587	10,067	-	10,067
2.1 Debt securities	5,616	(29)	5,587	10,067	-	10,067
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**19,785**	**(59)**	**19,726**	**14,920**	**-**	**14,920**
B. FINANCIAL LIABILITIES MEASURED AT AMORTISED COST						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Debt securities in issue	-	-	-	-	-	-
Total liabilities (B)	**-**	**-**	**-**	**-**	**-**	**-**

The table reports the economic result deriving from the sale of financial assets/liabilities other than those held for trading and those measured at fair value, as well as the result derived from the repurchase of the company's own financial liabilities. In particular:

- the net amount of EUR 14,139 thousand specified in line 1.2 refers to the net profit resulting from the disposal of a portfolio of non-performing loans (EUR 2,278 thousand) and bonds (EUR 11,861 thousand) (in particular, Italian government bonds C.T.Z., B.T.P., C.C.T.);
- the amount of EUR 5,587 thousand specified in line 2.1 represents the profit relative to the transfer of bond securities (in particular, Italian government bonds C.T.Z., B.T.P., C.C.T.).

For further details, please refer to the information in Part E Information on risks and related hedging policies, Section 1 Credit risk, Subsection E Disposal transactions.

Section 7 - Net result of other financial assets and liabilities measured at fair value through profit or loss - Item 110

7.1 Net change in value of other financial assets and liabilities measured at fair value through profit or loss: breakdown of financial assets and liabilities measured at fair value

TRANSACTIONS/INCOME COMPONENTS	Capital gains (A)	Profit on sale (B)	Capital losses (C)	Loss on sale (D)	Net result [(A+B) - (C+D)]
1. FINANCIAL ASSETS	**-**	**-**	**(178)**	**-**	**(178)**
1.1 Debt securities	-	-	(118)	-	(118)
1.2 Loans	-	-	(60)	-	(60)
2. FINANCIAL LIABILITIES	**124**	**157**	**-**	**-**	**281**
2.1 Debt securities in issue	124	157	-	-	281
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	-	-	-	-	-
3. FINANCIAL ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCY: EXCHANGE RATE DIFFERENCES	X	X	X	X	-
Total	**124**	**157**	**(178)**	**-**	**103**

7.2 Net change in value of other financial assets and liabilities measured at fair value through profit or loss: breakdown of other financial assets obligatorily measured at fair value

TRANSACTIONS/INCOME COMPONENTS	Capital gains (A)	Profit on sale (B)	Capital losses (C)	Loss on sale (D)	Net result [(A+B) - (C+D)]
1. FINANCIAL ASSETS	**4,675**	**2,597**	**(575)**	**(87)**	**6,609**
1.1 Debt securities	-	-	-	-	-
1.2 Equities	30	91	(15)	(87)	19
1.3 UCITS units	4,185	2,506	(200)	-	6,490
1.4 Loans	460	-	(360)	-	100
2. FINANCIAL ASSETS DENOMINATED IN FOREIGN CURRENCY: EXCHANGE RATE DIFFERENCES	X	X	X	X	-
Total	**4,675**	**2,597**	**(575)**	**(87)**	**6,609**

Section 8 - Net value adjustments/write-backs due to credit risk - Item 130

8.1 Net value adjustments/write-backs due to credit risk relative to financial assets measured at amortised cost: breakdown

TRANSACTIONS/INCOME COMPONENTS	Value adjustments (1)			Write-backs (2)		Total 31/12/2019	Total 31/12/2018
	First and second stage	Third stage		First and second stage	Third stage		
		Write-offs	Other				
A. LOANS TO BANKS	**(4,324)**	**-**	**-**	**6,003**	**-**	**1,679**	**(3,767)**
- Loans	(1,435)	-	-	4,289	-	2,854	(3,940)
- Debt securities	(2,888)	-	-	1,714	-	(1,175)	174
of which: impaired loans acquired or originated	-	-	-	-	-	-	-
B. LOANS TO CUSTOMERS	**(6,667)**	**(107)**	**(6,186)**	**3,175**	**7,829**	**(1,955)**	**4,319**
- Loans	(5,752)	(107)	(6,186)	1,467	7,829	(2,748)	5,696
- Debt securities	(914)	-	-	1,708	-	794	(1,377)
of which: impaired loans acquired or originated	-	-	(1,275)	-	-	(1,275)	-
Total	(10,990)	(107)	(6,186)	9,178	7,829	(275)	553

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

TRANSACTIONS/INCOME COMPONENTS	Value adjustments (1)			Write-backs (2)		Total 31/12/2019	Total 31/12/2018
	First and second stage	Third stage		First and second stage	Third stage		
		Write-offs	Other				
A. DEBT SECURITIES	**(858)**	**-**	**-**	**2,083**	**-**	**1,226**	**(1,477)**
B. LOANS	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- To customers	-	-	-	-	-	-	-
- To banks	-	-	-	-	-	-	-
of which: impaired financial assets acquired or originated	-	-	-	-	-	-	-
Total	(858)	-	-	2,083	-	1,226	(1,477)

Section 9 - Profits/losses from contractual changes without derecognitions - Item 140

9.1 Profits (losses) from contractual changes: breakdown

Under this item, losses from contractual changes without derecognitions were recorded for EUR 19 thousand.

Section 10 - Administrative expenses - Item 160

10.1 Personnel costs: breakdown

TYPES OF EXPENSES/VALUES	Total 31/12/2019	Total 31/12/2018
1) Employees	**(42,391)**	**(27,964)**
a) salaries and wages	(27,003)	(19,673)
b) social security charges	(8,132)	(5,260)
c) severance indemnity	(1,603)	(1,077)
d) social security expenses	-	-
e) provision for severance indemnity	(157)	(131)
f) allocation to retirement and similar obligations:	-	-
- with defined contribution	-	-
- with defined benefit	-	-
g) payments to external supplementary pension funds:	(1,220)	(766)
- with defined contribution	(1,220)	(766)
- with defined benefit	-	-
h) costs deriving from payment agreements based on own equity instruments	-	-
i) other benefits in favour of employees	(4,276)	(1,057)
2) Other operating personnel	**(129)**	**(11)**
3) Directors and Auditors		**(694)**
4) Retired personnel	**-**	**-**
5) Recovery of expenses for employees seconded to other companies	**190**	**83**
6) Reimbursement of expenses for third party employees seconded to the company	**(887)**	**(96)**
Total	**(45,280)**	**(28,683)**

The increase in costs compared to the previous year reflects the increase in the average number of employees during the year related to the establishment of the Group.

10.2 Average number of employees by category

	Total 31/12/2019	Total 31/12/2018
EMPLOYEES (A+B+C)	433	317
a) executives	21	15
b) middle managers	163	116
c) remaining employees	249	186
OTHER PERSONNEL	18	16

The average number of employees includes employees of other companies seconded to the company and excludes employees of the company seconded to other companies.

In the case of part-time employees, 50% is conventionally taken into account. The average number is calculated as the weighted average of employees where the weight is given by the number of months worked per year.

10.3 Defined benefit company pension funds: costs and revenue

For information on this point, please refer to that described in the Liabilities in the Statement of financial position, Section 9, paragraph "9.2 Other information".

10.4 Other benefits in favour of employees

ITEMS	Total 31/12/2019	Total 31/12/2018
Miscellaneous personnel costs: allocation of loyalty bonus	(8)	(28)
Miscellaneous personnel costs: insurance	(692)	(518)
Miscellaneous personnel costs: staff leaving incentives	(2,590)	-
Miscellaneous personnel costs: meal vouchers	(445)	(320)
Miscellaneous personnel costs: training courses	(376)	(135)
Miscellaneous personnel costs: other benefits	(165)	(56)
Other benefits in favour of employees	(4,276)	(1,057)

The increase in costs compared to the previous year reflects the increase in the average number of employees during the year related to the establishment of the Group.

10.5 Other administrative expenses: breakdown

ITEMS	Total 31/12/2019	Total 31/12/2018
ICT expenses	(10,213)	(8,118)
Outsourced ICT expenses	(7,481)	(7,006)
ICT expenses other than outsourced ICT expenses	(2,733)	(1,113)
Taxes and levies (other)	(11,565)	(11,018)
Expenses for professional and consulting services	(42,694)	(31,849)
Advertising and entertainment expenses	(3,240)	(2,480)
Expenses related to debt collection	(261)	(381)
Litigation expenses not covered by allocations	-	-
Expenses for real estate	(1,939)	(1,371)
Lease fees	-	-
Other administrative expenses - Other	(22,688)	(10,224)
TOTAL OTHER ADMINISTRATIVE EXPENSES	(92,599)	(65,441)

Section 11 - Net allocations to provisions for risks and charges - Item 170

11.1 Net allocations for credit risk relative to commitments to disburse funds and financial guarantees issued: breakdown

ITEMS	Total 31/12/2019			Total 31/12/2018		
	Fase 1	Fase 2	Fase 3	Fase 1	Fase 2	Fase 3
	Allocations			Allocations		
COMMITMENTS TO DISBURSE FUNDS						
Commitments to disburse funds	-	-	-	-	-	-
FINANCIAL GUARANTEES ISSUED						
Financial guarantee contracts	-	-	-	-	-	-
Total allocations (-)	-	-	-	-	-	-
	Reallocations			Reallocations		
COMMITMENTS TO DISBURSE FUNDS						
Commitments to disburse funds	2,599	-	-	7,095	-	-
FINANCIAL GUARANTEES ISSUED						
Financial guarantee contracts	91	-	-	47	-	-
Total reallocations (+)	2,691	-	-	7,142	-	-
	Net allocation			Net allocation		
Total	2,691	-	-	7,142	-	-

11.3 Net allocations to other provisions for risks and charges: breakdown

ITEMS	Total 31/12/2019			Total 31/12/2018		
	Allocations	Reallocations	Net total	Allocations	Reallocations	Net total
Allocations and reallocations to other provisions for risks and charges						
1. for risks on revocatory actions	-	-	-	-	-	-
2. for charity	-	-	-	-	-	-
3. for personnel risks and charges	-	-	-	-	-	-
4. for legal and tax disputes	-	205	205	(890)	-	(890)
5. for other risks and charges	-	-	-	-	-	-
Total	-	205	205	(890)	-	(890)

Section 12 - Net value adjustments/write-backs to tangible assets - Item 180

12.1. Net value adjustments to tangible assets: breakdown

ASSET/INCOME COMPONENTS	Depreciation (a)	Value adjustments for impairment (b)	Write-backs (c)	Net result (a + b - c)
A. TANGIBLE ASSETS				
1. For business use	(2,464)	-	-	(2,464)
- Owned	(1,594)	-	-	(1,594)
- Rights of use acquired through lease	(870)	-	-	(870)
2. Held for investment purposes	-	-	-	-
- Owned	-	-	-	-
- Rights of use acquired through lease	-	-	-	-
3. Inventories	X	-	-	-
Total	(2,464)	-	-	(2,464)

The Bank has no tangible assets classified as held for sale in accordance with IFRS 5.

For this reason, the table above does not include the specific item "B. Assets held for sale" in which the result of the related valuation is reported.

Section 13 - Net value adjustments/write-backs to intangible assets - Item 190

13.1 Net value adjustments to intangible assets: breakdown

ASSET/INCOME COMPONENTS	Amortisation (a)	Value adjustments for impairment (b)	Write-backs (c)	Net result (a + b - c)
A. Intangible assets				
A.1 OWNED	(598)	-	-	(598)
- Generated internally by the company	-	-	-	-
- Other	(598)	-	-	(598)
A.2 RIGHTS OF USE ACQUIRED THROUGH LEASE	-	-	-	-
Total	(598)	-	-	(598)

Section 14 - Other operating income/charges - Item 200

14.1 Other operating charges: breakdown

ITEMS	Total 31/12/2019	Total 31/12/2018
Amortisation of improvements to non-separable third-party assets	(64)	(7)
Charges for treasury contracts with public bodies	-	-
Charges for transactions and indemnities	(15)	-
Non-existent items and contingencies not ascribable to own items	(45)	(64)
Allowances payable and rounding down	(5)	(9)
Other operating charges - other		(8)
Total other operating charges	**(130)**	**(87)**

14.2 Other operating income: breakdown

ITEMS	Total 31/12/2019	Total 31/12/2018
Recovery of taxes	11,230	10,344
Charges to third parties for costs on deposits and current accounts	-	-
Recovery of insurance premiums	-	-
Receivable rents and payments	1	1
Recovery of other expenses	205	5,940
Non-existent items and contingencies not ascribable to own items	387	268
Badwill from Purchase Price Allocation	-	-
Bonuses and rounding down	-	-
Other operating income - other	22,920	32
Total other operating income	**34,743**	**16,584**

The increase compared to 2018 in the item "Other operating income - other" is mainly due to the recovery of administrative expenses incurred by the Parent Company on behalf of the affiliated Banks. These include, in particular, revenues from centralised services relating to the performance of the activities of the corporate control functions, as well as the recovery of expenses relating to the European Supervisory Authority.

Section 15 - Profits (losses) on equity investments - Item 220

15.1 Profits (losses) on equity investments: breakdown

INCOME COMPONENT/VALUES	Total 31/12/2019	Total 31/12/2018
A. INCOME	**1,548**	**-**
1. Revaluations	-	-
2. Gains from disposal	1,548	-
3. Write-backs	-	-
4. Other Income	-	-
B. CHARGES	**-**	**-**
1. Write-downs	-	-
2. Value adjustments for impairment	-	-
3. Losses from disposal	-	-
4. Other charges	-	-
Net result	**1,548**	**-**

The amount of sub-item "A.2 Gains from disposal" derives from the voluntary liquidation of the investment in Assicura Cooperazione Trentina S.r.l.

Section 16 - Net result of fair value measurement of tangible and intangible assets - Item 230

During the course of the year, no fair value measurement was implemented with respect to tangible or intangible assets.

Section 17 - Value adjustments to goodwill - Item 240

The Bank has not registered any asset item as goodwill.

Section 18 - Profit (loss) from disposal of investments - Item 250

18.1 Profit (loss) from disposal of investments: breakdown

INCOME COMPONENT/VALUES	Total 31/12/2019	Total 31/12/2018
A. REAL ESTATE PROPERTIES	-	-
- Gains from disposal	-	-
- Losses from disposal	-	-
B. OTHER ASSETS	-	**25**
- Gains from disposal	-	30
- Losses from disposal	-	(5)
Net result	-	**25**

Section 19 - Income taxes for the year on current operating activities - Item 270

19.1 Income taxes for the year on current operating activities: breakdown

	INCOME COMPONENTS/VALUES	Total 31/12/2019	Total 31/12/2018
1.	Current taxes (-)	(12,661)	(10,887)
2.	Changes in current taxes of previous years (+/-)	99	1,773
3.	Decrease in current taxes of the year (+)	-	-
3. bis	Decrease in current taxes of the year for tax credits pursuant to Law no. 214/2011 (+)	-	-
4.	Change in advance taxes (+/-)	(1,515)	(851)
5.	Change in deferred taxes (+/-)	-	-
6.	**Income taxes for the year (-) (-1+/-2+3+3bis+/-4+/-5)**	**(14,076)**	**(9,965)**

Current taxes were booked in accordance with currently effective legislation:

- IRES: 27.5% including surcharge;
- IRAP: 5.57% for the Value of Production realized in the Province of Trento. Provincial law no. 21 of 30 December 2015 provides that only banking companies operating in the province of Trento shall have an IRAP rate of 5.57% for the year 2019.

19.2 Reconciliation between the theoretical fiscal charge and the effective fiscal charge in the financial statements

INCOME COMPONENTS	Tax
Profit from current operating activities, gross of tax (Item 260 of the Income Statement)	44,973
IRES income taxes - theoretical fiscal charge:	(11,264)
Effects of decreases in taxable income on IRES	5,854
Effects of increases in taxable income on IRES	(3,200)
A. EFFECTIVE FISCAL CHARGE - CURRENT IRES TAX	**(8,610)**
Increases in deferred tax assets	-
Decreases in deferred tax assets	(1,491)
Increases in deferred tax liabilities	-
Decreases in deferred tax liabilities	-
B. TOTAL EFFECTS OF DEFERRED IRES TAXATION	**(1,491)**
C. CHANGES IN CURRENT TAXES OF PREVIOUS YEARS	**38**
D. TOTAL ACCRUED IRES (A+B+C)	**(10,063)**
Theoretical fiscal charge for IRAP with application of nominal rate (difference between net interest and other banking income and allowable deductible costs):	(3,048)
Effect of decreases in value of production	871
Effect of increases in value of production	(1,873)
Changes in current taxes of previous years	61
E. EFFECTIVE FISCAL CHARGE - CURRENT IRAP TAX	**(3,989)**
Increases in deferred tax assets	-
Decreases in deferred tax assets	(24)
Increases in deferred tax liabilities -	-
Decreases in deferred tax liabilities -	-
F. TOTAL EFFECTS OF DEFERRED IRAP TAXATION	**(24)**
G. TOTAL ACCRUED IRAP (E+F)	**(4,014)**
H. IRES/IRAP SUBSTITUTE TAX FOR EXEMPTION OF MISMATCHES -	**-**
TOTAL IRES - IRAP CURRENT TAXES (A+C+E+H)	**(12,561)**
TOTAL IRES - IRAP ACCRUED TAXES (D+G+H)	**(14,076)**

Section 20 - Profit (loss) after tax from discontinued operations - Item 290

During the course of the year, the Bank did not proceed with disposals of groups of assets. This section does not contain any evaluation and is therefore omitted.

Section 21 - Other information

There is no further information other than that already provided.

Section 22 - Earnings per share

ITEMS	Total 31/12/2019	Total 31/12/2018
NET RESULT	**30,897**	**31,017**
Number of ordinary shares outstanding	18,158,304	18,158,304
Number of preference shares outstanding	150,000	150,000
Number of own shares	-	-
NUMBER OF SHARES OUTSTANDING	**18,308,304**	**18,308,304**
Income per ordinary share outstanding (Basic EPS) in Euro	**1,70**	**1,71**
Income per share outstanding (diluted EPS) in Euro	**1,69**	**1,69**

With regard to the above, it should be noted that, given that the share capital is also represented by preference shares, the economic result which is attributable to parties owning ordinary equity instruments is given by the profit for the year minus the dividends paid to preference shares. The calculation of the basic EPS therefore differs from that of the diluted EPS.

22.1 Average number of ordinary shares with diluted capital

In view of that previously stated, this scenario is considered irrelevant.

22.2 Other information

In view of that previously stated, this scenario is considered irrelevant.

PART D - Comprehensive income

Analytical statement of comprehensive income

ITEMS		31/12/2019	31/12/2018
10.	**Profit (loss) for the year**	**30,897**	**31,017**
	Other income components without reversal to the Income Statement	**2,611**	**(2,283)**
20.	Equities measured at fair value through other comprehensive income:	3,375	(2,679)
	a) fair value change	3,375	(2,679)
	b) transfers to other components of equity	-	-
30.	Financial liabilities measured at fair value through profit or loss (changes in credit rating):	-	-
	a) fair value change	-	-
	b) transfers to other components of equity	-	-
40.	Hedging of equities measured at fair value through other comprehensive income:	-	-
	a) fair value change (hedged instrument)	-	-
	a) fair value change (hedging instrument)	-	-
50.	Tangible assets	-	-
60.	Intangible assets	-	-
70.	Defined benefit plans	(100)	50
80.	Non-current assets and groups of assets held for disposal	-	-
90.	Quotas of valuation reserves relative to shareholdings measured with the equity method	-	-
100.	Income taxes on other income components without reversal to the Income Statement	(664)	346
	Other income components reversed to the Income Statement	**(330)**	**(24,849)**
110.	Hedging of foreign investments:	-	-
	a) fair value changes	-	-
	b) reversal to income statement	-	-
	c) other changes	-	-
120.	Exchange rate differences:	-	-
	a) value changes	-	-
	b) reversal to income statement	-	-
	c) other changes	-	-
130.	Cash flow hedging:	-	-
	a) fair value changes	-	-
	b) reversal to income statement	-	-
	c) other changes	-	-
	of which: result of net positions	-	-
140.	Hedging instruments (non designated elements):	-	-
	a) value changes	-	-
	b) reversal to income statement	-	-
	c) other changes	-	-
150.	Financial assets (other than equities) measured at fair value through other comprehensive income:	502	(31,665)
	a) fair value changes	1,596	(31,665)
	b) reversal to income statement	1,139	-
	- adjustments for credit risk	(1,226)	-
	- profits/losses on sale	2,364	-
	c) other changes	(2,232)	-
160.	Non-current assets and groups of assets held for disposal:	-	-
	a) fair value changes	-	-
	b) reversal to income statement	-	-
	c) other changes	-	-
170.	Quotas of valuation reserves relative to shareholdings measured with the equity method:	-	-
	a) fair value changes	-	-
	b) reversal to income statement	-	-
	- impairment adjustments	-	-
	- profits/losses on sale	-	-
	c) other changes	-	-
180.	Income taxes on other income components with reversal to the Income Statement	(832)	6,817
190.	**Total other income components**	**2,281**	**(27,132)**
200.	**Comprehensive income (Item 10+190)**	**33,178**	**3,385**

PART E - Information on risks and related hedging policies

INTRODUCTION

The Bank pays particular attention to risk management and governance in ensuring the constant evolution of its organisational/procedural controls and methodological solutions. These functions are carried out with tools to support effective and efficient risk control governance, also in response to changes in the reference operational and regulatory environment. As required by the regulations on the reform of cooperative credit, the outsourcing of control functions at Cassa Centrale Banca by the affiliated Banks of the Cooperative Banking Group has been made operational. It is therefore the task of Cassa Centrale Banca to define the guidelines for risk measurement and management.

The risk management strategy is based on a holistic view of business risks, considering both the macroeconomic scenario and the individual risk profile, stimulating the growth of the risk control culture and reinforcing a transparent and accurate representation of risks.

The risk assumption strategies are summarised in the Risk Appetite Framework (hereinafter also referred to as "RAF") adopted by the Board of Directors, i.e. the reference framework that defines - consistently with the maximum risk that can be assumed, the business model and the strategic plan - the risk appetite, the tolerance thresholds, the risk limits, the risk management policies, the reference processes necessary to define and implement them. The RAF, introduced to ensure that risk-taking activities are in line with shareholders' expectations and comply with the overall regulatory and prudential framework of reference, is defined in light of the company's overall risk position and the economic/financial situation.

The framework is developed by Cassa Centrale Banca and is divided into the following main areas:

- organisational, through (i) the definition of the tasks of the corporate bodies and functions involved in the RAF; (ii) the updating of organisational and governance documents with regard to the main risk profiles (credit and counterparty, concentration, interest rate, market, liquidity, operational) and references for the management of the related interrelationships (risk management policies, risk management process, internal processes for determining and assessing capital adequacy so-called ICAAP, strategic and operational planning, internal control system, incentive system, major operations, etc.) within a framework of overall consistency; (iii) the definition of the relevant information flows;
- methodological, through (i) the definition of indicators, of operational references for their evaluation and the setting of inherent thresholds; (ii) the declination of the objectives and indicators identified in the system of operational limits;
- application, through the reconnaissance of the areas of intervention on the application supports for risk management and supervisory processes (risk measurement, supervisory reporting, ICAAP, simulation/forecasting, alerting activities, reporting, etc.) and the definition of the functional requirements for the related development.

The framework defines both the general principles in terms of the company's risk appetite and the controls adopted with regard to the overall risk profile and the main specific risks.

The general principles that guide the company's risk-taking strategy are summarised below:

- the company's business model is focused on the traditional lending activity of a commercial bank, with a particular focus on financing small and medium-sized enterprises and households;
- the objective of the company's strategy is not to eliminate risks but to fully understand them in order to ensure their conscious assumption and management in order to guarantee the long-term solidity and continuity of the company;
- limited risk appetite; capital adequacy, income stability, solid liquidity position, attention to maintaining a positive corporate reputation, strong control over the main specific risks to which the company is exposed represent key elements on which the entire company's operations are based;
- formal and substantial compliance with the rules with the aim of not incurring sanctions and maintaining a solid relationship of trust with all company's stakeholders.

The RAF represents, therefore, the overall framework within which the overall management of the risks assumed is placed and the general principles of risk propensity are defined and the consequent articulation of the controls against the overall corporate risk and the main specific risks.

The overall risk profile is monitored by a structure of limits based on the need to ensure compliance with the required minimum levels of solvency, liquidity and profitability, even under stressful conditions.

In particular, overall risk management aims to maintain adequate levels of:

- capitalisation, with reference to Pillar I and Pillar II risks, through the monitoring of the Common Equity Tier 1 ratio, the Tier 1 ratio, the Total Capital ratio and the financial leverage indicator;
- liquidity, such as to cope with periods of tension, even prolonged ones, on the various funding supply markets with reference to both the short-term situation and the structural situation, by monitoring the limits inherent in the Liquidity Coverage ratio, stable funding, loan-collection gap;
- profitability, through the monitoring of indicators such as cost-income and ROA.

The definition of the RAF and the resulting operational limits on the main specific risks mentioned above, the use of risk assessment tools within the credit management processes and the reference control and monitoring of operational and compliance risks, capital adequacy assessment measures and risk capital measures for the assessment of company performance, are the cornerstones of the operational declination of the risk strategy defined by the Board of Directors.

In the same context, reporting to corporate bodies is defined, which aims to provide on a periodic basis summary information on the evolution of the Bank's risk profile, taking into account the defined risk appetite. The relative system is designed to support the development of a holistic representation of the risk profiles to which the Bank is exposed; to highlight any deviations from risk objectives and violations of tolerance thresholds (where defined); to highlight the potential causes that have led to these deviations/violations through the results of the monitoring of operational limits and risk indicators.

The definition of the RAF is based on an articulated and complex process, coordinated by the Parent Company and with the support of the company's Risk Management Department which interacts with the heads of the various business units of the affiliated Banks. This process is developed in coherence with the ICAAP process and represents the framework within which the annual budget and the business plan are developed, ensuring coherence between risk taking strategies and policies on the one hand, and planning and budgeting processes on the other.

The policies and regulations issued by Cassa Centrale Banca have been adopted to strengthen the overall system of governance and risk management.

The risk governance model, i.e. the set of corporate governance and management and control mechanisms aimed at tackling the risks to which the Bank is exposed, is part of the broader framework of the company's internal control system, which is addressed by Cassa Centrale Banca as part of the outsourcing contract, defined in accordance with the prudential supervisory provisions for banks set out in Bank of Italy Circular no. 285/2013 (Part One, Title IV, Chapter 3).

Consistently with these references, all company risks are monitored within the framework of an organisational model based on the full separation of control functions from production functions, which integrates control methodologies and processes at different levels, all of which converge with the objectives of continuously detecting, measuring and verifying the risks typical of company activities, safeguarding the integrity of company assets, protecting against losses, guaranteeing the reliability and integrity of information, and verifying the correct performance of activities in compliance with internal and external regulations.

The internal control system consists of all the rules, functions, structures, resources, processes and procedures that aim to ensure, in compliance with sound and prudent management, the achievement of the following objectives:

- verification of the implementation of company strategies and policies;
- containment of the risk within the limits defined in the adopted RAF;
- safeguarding the value of assets and protection against losses;
- effectiveness and efficiency of operating processes;
- reliability and security of company information and IT procedures;
- prevention of the risk that the Bank may be involved, even involuntarily, in illegal activities (with particular reference to those connected with money laundering and terrorist financing);
- compliance of operations with the law and supervisory regulations, as well as with internal policies, regulations and procedures.

The internal control system therefore involves the entire corporate organisation (administrative bodies, structures, hierarchical levels, personnel).

***

In line with the provisions issued by the Bank of Italy, the model adopted by the Bank outlines the main responsibilities of the governance and control bodies in order to ensure the overall effectiveness and efficiency of the internal control system.

A joint examination of the supervisory regulations and the Bank's Articles of Association shows that the strategic supervision function and the management function are founded within the organic and integrated action of the Board of Directors. The General Manager participates in the management function as top management of the internal structure. In the Parent Company there is the figure of the Chief Executive Officer who also incorporates the functions of the General Manager. The Chief Executive Officer is appointed by the Board of Directors by conferring certain powers and responsibilities pursuant to Article 2381, second paragraph of the Italian Civil Code. For the functions assigned to the Chief Executive Officer, reference should be made to Article 34.2 of Cassa Centrale Banca's Articles of Association.

The strategic supervision function is expressed in the guidance of the corporate management through the preparation of the strategic plan, within which the Risk Appetite Framework (RAF) is inserted through the approval of the ICAAP and the budget, ensuring mutual consistency with the internal control system and the organisation; all this in the context of the "business model" of cooperative credit.

The management function, to be understood as the set of decisions that a corporate body takes for the implementation of the guidelines resolved in the exercise of the strategic supervision function, is the responsibility of the Board of Directors with the technical contribution of the General Manager, who attends the meetings of the Board of Directors as the proposer, with advisory opinion and without voting power, and is also the recipient of Board proxies. This function is mainly carried out in the following ways:

- resolutions passed by the Board of Directors, also on the proposal of Management, in compliance with the provisions of the Articles of Association;
- resolutions of the Executive Committee, normally on the proposal of Management, in the delegated areas;
- decisions of Management and the structure in the delegated areas.

In accordance with the Articles of Association, the General Manager is then responsible for implementing the resolutions of the Board of Directors and the Executive Committee and has the task of supervising the organisational functioning, the performance of operations and the functioning of services, ensuring that the Bank is managed as a single entity.

The General Manager, as head of personnel, ensures constant attention to the training of employees, also acting as a lever to spread the culture and techniques of risk management and control. He/she involves the governing body for the approval of training plans and supports it in identifying training methods and content from time to time useful for the development of the directors themselves.

The Board of Statutory Auditors represents the body with control functions and, as it is responsible for corporate control, supervises the correct application of the law and the Articles of Association and, specifically, the adequacy of the internal control system and the effectiveness of the work of the corporate control functions, also making use of the information flows that they carry out.

***

The provisions in relation to the internal control system, information system and business continuity accentuate the need for a prior definition of the reference framework for carrying out banking activities in terms of risk appetite, setting a frame of reference that banks must apply consistently to operational contexts, size and degree of complexity. This reference framework is defined in the RAF, i.e. the system of risk objectives, and it involves the ex-ante setting of the risk/return objectives that the Bank intends to achieve in order to ensure the necessary consistency of application at consolidated level.

The main purpose of the RAF is to ensure that the intermediary's activity develops within the risk appetite limits set by the corporate bodies.

The RAF is an obligatory reference point for the implementation, within the strategic plan, of a reasoning that leads to establishing the Bank's propensity to risk and that translates into risk management policies, expressed through the definition of quantitative parameters and qualitative indications consistent with it.

This reference framework is delivered through the development of the strategic plan from an RAF perspective, with which the budget, ICAAP and operational planning are linked.

The Risk Appetite Framework (RAF) and the related risk governance policies, summarised in the strategic plan, are consistently implemented in risk management, which takes the form of an implementation method that integrates approach phases (summarised in the so-called risk management process) and operational phases for the execution of the set objectives.

It involves both the Board of Directors (for resolutions falling within its remit) and Management, which - also with the support of the heads of the operational functions involved from time to time and the second-level control function contacts for the powers for which they are responsible - prepares the proposals to be submitted to the Board of Directors, draws up its own provisions and organically oversees the operating risk management activities.

Risk management - consequently - is articulated in the set of limits, delegations, rules, procedures, resources and controls - at line, second and third level - as well as operational activities through which risk management policies are implemented.

***

The supervisory regulations require banks to have adequate systems of risk detection, measurement and control, or an adequate internal control system as defined above.

The controls involve the entire structure, starting from the corporate bodies and the Management and are then articulated in:

- line controls, the main objective of which is to verify the correctness of operations with respect to external/self-regulation rules;
- second-level controls (Risk Management, Compliance and Anti-Money Laundering), aimed at implementing controls on risk management, the correct application of legislation and the management of the risk of money laundering and terrorist financing;
- third level controls (Internal Audit), aimed at identifying anomalous trends in procedures and regulations and assessing the functionality of the overall internal control system.

The Internal Audit Department, which oversees the third level of control, checks the other control systems, activating periodic sessions aimed at monitoring risk variables.

During the year, audits focused on the following corporate processes:

- remuneration policies;
- ICAAP - ILAAP;
- recovery plan;
- credit processes;
- finance processes;
- collection and payment systems;
- other topics.

Section 1 - Credit risk

INFORMATION OF A QUALITATIVE NATURE

1. General aspects

The objectives and strategies of the Bank's lending activities are geared towards the pursuit of an efficient relationship between the characteristics of the distribution model typical of cooperative credit, based on mutuality and localism, and effective monitoring of credit risk. The Bank's lending activities are also integrated into the organisational model of the Cassa Centrale Group, which aims to ensure the application of uniform rules and criteria in the assumption and management of credit risk through progressive standardisation of instruments. To this end, Cassa Centrale Banca has the role of guiding and coordinating all the affiliated Banks, in particular for the specific areas highlighted in this section. In particular, such objectives and strategies are targeted at:

- the achievement of a loan growth target that is sustainable and consistent with the defined risk appetite;
- an efficient selection of individual counterparties, through a complete and accurate analysis of their ability to meet their contractual commitments, aimed at containing credit risk;
- the diversification of credit risk, by identifying loans of limited amounts as the Bank's natural operating area, as well as limiting the concentration of exposures to groups of connected customers or individual lines of business;
- the verification of the persistence of the creditworthiness of the financed clients as well as the performance monitoring of the individual reports carried out, with the help of the information system, both on regular positions as well as and especially on positions with anomalies and/or irregularities.

The commercial policy on credit facilities is geared to the financial support of the local economy, through collaboration with the Affiliated Bank that operates locally, only in the business segment. Unlike a cooperative credit bank, which is characterised by a high propensity to entertain trust and personal relationships with families, craft workers and small-medium enterprises in their territory of reference, as well as a particular operational vocation in favour of customer-shareholders, Cassa Centrale Banca intervenes on a subsidiary basis in relation to corporate customers, in particular for those more structured.

Small and medium-sized enterprises and, to a lesser extent, large enterprises represent the most important sectors for the Bank. In this context, the Bank's strategies are aimed at establishing medium-long term credit and service relationships through the offer of targeted products and services and personal and collaborative relationships with the same customers. The conventions or partnership agreements reached with the provincial councils or with other subjects working in support of the development of the local economic fabric are also included in this perspective.

The granting of credit is mainly directed towards the lines of business most consistent with the Bank's credit policies and the positive economic dynamics that historically and currently characterise the territory in which the Bank operates. The most important activity is the management of pooled loans, in which the affiliated Banks participate and the loans are granted to customers by them.

Exposure to counterparty risk in non-speculative OTC derivative transactions is very limited as it is taken on exclusively with primary market institutions (Unicredit, Banca IMI) and balanced with specular but opposite transactions with affiliated Banks; offsetting and collateralisation agreements have also been entered into in order to further mitigate counterparty risk.

2. POLICIES FOR MANAGING CREDIT RISK

2.1 Organisational factors

In carrying out its activities, the Bank is exposed to the risk that receivables, for whatever reason, are not honoured by third party debtors at maturity and, therefore, losses must be recorded in the financial statements.

This risk is mainly found in the traditional activity of granting secured or unsecured loans recorded in the financial statements, as well as in similar transactions not recorded in the financial statements (mainly, or endorsement credits) and the potential causes of default lie largely in the lack of liquidity of the counterparty and to a lesser extent in reasons independent of the financial condition of the counterparty, such as country risk or operating risks. Activities other than traditional lending also further expose the Bank to credit risk (e.g.: subscription of non-speculative OTC derivative contracts).

Counterparties to such transactions may default due to lack of liquidity, operational weakness, economic events or other reasons. The organisational model adopted by the Bank complies with the Group Credit Regulation approved on 30 January 2019.

As at 31 December 2019, the Bank had ten regional offices and one branch office in the country.

The Credit Department is the central body delegated to govern the entire performing credit process (granting and auditing; management and monitoring), as well as the coordination and development of credit transactions and loans in the territory.

The allocation of tasks and responsibilities within this area aims - to the extent that is feasible - to separate activities that are in conflict of interest, particularly through an opportune ranking of authorisation profiles in the IT field.

The NPL Service Unit is the central body responsible for managing the non-performing credit process (deliberation of concessions, definition of recovery strategies, management of litigation), the process of changing the classification from performing to non-performing and vice versa.

In light of the provisions on the internal control system (contained in Bank of Italy Circular no. 285/2013, Part One, Title IV, Chapter 3), the Bank has adopted an organisational structure that is functional to achieving an efficient and effective credit risk management and control process consistent with the Group framework.

In addition to line controls, as first level activities, the functions in charge of second-level and third-level controls with the collaboration of their respective contact persons are responsible for measuring and monitoring risk trends and for the correctness/adequacy of management and operational processes.

Control activity over credit risk management (as well as financial and operating risks) is carried out by the risk control function (Risk Management Department).

Specifically, the function provides a preventive contribution in the definition of the RAF and related risk management policies, in setting operational limits to the assumption of the various types of risk.

Specifically, the function:

- ensures systematic monitoring of the degree of exposure to risks, the adequacy of the RAF and the consistency between operations and the actual risks assumed by the Bank with respect to the risk/return objectives and the related pre-established limits or thresholds;
- contributes to the preparation of the ICAAP report, in particular by verifying the appropriateness of the variables used and consistency with the risk objectives approved under the RAF;
- monitors compliance with regulatory requirements and prudential supervisory ratios, analysing and commenting on their characterisations and dynamics;
- formalises prior opinions on the consistency with the RAF of the most significant transactions, possibly acquiring the opinion of other functions involved;
- contributes to the organisational set up/maintenance and regulates the operational processes (credit, funding, finance, collection/payments, ICT) adopted for the management of the various types of risk, verifying the adequacy and effectiveness of the measures taken to remedy the deficiencies found;
- contributes to the definition/revision of quantitative risk measurement methodologies and, by interacting with the accounting function and referring to the system contributions for the preparation of the financial statements, contributes to a correct classification and evaluation of the company's activities.

2.2 Management, measurement and control systems

With regard to lending activities, the Credit Department and the NPL Unit ensure the supervision and coordination of the operational phases of the lending process, making decisions within the scope of their powers and carrying out the controls for which they are responsible.

The Bank has adopted the Group Credit Regulation and the Group Policy for the classification and valuation of loans, and proceeds to:

- examine the loan portfolio by identifying problem positions, verifying their creditworthiness and consequently isolating those positions that are considered sustainable - albeit with the need for any management intervention - and those deemed insolvent;
- consequently identify the need for intervention for the positions that have been deemed sustainable, in order to be able to assess the overall Bank's capacity to support them, also in relation to the effects on the ratio of investments to deposits and capital absorption;
- activate the appraisal process and identify the depreciation percentages of the estimated value of the real estate, on which the Bank intends to claim reimbursement of exposures to insolvent counterparties, with reference also to the case of executive proceedings, in accordance with the policy.

The entire credit management and control process is governed by the Group Credit Regulation, which in particular:

- defines the criteria and methodologies for assessing creditworthiness;
- defines the criteria and methodologies for the revision of the credit lines;
- defines the criteria and methods of performance monitoring, as well as the steps to be taken in the event of anomalies being detected.

With reference to transactions with related parties, the Bank has adopted specific deliberative procedures aimed at controlling the risk that the proximity of certain parties to the decision-making centres of the same may compromise the impartiality and objectivity of decisions relating, among others, to the granting of loans. From this perspective, the Bank is also equipped with recognition tools and an IT procedure aimed at supporting the correct and complete registration of related parties. These references have been supplemented by updating, where deemed necessary, the resolutions, regulations and proxies already in use within the Bank. The Group Regulation for the management of transactions with related parties was also adopted.

In compliance with the provisions of the Group credit regulation and the Group's credit classification and assessment policy, specific procedures have been put in place by the Bank for the investigation/deliberation, credit line revision and credit risk monitoring phases. Qualitative-quantitative methodologies for assessing the creditworthiness of the counterparty are used by the Bank in all the above mentioned phases, based or supported by IT procedures that are periodically checked and maintained.

The investigation/deliberation and revision of the credit lines are regulated by a deliberative process in which the various competent bodies, belonging to both the central structures and the network, intervene, in accordance with the levels of delegation provided for. These phases are supported, also in order to use data from external databases, by the management procedure that allows, at any time, the verification (by all credit management functions) of the status of each position already assigned or being assigned, as well as to reconstruct the process that led to the definition of the creditworthiness of the borrower (through the recording and archiving of the decision-making process and the types of analysis carried out).

During the investigation, for requests for significant amounts of credit facilities, the evaluation, including prospective, is structured on several levels and is based mainly on technical data, as well as - as is usually the case - on personal knowledge and in-depth analysis of the specific economic and financial situation of the counterparty and its guarantors. Different types of investigation/revision have been provided for; some, simplified with formalities reduced to the essential, reserved for the investigation/revision of exposures of limited amount referring to parties who have a regular performance, others, of ordinary type, for the remaining type of practices.

The IT procedure adopted by the Bank makes it possible to periodically extrapolate all relationships that may show symptoms of performance anomalies. The constant monitoring of relationships provided by the procedure makes it possible, therefore, to intervene promptly when anomalous positions arise and to take appropriate measures in the event of problem loans.

The positions entrusted, as already mentioned, are also checked using the information provided by the Risk Centres.

All fiduciary positions are also subject to periodic review, carried out for each individual counterparty/economic group to which they belong by the relevant structures per credit limit.

Control of the activities carried out by the Credit Department is ensured by the Risk Management Department.

In recent years, the revision of international prudential regulations as well as the evolution in the banking world have further pushed cooperative credit to develop methods and systems to control credit risk. With this in mind, a strong commitment has been maintained in the progressive development of IT tools for monitoring credit risk, which has led to the creation of an advanced system for assessing the creditworthiness of companies and the risk/return profile.

Consistently with the operational and governance specificities of the credit process, the system has been designed with a view to achieving an adequate integration between quantitative information (Financial Statements, Risk Centre, Relationship Performance, Socio-Demographic Profile) and qualitative information accumulated by virtue of the peculiar customer relationship and its roots in the territory. Therefore, this system responds to the need to give greater effectiveness and efficiency to the credit management process, especially through a more objective selection of customers and a more structured position monitoring process.

The use of the advanced system for assessing the creditworthiness and control of clients entrusted and to be entrusted has significant organisational implications that must be carefully examined and addressed as part of an overall review of the Bank's internal control system and the related organisational and regulatory structures.

At the same time, the functionalities for the evaluation of particular types of clients (companies in simplified accounting; companies with a multi-year cycle) have been activated.

In this regard, awareness-raising, training and education activities for both staff and the Bank's management will be of a permanent nature.

For the purposes of determining the minimum capital requirement for credit risk, the Bank adopts the standardised methodology and, in this context, has decided to:

- make use of rating models, developed on a statistical basis and using credit scoring methodology, for the measurement and evaluation of creditworthiness and related provisions for ordinary and interbank customers[21];
- adopt the standardised methodology for the calculation of the capital requirement for credit risk (Pillar I).

Moreover, with reference to the ICAAP provided for in Pillar II of the new prudential regulations and in order to determine internal capital, the Bank has opted for the adoption of simplified methodologies.

In addition, as regards stress tests, the Board of Directors has adopted the management methods as established within the Group.

The Bank therefore periodically carries out such stress tests through sensitivity analyses that take the form of an assessment of the effects of specific events on the Bank's risks.

With reference to credit risk, stress tests are carried out by the Bank as follows: in particular, the stress exercise is intended to measure the change in the exposures of the Regulatory portfolios due to the application of an adverse scenario compared to a baseline scenario.

The aggregates subjected to stress analysis are:

- gross volumes of performing loans to customers;
- rate of deterioration of performing loans to customers and related write-offs;
- coverage ratio of performing and impaired loans to customers;
- fair value of the securities portfolio in the Hold to Collect and Sell category.

For the identification of the two market scenarios, reference is made to the information provided by an external provider also based on the main assumptions established by the European Banking Authority for the purpose of the 2018 Stress Test.

With reference to operations on the securities markets, the Bank's Finance Department carries out valuation and control activities both during the purchase of financial instruments and at subsequent times when the composition of the segment by asset class or IAS/IFRS portfolio is periodically analysed, the level of specific risk or counterparty risk is determined and compliance with the limits and powers assigned is verified.

2.3 Methods of measuring expected losses

IFRS 9 introduced, for instruments measured at amortised cost and fair value through other comprehensive income (other than equity instruments), a model based on the expected loss concept, replacing the incurred loss approach provided by IAS 39.

The changes introduced by IFRS 9 are characterised by a prospective view which, in given circumstances, may require the immediate recognition of all expected losses over the life of a loan. In particular, unlike IAS 39, it is necessary to recognise, immediately and regardless of the presence or not of a

[21] The rating models developed are subject to annual review by Cassa Centrale Banca. During the year, under the supervision of the Risk Management Department, credit risk models were refined and updated. For more details, see paragraph 2.3.

so-called trigger event, the initial amounts of expected future losses on own financial assets, and this estimate should be continuously adjusted also in consideration of the counterparty credit risk. In order to prepare this estimate, the impairment model should not only consider past and present data, but also information relating to future events.

This forward looking approach makes it possible to reduce the impact of the losses and enable loan adjustments to be posted in proportion to the increase in risks, allowing entities to avoid overloading the income statement on the occurrence of loss events and reducing the pro-cyclical effect.

The scope of application of the new model for measuring expected losses on loans and securities subject to impairment adopted refers to financial assets (loans and debt securities), commitments to disburse funds, guarantees and financial assets not subject to measurement through FVTPL. For credit exposures falling within the scope of application [22] of the new model, the accounting standard provides for the allocation of individual relationships to one of three stages based on changes in credit quality, defined on an expected credit loss model at 12 months or full life if a significant increase in credit risk has occurred. In particular, there are three different categories reflecting the credit quality deterioration model from initial recognition, which make up the stage allocation:

- in stage 1, positions that do not present, at the valuation date, a significant increase in credit risk (so-called SICR);
- in stage 2, the positions, which at the reference date, showed a significant increase in credit risk;
- in stage 3, non-performing positions [23].

The estimate of expected loss using the ECL criteria, for the classifications defined above, takes place on the basis of the allocation of each position into the three reference stages, as detailed below:

- stage 1, expected loss must be calculated on a time horizon of 12 months [24];
- stage 2, expected loss must be calculated by considering all the losses that are expected to be incurred over the entire life of the financial asset (lifetime expected loss): therefore, with respect to the calculation performed in accordance with IAS 39, there is a shift from the estimate of incurred loss over a time horizon of 12 months to an estimate that takes into consideration the entire residual life of the loan; in addition, given that IFRS 9 requires entities to also adopt forward-looking estimates for the calculation of the lifetime expected loss, it is necessary to consider the scenarios connected with macro-economic variables (e.g. GDP, unemployment rate, inflation, etc.) which, through a macro-economic statistical model, are able to estimate the forecasts over the residual duration of the loan;
- stage 3, the expected loss must be calculated with a lifetime perspective, but unlike stage 2 positions, the calculation of the expected lifetime loss is carried out using an analytical valuation methodology; for certain exposures classified as non-performing or unlikely to pay of less than EUR 200,000, for impaired past due and/or overrun exposures and for off-balance sheet exposures, the calculation of the expected lifetime loss is normally carried out using a flat-rate analytical methodology.

With particular reference to positions classified as non-performing, specific analytical valuations reflect, where appropriate, a probable scenario of realisation of these receivables through the sale of the related exposures, consistent with the Bank's strategy for the management of impaired receivables.

[22] The application segments are ordinary customers, interbank segment and securities portfolio.

[23] Non-performing loans relate to: impaired past due and/or overrun, 'unlikely to pay' and non-performing exposures.

[24] The calculation of the expected loss for the purposes of calculating collective bad debt provisions for these exposures takes place on a 12-month point in time basis.

The risk parameters (PD, LGD and EAD) are calculated by the impairment models; to improve the coverage of the ratios not originally rated after 2006, the default rates made available by the Bank of Italy were used [25]. It should be underlined that the Bank calculates the ECL based on the allocation stage, per individual position, with reference to cash and off-balance sheet exposures.

Ordinary customer segment

The drivers common to all the approaches identified for the construction of the PD to be used, concern:

- 12-month PD estimate developed on a statistical basis through the construction of a Group model, appropriately segmented according to the type of counterparty and the geographical area in which the Bank operates;
- the inclusion of forward looking scenarios, through the application of multipliers defined in a satellite model to the PD point in time (so-called PiT) and definition of a set of possible scenarios incorporating current and future macroeconomic conditions;
- the transformation of 12-month PD into lifetime PD, in order to estimate a PD term structure along the entire residual life class of loans.

The drivers common to all the approaches identified for the construction of the LGD to be used, concern:

- a Group model, appropriately segmented according to the geographical area in which the Bank operates, which consists of two parameters: the danger rate (DR) and the non-performing LGD;
- the IFRS 9 danger rate parameter is estimated from a set of transition matrices between administrative states with an annual observation horizon. These matrices were calculated in relation to a set of counterparties with a segmentation in line with that used for the development of PD models. The DR parameter, like PD, is conditioned to the economic cycle, based on possible future scenarios, so as to incorporate assumptions about future macroeconomic conditions;
- the nominal non-performing LGD parameter is calculated as the arithmetic mean of the nominal non-performing LGD, segmented by type of guarantee, and then discounted based on the average of the observed recovery times per cluster of ratios consistent with those of the nominal non-performing LGD.

The EAD IFRS 9 model adopted differs depending on the type of technical macro-form and on the stage to which the exposure belongs. For the estimation of the EAD parameter over the lifetime period of the instalment positions, it is necessary to consider the contractual repayment flows, for each year of the remaining life of the position. A further element that influences the future values of the EAD, i.e. the progressive repayment of the instalment loans on the basis of the contractual amortisation plan, is the prepayment rate (a parameter that collects the events of early and partial termination with respect to the contractual maturity date).

The Bank made provision for the allocation of the individual cash and off-balance sheet positions, in one of the 3 stages listed below, based on the following criteria:

[25] During 2018, the Bank of Italy made available a historical series of default rates starting in 2006, broken down by a number of drivers (region, amount range, economic sector, etc.) and built on a broader definition of non-performing positions only.

- in stage 1, positions with generation date of less than three months from the measurement date or that do not present any of the characteristics described in the previous point;
- in stage 2, positions which, at the reference date, present at least one of the characteristics described below:
  - a significant increase in credit risk from the disbursement date has been identified, defined in accordance with the operating methods and set out in the appropriate technical documentation;
  - positions relating to counterparties that at the valuation date are classified to 'watch list', i.e. 'performing under observation';
  - positions which, at the valuation date, present an increase of 200% in the 'PD' with respect to that at origination;
  - presence of a 'forborne performing' attribute;
  - presence of past due amounts and/or overrun by more than 30 days;
  - positions (absence of "PD lifetime" at the disbursement date).
- in stage 3, non-performing loans. These concern individual positions relating to counterparties classified in one of the impaired loan categories set forth by Bank of Italy Circular no. 272/2008 and subsequent updates. Falling into this category are impaired past due and/or overrun, 'unlikely to pay' and non-performing exposures.

Interbank segment

The Bank adopts various models, developed on a statistical basis. For cooperative credit banks there are two models, a complete one (for banks belonging to the Cassa Centrale Group) and a reduced one (for the other cooperative credit banks). For other institutions the PD parameter is provided by an external provider and extrapolated from quoted credit spreads or quoted bonds. For institutions without quoted credit spreads, the PD parameter is always provided by an external provider, but calculated on the basis of comparable logics based on external information (financial statements, external ratings, economic sector).

The LGD parameter is set prudentially by basing the regulatory level for IRB at 45%.

For EAD, similar logic is applied as for the ordinary customer model. It should be noted that a prepayment parameter has been applied to interbank positions consistent with the underlying technical forms and with the specificities of the underlying positions in this segment.

The Bank has provided for the allocation of individual positions to the 3 stages, in the same way as to that provided for loans to customers. The application of the concept of low credit risk is defined on performing positions which at the valuation date have the following characteristics: no PD lifetime at the origination date and PD point in time less than 0.3%.

Securities portfolio

The PD parameter is provided by an external provider based on two approaches:

- timeliness: the default probability term structure for each issuer is obtained from quoted credit spreads or quoted bonds;
- comparable: where market data does not allow for the use of specific credit spreads, because they are absent, illiquid or insignificant, the default probability term structure associated with the issuer is obtained using proxy methodology. This methodology provides for the reclassification of the rated issuer to a comparable issuer for which specific credit spreads are available or to a reference cluster for which a representative credit spread can be estimated.

The LGD parameter is assumed to be constant over the entire time period of the financial activity under analysis and is obtained on the basis of four factors: issuer and instrument type, instrument ranking, instrument rating and country of origin. The minimum level starts from a value of 45%, with subsequent increases to take into account the different degrees of seniority of the securities.

The Bank has allocated the individual tranches for the purchase of securities in three stages.

In the first stage of creditworthiness, the following are placed: tranches which, at the measurement date, have not experienced a significant increase in credit risk with respect to the moment of purchase.

In the second stage, tranches are placed, which on the valuation date present an increase in credit risk compared to the date of purchase.

In the third and final stage, tranches are placed, for which the ECL is calculated following the application of a 100% probability (i.e. in default).

Transitory regime

With regard to the economic and equity impacts of IFRS 9, it should be noted that, on first-time adoption of the same, the main impacts arose from the application of the new accounting model of impairment based, as mentioned above, unlike the loss approach of IAS 39, on the concept of expected loss, and from the application of the rules for the transfer of exposures to the various stages of classification.

It should be noted that the Bank has adhered to the option introduced by Regulation (EU) no. 2395/2017 of the European Parliament and the Council with which amendments have been made to Regulation (EU) no. 575/2013 on prudential requirements for credit institutions and investment firms (so-called CRR), relating to the introduction of a specific transitional framework, from 2018 to 2022, aimed at mitigating the impact on equity resulting from the application of the new impairment model based on the measurement of expected credit losses (ECL) introduced by IFRS 9.

The provisions in question have made it possible to reintroduce in the CET1 the impact recorded following the application of the new valuation model introduced by IFRS 9 for financial assets measured at amortised cost or at fair value through other comprehensive income.

This standard allows for dilution over five years of:

a. the incremental impact of the write-down on performing and impaired exposures recognised at the date of transition to IFRS 9 following the application of the new impairment model (static filter component);
b. any further increase in total write-downs relating only to performing exposures, recorded at each reference date with respect to the impact measured at the date of transition to the new standard (dynamic filter component).

The adjustment to CET1 results in the re-inclusion in the CET1 of the observed impact to the extent indicated below for each of the 5 years of the transitional period:

- 2018 - 95%
- 2019 - 85%
- 2020 - 70%
- 2021 - 50%
- 2022 - 25%

The application of the transitional provisions to the CET1 requires a symmetric adjustment in the determination of capital requirements for credit risk through the adjustment of exposure values determined in accordance with Article 111 para. 1 of the CRR. In particular, specific adjustments to loans for which the value of the individual exposure is reduced shall be multiplied by a scaling factor determined on the basis of the complement at 1 of the impact of the adjustment made to the CET1 on the total amount of specific value adjustments to loans.

Adherence to this option makes it possible to postpone the most significant component of the impact on equity of the application of the new impairment model introduced by IFRS 9, bringing it, particularly in the first years of the transitional framework, to levels considered absolutely non-critical for the company's solvency profile.

Organisational and process impacts

In terms of organisational and process impacts, the approach to impairment introduced by IFRS 9 required a major effort to collect and analyse data; this in particular, in order to identify the exposures that have suffered a significant increase in credit risk with respect to the date of their assumption and, consequently, must be traced back to a measurement of the expected lifetime loss, as well as the support of significant investments for the evolution of the valuation models in use and related operating processes for the incorporation of the risk parameters produced in credit operations.

The introduction of forward-looking logic in accounting valuations also determines the need to revise credit policies, for example, with reference to customer selection parameters (in light of the different sectorial or geographical risk profiles) and collateral (orienting the preference of types exposed to lower volatility and sensitivity to the economic cycle). Similarly, it appeared necessary to adjust the company's rules on the granting of credit (and related delegated powers) taking into account, among other things, the different costs of medium/long-term technical forms in a scenario in which, as mentioned above, any migration to stage 2 entails the transition to an expected lifetime loss.

With regard to credit monitoring processes and controls, adjustments and strengthening are also envisaged, based, among other things, on the implementation of automated and proactive processes and the development and/or refinement of early warning and trigger tools that make it possible to identify the early symptoms of a potential step-up and to activate the resulting initiatives in good time.

Finally, significant interventions concern second-level controls by the Risk Management Department, which is responsible, among other things, for the validation of internal risk measurement systems not used for regulatory purposes and for monitoring the substantial correctness of the indications deriving from the use of these models.

With reference to the main management control processes, in the knowledge that the cost of risk is one of the most important variables in determining current and prospective economic results, particular attention is paid to the necessary consistency of the assumptions underlying the estimates of the multi-annual plan and the annual budget (developed on the basis of expected scenarios relating to macroeconomic and market factors), the ICAAP and RAF and those taken as reference for the determination of accounting provisions.

The project activities coordinated by the relevant technical structures of Cassa Centrale Banca have allowed the improvement of the declination of the methodological solutions for the correct estimation of the risk parameters for the calculation of the ECL and the management of the staging process according to IFRS 9 standards, as well as the development of the underlying technical/instrumental support by the relevant structures.

The Bank also refers to the guidelines defined within the Group with regard to the adoption of organisational and process solutions aimed at enabling the correct and integrated use of the rating system in the main business processes (during investigation, pricing, monitoring and evaluation), as well as for the implementation of the related monitoring and control system.

2.4 Techniques for mitigating credit risk

Risk mitigation techniques include those instruments that contribute to reducing the loss that the Bank would incur if the counterparty were to default; they include, in particular, guarantees and certain contracts that lead to a reduction in credit risk.

In accordance with the credit objectives and policies defined by the Board of Directors, the credit risk mitigation technique most commonly used by the Bank is the acquisition of different types of collateral, personal and financial guarantees.

These forms of guarantee are required depending on the results of the assessment of the creditworthiness of customers and the type of loan requested by the same. As part of the credit granting and management process, the presence of mitigating factors is encouraged against counterparties with a less favourable credit rating or certain types of medium/long-term operations.

In order to limit the risks of non-existence or termination of protection, specific safeguards are provided, such as: the reinstatement of the pledge in the presence of a decrease in the initial value of the property or, for mortgage guarantees, the obligation of insurance coverage against fire damage, as well as the presence of adequate monitoring of the value of the property.

With reference to activities within securities markets, given that the composition of the portfolio is oriented towards primary issuers with high creditworthiness, no particular forms of credit risk mitigation are currently required.

The main concentration of collateral (mainly mortgages) is related to loans to retail customers (medium and long term).

In recent years, a decisive impetus has been given to the implementation of structural and process configurations suitable to ensure full compliance with the organisational, economic, legal and information requirements of prudential regulations on credit risk mitigation (hereinafter also "CRM") techniques.

The Bank has decided to use the following CRM tools:

- financial real guarantees involving cash and financial instruments, provided through agreements for the pledging and transfer of ownership and repurchase agreements;
- residential and non-residential real estate mortgages;
- other forms of real protection such as deposits in cash;
- personal guarantees represented by sureties, warranty bonds, guarantees - within the realm of authorised guarantors - from monitored intermediaries.

Collateral

With reference to the acquisition, evaluation and management of the main forms of collateral, the company's policies and procedures ensure that such collateral is always acquired and managed in such a way as to ensure that it is enforceable in all relevant jurisdictions and can be enforced within a reasonable time.

In this context, the Bank complies with the following inherent regulatory principles:

- the non-dependence of the value of the property to a significant extent on the creditworthiness of the debtor;
- the independence of the entity appointed to estimate the property at a value not exceeding its market value;
- the presence of an insurance against the risk of damage to the property covered by the guarantee;

- the implementation of adequate monitoring of the value of the property, in order to verify the existence over time of the requirements that allow for less capital absorption on the guaranteed exposures;
- compliance with the maximum ratio between the required loan and the value of the property pledged as collateral (loan to value): 80% for residential properties and 50% for non-residential properties;
- the use of the property and the debtor's ability to repay.

The process of monitoring the value of the property under warranty is carried out using statistical methods. Performing or impaired credit exposures are subject to statistical revaluation every six months.

For significant performing exposures (i.e. amounts in excess of EUR 3 million or 5 % of the Bank's own funds) the valuation is in any case reviewed by an independent expert at least every 3 years.

For impaired exposures, the Policy adopted by the Bank provides for a new appraisal for both residential and non-residential properties at the time of transition to impaired loans and an annual update for positions exceeding specific exposure thresholds.

With regard to financial collateral, the Bank, based on the policies and processes for the management of credit risk and operational limits and proxies defined, directs the acquisition of the same exclusively to those financial assets for which the company is able to calculate the fair value on a periodic basis (i.e. whenever there is evidence that there has been a significant decrease in fair value).

The Bank has also put in place specific safeguards and procedures to ensure the following aspects relevant to the prudential eligibility of the guarantees in question:

- absence of a material positive correlation between the value of the financial collateral and the creditworthiness of the debtor;
- specific safeguards to guarantee the external separation (between the depositary's assets and the asset under guarantee) and the internal separation (between assets belonging to different parties and deposited with third parties) if the asset under guarantee is held with third parties;
- residual duration of the guarantee not less than that of the exposure.

The monitoring of financial collateral, in the case of pledging of securities, takes place through periodic monitoring of the issuer/issue rating and the fair value assessment of the financial instrument as collateral. The adjustment of guarantees for which the market value is lower than the resolution value net of discount is required.

Personal guarantees

With reference to personal guarantees, the main types of guarantors are represented by entrepreneurs and corporate partners related to the debtor as well as, in the case of loans granted in favour of sole proprietorships and/or natural persons (consumers or not), also by relatives of the debtor. Less frequently the risk of insolvency is covered by personal guarantees provided by other companies (generally companies belonging to the same economic group as the debtor), or provided by financial institutions and insurance companies.

In the case of loans to parties belonging to certain economic categories (craft workers, traders, etc.) the Bank acquires specific guarantees (on first demand or subsidiary) provided by the credit consortia to which it belongs.

An exception is made for personal guarantees which meet all the requirements, provided by credit consortia registered on the special list pursuant to Article 106 of the TUB.

Where a financing proposal provides for personal guarantees from third parties, the investigation shall also extend to the latter. In particular, in relation to the type of loan guaranteed and the amount, the following is subject to verification and analysis:

- the guarantor's statement of financial position and income statement, including by consulting the appropriate databases;
- exposure to the banking system;
- the information present in the Bank's information system;
- potential membership of a group and the related overall exposure.

If necessary, at the discretion of the instructor in relation to the amount of the guarantee, the investigation will be extended to the Risk Center.

If the guarantor is represented by a company, and in any case when deemed necessary in view of the risk and the amount of the loan, in addition to the information produced by the network in the form reserved for the guarantor, the creditworthiness of the guarantor shall be developed in the same way as for the applicant.

Offsetting (and margining) agreements

The Bank has adopted bilateral offsetting agreements for contracts relating to OTC derivatives and long-term settlement transactions with leading market counterparties (e.g. Unicredit, Banca IMI, Credit Suisse) which, while not giving rise to any novation, provide for the formation of a single obligation, corresponding to the net balance of all the transactions included in the agreement itself, so that, in the event of default by the counterparty due to insolvency, bankruptcy, liquidation or any other circumstance, the Bank has the right to receive or the obligation to pay only the net amount of the positive and negative values at current market prices of the individual transactions offset. Regulation (EU) no. 575/2013, with reference to OTC derivatives and long-term settlement transactions, places such agreements within the framework of other bilateral offsetting agreements between an institution and its counterparty, i.e. written agreements between a bank and a counterparty under which the reciprocal credit and debit positions generated by such contracts are automatically offset so as to establish a single net balance, without any novative effects.

The effect of reducing counterparty risk (and, therefore, lower capital absorption) is recognised provided that the agreement has been communicated to the supervisory authority and the Bank complies with the specific requirements set out in the regulations.

In this respect, the Bank plans to apply these techniques when calculating capital requirements.

The legal right to offset is not legally enforceable at any time but only in the event of insolvency or bankruptcy of the counterparties. As a result, the conditions in paragraph 42 of IAS 32 for offsetting positions in the financial statements are not met as further detailed in IAS 32 in paragraph AG38.

The Bank has margining agreements in place, both with the main market counterparties with which it operates and with the affiliated Banks that provide for the exchange of margins (guarantees) between the counterparties to the contract on a daily basis on the basis of the market values recorded on the reference day (i.e. the working day immediately prior to the valuation day). The value of the collateral transferred from one party to the other takes into account the net value of the outstanding positions, the value of any collateral previously lodged by either party and the security value (minimum transfer level). Guarantees (margins) may have as their subject:

- money;
- bonds (generally Italian government bonds).

For the purposes of Legislative Decree no. 170 of 21 May 2004, the collateralisation agreement is a financial guarantee contract and the margin is pledged in accordance with Article 5 of the same decree.

In this case too, the Bank plans to apply specific policies and procedures to ensure that the requirements of the relevant legislation for their recognition for prudential purposes are met.

3. IMPAIRED CREDIT EXPOSURES

3.1 Management strategies and policies

The Bank is organised with regulatory/IT structures and procedures for the management, classification and control of loans.

Consistent with IAS/IFRS regulations, at each reporting date the presence of objective elements of impairment on each instrument or group of financial instruments is verified.

Impaired financial assets include loans which, following the occurrence of events happening after their disbursement, show objective evidence of possible impairment.

On the basis of the current regulatory framework, supplemented by internal implementing provisions, impaired financial assets are classified according to their critical status into three main categories:

- non-performing loans: Bank's credit exposures to counterparties in a state of insolvency (even if not judicially established), or in substantially comparable situations, regardless of the existence of any guarantees given to protect the exposures and the loss forecasts made;
- unlikely to pay: credit exposures, other than non-performing loans, for which it is considered unlikely that, without recourse to protective actions, such as enforcement of guarantees, the debtor will fully meet its credit obligations in principal and/or interest, regardless of the presence of any overdue and unpaid amounts/rates;
- impaired past due and/or overrun: credit exposures, other than those classified as non-performing or unlikely to pay, which are past due and/or overrun by more than 90 days and which reach or exceed the materiality threshold of 5%, in accordance with the criteria established by the Supervisory Authority in Bank of Italy Circular no. 272 of 30 July 2008 and subsequent updates.

The classification of positions among impaired assets is carried out both on the proposal of the proprietary structures of the commercial relationship and the central specialist functions in charge of credit control and management.

Classification is also carried out automatically if predetermined default conditions are exceeded, in particular with regard to past due and/or overrun exposures, depending on the extent and seniority of continuous overdue/overrun exposures.

The restoration of impaired exposures to performing status, governed by specific supervisory provisions and internal implementing provisions, is decided by the body responsible, on the recommendation of the structures dedicated to the management of impaired loans, after ascertaining that the criticality and insolvency conditions have disappeared.

Exposures classified as impaired past due and/or overrun are automatically returned to performing status when the exposures fall below the thresholds that had led to their classification as impaired.

The responsibility and overall management of impaired loans is entrusted to the NPL Service Unit. This activity is intrinsic in order to:

- monitor the aforementioned positions;
- take steps to restore the regularity of performance in order to include exposures among performing loans;
- propose to the competent decision-making bodies the granting of tolerance measures to make the reimbursement of the exposure sustainable;
- propose to the competent decision-making bodies the transfer to non-performing of insolvent counterparties;
- carry out judicial and extra-judicial activities aimed at recovering receivables classified as non-performing;
- determine the expected losses on positions and propose them to the decision-making body in charge.

The model used to determine provisions for impaired loans provides, depending on their characteristics, for the use of a specific analytical valuation or a flat-rate analytical valuation.

The amount of the adjustment to the value of each loan is determined as the difference between its carrying amount at the time of measurement (amortised cost) and the present value of expected future cash flows, calculated by applying the effective interest rate to the ratio at the time immediately prior to classification in one of the risk categories of impaired loans.

The specific analytical valuation is carried out at the time of classification among impaired credit exposures and is reviewed quarterly in accordance with the criteria and methods identified in the credit policies adopted.

The flat-rate analytical valuation is carried out and updated quarterly on the basis of the estimate of the expected loss calculated by the impairment model introduced by IFRS 9.

3.2 Write-offs

During the year, the Bank adopted specific internal regulations on write-off policies and disseminated them throughout the Group. The write-off is an event that results in an accounting derecognition and may occur before the legal action for recovery of the impaired debt is completed and does not necessarily imply a waiver by the Bank of the legal right to recover the debt. The write-off may cover the entire amount of an impaired exposure or a portion of it and corresponds to:

- the reversal, in full or in part, of the total value adjustments, as a contra-entry to the gross value of the impaired exposure;
- for any portion exceeding the amount of the total value adjustments, to the impairment loss of the impaired exposure recognised directly in the income statement.

Any recoveries from collections in excess of the gross value of the impaired exposure following the write-off are recognised in the income statement under contingent assets.

In general, the write-off applies to impaired exposures for which:

- the occurrence of events has been found to lead to the irretrievability of all or part of the deteriorated exposure;
- all or part of the impaired exposure was deemed reasonably unrecoverable;

- it was considered appropriate, in the context of settlement agreements with the debtor, to waive all or part of the impaired claim.

During the year, the Bank carried out partial write-offs on two impaired credit positions for a total of EUR 860 thousand. It should be noted that the positions that had been written off had already been largely written down and therefore there was no impact on the income statement.

3.3 Impaired financial assets acquired or originated

In accordance with IFRS 9, loans considered impaired from the time of initial recognition are referred to as Purchased or Originated Credit Impaired Assets (POCI). These loans, if they fall within the scope of application of impairment pursuant to IFRS 9, are measured by setting aside - from the date of initial recognition - provisions to cover losses covering the entire residual life of the loan (ECL lifetime). Since these are impaired loans, they will be initially booked as part of stage 3.

In this regard, it should be noted that the acquisition or origination of impaired financial assets is not part of the Bank's typical business model, so the above mentioned cases are to be considered residual.

4. FINANCIAL ASSETS SUBJECT TO COMMERCIAL RENEGOTIATIONS AND FORBORNE EXPOSURES

The category of 'forborne non-performing exposures' does not constitute a separate and additional category of impaired exposures to those previously mentioned (non-performing, unlikely to pay and impaired past due and/or overrun exposures), but only a sub-set of each of them, which includes cash exposures and commitments to disburse funds that are forborne ('forborne exposures'), if both of the following conditions are met:

- the debtor is in a situation of economic-financial hardship that does not allow him/her to fully comply with the contractual commitments in his/her debt agreement and that puts him/her in a state of 'credit deterioration' (classification in one of the categories of impaired exposures: non-performing, unlikely to pay, impaired past due and/or overrun);
- the Bank agrees to amend the terms and conditions of that agreement, or to refinance it in full or in part, to enable the debtor to comply with it (there would have been no such forbearance if the debtor had not been in a state of hardship).

Forborne exposures to debtors in a condition of economic-financial hardship that has not reached a state of 'credit impairment' are instead classified in the category of 'forborne performing exposures' and are included among the 'other performing exposures', or among the 'performing past due exposures' if they meet the requirements for this classification.

In terms of the Bank's internal regulations, once it has been ascertained that a concession measure meets the requirements of forbearance, the forborne exposure attribute involves:

- forborne performing if both of the following conditions occur:
  - the debtor was classified as ordinary performing or under observation before the forbearance was granted;
  - the debtor was not reclassified by the Bank as an impaired counterparty as a result of the forbearance granted;
- forborne non-performing if at least one of the following conditions occurs:
  - the debtor was classified as impaired prior to the granting of the forbearance;
  - the debtor has been reclassified among impaired exposures, due to the forbearance granted, including the assumption that (in addition to other regulatory cases), as a result of the valuation made, significant impairment losses will emerge.

In order for a credit exposure classified as forborne non-performing to change to forborne performing, the following conditions must be met simultaneously:

- at least 1 year has passed since the attribution of the forborne non-performing attribute (so-called care period);
- absence of the conditions to classify the debtor as impaired;
- absence of overdue payments on all the debtor's existing relationships with the Bank;
- the debtor's presumed ability, on the basis of documentary evidence, to fully meet its contractual obligations under the repayment terms determined by the forbearance; this prospective ability to repay is deemed to have occurred when both of the following conditions are met:
  - the debtor has reimbursed, through the regular payments made on the renegotiated terms, an amount equal to the amount that had expired (or was subject to derecognition) at the time of granting the forbearance;
  - the debtor has complied with the post-forbearance payment terms over the last 12 months.

A credit exposure classified as forborne performing becomes forborne non-performing when even one of the following conditions occurs:

- the conditions for the classification of the counterparty as impaired loans are met;
- the credit exposure was previously classified as impaired with a forborne non-performing attribute and subsequently, if the conditions were met, the financed counterparty was brought back under observation (with the simultaneous transfer of the line in question to forborne performing), but: i) one of the credit lines of the financed counterparty has matured, during its stay in forborne performing, more than 30 days past due; or ii) the counterparty holding the line in question, during its stay in forborne performing, is subject to further forbearance measures.

For a credit exposure classified as forborne performing to lose this attribute, resulting in a return to only an ordinary performing or performing under observation status, the following conditions must be met simultaneously:

- at least 2 years have passed since the assignment of the forborne performing attribute (so-called probation period);
- the debtor has made, after the application of the forbearance, regular payments of principal or interest on the credit line subject to the forbearance for a total amount equal to at least 5% of the residual principal debt recorded at the time of application of the forbearance; these payments must have been made at such times and in such a way as to ensure full compliance with the contractual obligations for a period, even if not continuous, equal to at least half of the probation period;
- the debtor does not have any past due loan exceeding 30 days in relation to any of the relationships existing with the Bank at the end of the probation period.

During the year, the Bank applied forbearances in favour of twelve counterparties, ten of which were already classified as impaired and two of which were performing. A total of thirteen financing lines were concerned, four of which terminated during the year. The majority of positions are mortgage-backed.

Information of a quantitative nature

A. CREDIT QUALITY

A.1 Impaired and performing credit exposures: amounts, adjustments, trend and economic distribution

A.1.1 Distribution of financial assets by portfolio and credit quality (carrying amounts)

PORTFOLIOS/QUALITY	Non-performing	Unlikely to pay	Impaired past due exposures	Performing past due exposures	Other performing exposures	Total
1. Financial assets measured at amortised cost	2,904	12,765	315	1,793	6,796,571	6,814,349
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	899,899	899,899
3. Financial assets measured at fair value	-	-	-	-	3,187	3,187
4. Other financial assets obligatorily measured at fair value	28	169	-	-	24,232	24,430
5. Financial assets held for disposal	-	-	-	-	-	-
Total 31/12/2019	**2,933**	**12,934**	**315**	**1,793**	**7,723,890**	**7,741,864**
Total 31/12/2018	**6,849**	**14,179**	**-**	**3,023**	**6,097,129**	**6,121,181**

As at the reporting date, forborne impaired exposures in relation to item "1. Financial assets measured at amortised cost" amounted to EUR 11,786 thousand.

As at the reporting date, forborne performing exposures in relation to item "1. Financial assets measured at amortised cost" amounted to EUR 3,092 thousand.

A.1.2 Distribution of financial assets by portfolio and credit quality (gross and net values)

PORTFOLIOS/QUALITY	Impaired				Performing			Total (net exposure)
	Gross exposure	Total value adjustments	Net exposure	Overall partial write-offs*	Gross exposure	Total value adjustments	Net exposure	
1. Financial assets measured at amortised cost	52,949	36,965	15,984	7,829	6,810,005	11,640	6,798,365	6,814,349
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	900,383	484	899,899	899,899
3. Financial assets measured at fair value	-	-	-	-	X	X	3,187	3,187
4. Other financial assets obligatorily measured at fair value	197	-	197	-	X	X	24,232	24,430
5. Financial assets held for disposal	-	-	-	-	-	-	-	-
Total 31/12/2019	**53,146**	**36,965**	**16,181**	**7,829**	**7,710,387**	**12,124**	**7,725,683**	**7,741,864**
Total 31/12/2018	**74,659**	**53,630**	**21,029**	**7,631**	**6,088,172**	**11,926**	**6,100,152**	**6,121,181**

PORTFOLIOS/QUALITY	Assets with manifestly poor credit quality		Other assets
	Cumulated capital losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	25,036
2. Hedging derivatives	-	-	-
Total 31/12/2019	**-**	**-**	**25,036**
Total 31/12/2018	**-**	**-**	**12,361**

*Value to be displayed for information purposes

A.1.3 Distribution of financial assets by maturity bands (carrying amounts)

PORTFOLIOS/RISK STAGES	First stage			Second stage			Third stage		
	From 1 day to 30 days	From over 30 days up to 90 days	Over 90 days	From 1 day to 30 days	From over 30 days up to 90 days	Over 90 days	From 1 day to 30 days	From over 30 days up to 90 days	Over 90 days
1. Financial assets measured at amortised cost	3	-	-	6	-	1,785	-	58	6,253
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
3. Financial assets held for disposal	-	-	-	-	-	-	-	-	-
Total 31/12/2019	**3**	**-**	**-**	**6**	**-**	**1,785**	**-**	**58**	**6,253**
Total 31/12/2018	**2,952**	**-**	**-**	**19**	**-**	**52**	**37**	**-**	**11,004**

A.1.4 Financial assets, commitments to disburse funds and financial guarantees issued: changes in total value adjustments and total allocations

DESCRIPTIONS/RISK STAGES	Total value adjustments									
	First stage assets					Second stage assets				
	Financial assets measured at amortised cost	Financial assets measured at fair value through other com-prehensive income	Financial assets held for disposal	of which: individual write-downs	of which: collective write-downs	Financial assets measured at amortised cost	Financial assets measured at fair value through other com-prehensive income	Financial assets held for disposal	of which: individual write-downs	of which: collective write-downs
INITIAL TOTAL ADJUSTMENTS	**7,290**	**2,498**	**-**	**-**	**9,788**	**2,137**	**-**	**-**	**-**	**2,137**
Increases from financial assets acquired or originated	1,856	-	-	-	1,856	-	-	-	-	-
Derecognitions other than write-offs	(4,580)	-	-	-	(4,580)	(642)	-	-	-	(642)
Net value adjustments/write-backs due to credit risk (+/-)	6,188	(2,014)	-	-	4,174	1,039	-	-	-	1,039
Contractual changes without derecognitions	-	-	-	-	-	5	-	-	-	5
Changes in estimation methodology	-	-	-	-	-	-	-	-	-	-
Write-offs not recognised directly in the income statement	-	-	-	-	-	(18)	-	-	-	(18)
Other changes	(1,586)	-	-	-	(1,586)	(50)	-	-	-	(50)
FINAL OVERALL ADJUSTMENTS	**9,168**	**484**	**-**	**-**	**9,652**	**2,472**	**-**	**-**	**-**	**2,472**
Collection recoveries in relation to financial assets subject to write-offs	-	-	-	-	-	-	-	-	-	-
Write-offs recognised directly in the income statement	-	-	-	-	-	-	-	-	-	-

DESCRIPTIONS/RISK STAGES	Total value adjustments						Total allocation for commitments to disburse funds and financial guarantees issued			Total
	Third stage assets					Of which: impaired financial assets acquired or originated				
	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for disposal	of which: individual write-downs	of which: collective write-downs		First stage	Second stage	Third stage	
INITIAL TOTAL ADJUSTMENTS	**53,981**	**-**	**-**	**53,981**	**-**	**-**	**4,994**	**2,032**	**787**	**73,719**
Increases from financial assets acquired or originated	-	-	-	-	-	-	-	-	-	**1,856**
Derecognitions other than write-offs	(4,964)	-	-	(4,964)	-	-	-	-	-	**(10,187)**
Net value adjustments/write-backs due to credit risk (+/-)	398	-	-	398	-	-	(2,163)	(271)	(290)	**2,886**
Contractual changes without derecognitions	-	-	-	-	-	-	-	-	-	**5**
Changes in estimation methodology	-	-	-	-	-	-	-	-	-	**-**
Write-offs not recognised directly in the income statement	(11,491)	-	-	(11,491)	-	-	-	-	-	**(11,509)**
Other changes	(608)	-	-	(608)	-	-	-	(4)	-	**(2,247)**
FINAL OVERALL ADJUSTMENTS	**37,716**	**-**	**-**	**37,716**	**-**	**-**	**2,831**	**1,757**	**497**	**54,525**
Collection recoveries in relation to financial assets subject to write-offs	-	-	-	-	-	-	-	-	-	**-**
Write-offs recognised directly in the income statement	(64)	-	-	(64)	-	-	-	-	-	**(64)**

With regard to trade receivables, assets arising from contracts and receivables implicit in lease contracts, it should be noted that the Bank does not use the simplified method, as required by IFRS 9, para. 5.5.15, for the valuation to cover losses.

For this reason, the details required by IFRS 7 para. 35H, letter b, iii) are not provided.

A.1.5 Financial assets, commitments to disburse funds and financial guarantees issued: transfers between the various stages of credit risk (gross and nominal values)

PORTFOLIOS/RISK STAGES	Gross value/nominal value					
	Transfers between first stage and second stage		Transfers between second stage and third stage		Transfers between first stage and third stage	
	From first stage to second stage	From second stage to first stage	From second stage to third stage	From third stage to second stage	From first stage to third stage	From third stage to first stage
1. Financial assets measured at amortised cost	47,326	36,548	1,450	17	4,605	-
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
3. Financial assets held for disposal	-	-	-	-	-	-
4. Commitments to disburse funds and financial guarantees issued	11,120	649,710	48	-	335	-
TOTAL 31/12/2019	**58,446**	**686,258**	**1,498**	**17**	**4,940**	**-**
Total 31/12/2018	**735,981**	**84,326**	**950**	**423**	**6,878**	**-**

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

TYPES OF EXPOSURES/VALUES	Gross exposure		Total value adjustments and total allocations	Net exposure	Overall partial write-offs*
	Impaired	Performing			
A. CASH CREDIT EXPOSURES					
a) Non-performing	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
b) Unlikely to pay	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
c) Impaired past due exposures	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
d) Performing past due exposures	X	-	-	-	-
- of which: forborne exposures	X	-	-	-	-
e) Other performing exposures	X	3,498,168	3,446	3,494,722	-
- of which: forborne exposures	X	-	-	-	-
Total (A)	**-**	**3,498,168**	**3,446**	**3,494,722**	**-**
B. OFF-BALANCE-SHEET CREDIT EXPOSURES					
a) Impaired	-	X	-	-	-
b) Performing	X	15,332,176	2,047	15,330,128	-
Total (B)	**-**	**15,332,176**	**2,047**	**15,330,128**	**-**
Total (A+B)	**-**	**18,830,344**	**5,494**	**18,824,850**	**-**

*Value to be displayed for information purposes

A.1.7 Cash and off-balance-sheet credit exposures to customers: gross and net values

TYPES OF EXPOSURES/VALUES	Gross exposure		Total value adjustments and total allocations	Net exposure	Overall partial write-offs*
	Impaired	Performing			
A. CASH CREDIT EXPOSURES					
a) Non-performing	24,717	X	21,785	2,933	7,829
- of which: forborne exposures	9,524	X	8,282	1,242	559
b) Unlikely to pay	27,646	X	14,712	12,934	-
- of which: forborne exposures	20,318	X	9,901	10,417	-
c) Impaired past due exposures	783	X	468	315	-
- of which: forborne exposures	442	X	315	127	-
d) Performing past due exposures	X	1,926	132	1,793	-
- of which: forborne exposures	X	-	-	-	-
e) Other performing exposures	X	4,237,713	8,545	4,229,168	-
- of which: forborne exposures	X	3,246	154	3,092	-
Total (A)	**53,146**	**4,239,639**	**45,643**	**4,247,143**	**7,829**
B. OFF-BALANCE-SHEET CREDIT EXPOSURES					
a) Impaired	821	X	497	324	-
b) Performing	X	893,290	2,541	890,750	-
Total (B)	**821**	**893,290**	**3,038**	**891,074**	**-**
Total (A+B)	**53,968**	**5,132,929**	**48,680**	**5,138,217**	**7,829**

*Value to be displayed for information purposes

A.1.8 Cash credit exposures to banks: trend in gross impaired exposures

The Bank had no impaired exposures of this type during the year.

A.1.8bis Cash credit exposures to banks: trend in gross forborne exposures broken down by credit quality

The Bank had no impaired exposures of this type during the year.

A.1.9 Cash credit exposures to customers: trend in gross impaired exposures

DESCRIPTIONS/CATEGORIES	Non-performing	Unlikely to pay	Impaired past due exposures
A. INITIAL GROSS EXPOSURE	**42,772**	**31,887**	**-**
- of which: exposures transferred but not derecognised	-	-	-
B. INCREASES	**576**	**5,904**	**872**
B.1 transfers from performing exposures	-	5,186	869
B.2 transfers from impaired financial assets acquired or originated	-	-	-
B.3 transfers from other categories of impaired exposures	487	-	-
B.4 contractual changes without derecognitions	-	-	-
B.5 other increases	89	718	3
C. DECREASES	**18,630**	**10,145**	**89**
C.1 transfers to performing exposures	-	17	-
C.2 write-offs	3,224	2,674	-
C.3 collections	6,722	6,966	89
C.4 gains from disposal	2,985	-	-
C.5 losses from disposal	30	-	-
C.6 transfers to other categories of impaired exposures	-	487	-
C.7 contractual changes without derecognitions	-	-	-
C.8 other decreases	5,669	-	-
D. GROSS FINAL EXPOSURE	**24,717**	**27,646**	**783**
- of which: exposures transferred but not derecognised	-	-	-

The item "C.8 Other decreases" includes the gross amount of exposures sold in excess of the sum of the realisable value in the context of the securitisation of impaired loans that took place during the year.

A.1.9 bis Cash credit exposures to customers: trend in gross forborne exposures broken down by credit quality

DESCRIPTIONS/QUALITY	Forborne exposures: impaired	Forborne exposures: performing
A. INITIAL GROSS EXPOSURE	**44,022**	**10,367**
- of which: exposures transferred but not derecognised	-	-
B. INCREASES	**3,796**	**409**
B.1 transfers from non-forborne performing exposures	2,181	113
B.2 transfers from forborne performing exposures	979	X
B.3 transfers from forborne impaired exposures	X	17
B.4 transfers from non-forborne impaired exposures	70	-
B.5 other increases	567	279
C. DECREASES	**17,534**	**7,530**
C.1 transfers to non-forborne performing exposures	X	4,302
C.2 transfers to forborne performing exposures	17	X
C.3 transfers to forborne impaired exposures	X	979
C.4 write-offs	4,264	18
C.5 collections	8,598	2,230
C.6 gains from disposal	1,074	-
C.7 losses from disposal	16	-
C.8 other decreases	3,564	-
D. GROSS FINAL EXPOSURE	**30,284**	**3,246**
- of which: exposures transferred but not derecognised	-	-

A.1.10 Impaired cash credit exposures to banks: trend in total value adjustments

The Bank had no impaired exposures of this type during the year.

A.1.11 Impaired cash credit exposures to customers: trend in total value adjustments

DESCRIPTIONS/CATEGORIES	Non-performing		Unlikely to pay		Impaired past due exposures	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. INITIAL GROSS ADJUSTMENTS	**35,922**	**15,772**	**17,708**	**13,701**	**-**	**-**
- of which: exposures transferred but not derecognised	-	-	-	-	-	-
B. INCREASES	**1,545**	**546**	**4,079**	**2,375**	**539**	**384**
B.1 value adjustments from impaired financial assets acquired or originated	-	X	-	X	-	X
B.2 other value adjustments	1,218	384	3,319	1,765	468	315
B.3 losses from disposal	30	16	-	-	-	-
B.4 transfers from other categories of impaired exposures	297	146	-	-	-	-
B.5 contractual changes without derecognitions	-	-	-	-	-	-
B.6 other increases	-	-	760	610	71	69
C. DECREASES	**15,682**	**8,036**	**7,075**	**6,175**	**71**	**69**
C.1 value write-backs from valuations	4,155	2,387	3,829	3,202	-	-
C.2 value write-backs due to collection	297	146	264	142	71	69
C.3 gains from disposal	2,308	696	-	-	-	-
C.4 write-offs	3,224	1,590	2,674	2,674	-	-
C.5 transfers to other categories of impaired exposures	-	-	297	146	-	-
C.6 contractual changes without derecognitions	-	-	-	-	-	-
C.7 OTHER DECREASES	5,699	3,218	10	10	-	-
D. FINAL OVERALL ADJUSTMENTS	**21,785**	**8,282**	**14,712**	**9,901**	**468**	**315**
- of which: exposures transferred but not derecognised	-	-	-	-	-	-

A.2 Classification of financial assets, commitments to disburse funds and financial guarantees issued by external and internal ratings

A.2.1 Distribution of financial assets, commitments to disburse funds and financial guarantees issued by external rating classes (gross values)

EXPOSURES	External rating classes						Without rating	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. FINANCIAL ASSETS MEASURED AT AMORTISED COST	**107,565**	**-**	**2,225,165**	**-**	**76**	**11,397**	**4,518,750**	**6,862,954**
- First stage	107,565	-	2,225,165	-	76	11,397	4,403,268	**6,747,472**
- Second stage	-	-	-	-	-	-	62,533	**62,533**
- Third stage	-	-	-	-	-	-	52,949	**52,949**
B. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	**-**	**-**	**899,415**	**-**	**-**	**-**	**967**	**900,383**
- First stage	-	-	899,415	-	-	-	967	**900,383**
- Second stage	-	-	-	-	-	-	-	**-**
- Third stage	-	-	-	-	-	-	-	**-**
C. FINANCIAL ASSETS HELD FOR DISPOSAL	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- First stage	-	-	-	-	-	-	-	**-**
- Second stage	-	-	-	-	-	-	-	**-**
- Third stage	-	-	-	-	-	-	-	**-**
Total (A+B+C)	**107,565**	**-**	**3,124,581**	**-**	**76**	**11,397**	**4,519,718**	**7,763,337**
of which: impaired financial assets acquired or originated	-	-	-	-	-	-	-	**-**
D. COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES ISSUED								
- First stage	-	-	-	-	-	-	15,929,155	**15,929,155**
- Second stage	-	-	-	-	-	-	115,028	**115,028**
- Third stage	-	-	-	-	-	-	821	**821**
Total (D)	**-**	**-**	**-**	**-**	**-**	**-**	**16,045,004**	**16,045,004**
Total (A+B+C+D)	**107,565**	**-**	**3,124,581**	**-**	**76**	**11,397**	**20,564,721**	**23,808,340**

The Bank adopts the assessments of the Moody's rating agency on the reported portfolios.

MOODY'S	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6
Global long-term rating scale	Aaa, Aa	A	Baa	Ba	B	Caa, Ca, C
Global short-term rating scale	P-1	P-2	P-3	NP		

A.2.2 Distribution of financial assets, commitments to disburse funds and financial guarantees issued by internal rating classes (gross values)

As at the reporting date, the Bank does not use internal ratings in the calculation of capital requirements.

A.3 Distribution of secured credit exposures by type of guarantee

A.3.1 Cash and off-balance-sheet secured credit exposures to banks

	Gross exposure	Net exposure	Collateral (1)				Personal guarantees (2)									Total (1)+(2)
							Credit derivatives					Credit commitments				
								Other derivatives								
			Real estate - mortgages	Real estate - Financing for leases	Securities	Other collateral	CLN	Central counterparties	Banks	Other financial companies	Other subjects	Public bodies	Banks	Other financial companies	Other subjects	
1. SECURED CASH CREDIT EXPOSURES:	**2,686,479**	**2,684,396**	**-**	**-**	**2,684,396**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,684,396**
1.1 totally secured	2,686,479	2,684,396	-	-	2,684,396	-	-	-	-	-	-	-	-	-	-	**2,684,396**
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
1.2 partially secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
2. SECURED OFF-BALANCE-SHEET CREDIT EXPOSURES:	**2,861**	**2,850**	**-**	**-**	**-**	**2,850**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,850**
2.1 totally secured	2,861	2,850	-	-	-	2,850	-	-	-	-	-	-	-	-	-	**2,850**
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
2.2 partially secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**

A.3.2 Cash and off-balance-sheet secured credit exposures to customers

	Gross exposure	Net exposure	Collateral (1)				Personal guarantees (2)									Total (1)+(2)
							Credit derivatives					Credit commitments				
								Other derivatives								
			Real estate - Mortgages	Real estate - Financing for leases	Securities	Other collateral	CLN	Central counterparties	Banks	Other financial companies	Other subjects	Public bodies	Banks	Other financial companies	Other subjects	
1. SECURED CASH CREDIT EXPOSURES:	**569,298**	**529,483**	**25,076**	**-**	**238**	**61,475**	**-**	**-**	**-**	**-**	**-**	**37,007**	**319**	**12,856**	**25,212**	**461,156**
1.1 totally secured	471,648	432,819	24,666	-	238	43,082	-	-	-	-	-	32,123	213	4,895	18,456	**423,057**
- of which impaired	51,926	16,069	1,457	-	-	113	-	-	-	-	-	58	-	-	109	**16,069**
1.2 partially secured	97,650	96,664	410	-	-	18,393	-	-	-	-	-	4,883	105	7,961	6,756	**38,099**
- of which impaired	-	-	79	-	-	-	-	-	-	-	-	-	-	-	-	**-**
2. SECURED OFF-BALANCE-SHEET CREDIT EXPOSURES:	**7,132**	**7,053**	**46**	**-**	**-**	**50**	**-**	**-**	**-**	**-**	**-**	**-**	**2,128**	**1,122**	**1,622**	**4,922**
2.1 totally secured	2,346	2,290	34	-	-	50	-	-	-	-	-	-	20	689	1,583	**2,342**
- of which impaired	53	15	1	-	-	-	-	-	-	-	-	-	-	-	53	**53**
2.2 partially secured	4,786	4,763	12	-	-	-	-	-	-	-	-	-	2,108	433	39	**2,580**
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**

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

As at the reporting date, there were no financial or non-financial assets obtained through the enforcement of guarantees received.

B. DISTRIBUTION AND CONCENTRATION OF CREDIT EXPOSURES

B.1 Distribution by sector of cash and off-balance-sheet credit exposures to customers

EXPOSURES/ COUNTERPARTIES	Public bodies		Financial companies		Financial companies (of which: insurance companies)		Non-financial companies		Households	
	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments
A. CASH CREDIT EXPOSURES										
A.1 Non-performing	-	-	-	-	-	-	2,778	20,048	155	1,737
- of which: forborne exposures	-	-	-	-	-	-	*1,092*	*7,633*	*149*	*649*
A.2 Unlikely to pay	-	-	-	-	-	-	10,646	13,456	2,288	1,257
- of which: forborne exposures	-	-	-	-	-	-	*8,656*	*9,063*	*1,762*	*838*
A.3 Impaired past due exposures	-	-	187	153	-	-	127	315	-	-
- of which: forborne exposures	-	-	-	-	-	-	*127*	*315*	-	-
A.4 Performing exposures	3,075,272	1,604	553,443	2,289	-	-	574,485	4,678	27,762	107
- of which: forborne exposures	-	-	*102*	*5*	-	-	*2,990*	*149*	-	-
Total (A)		**1,604**	**553,630**	**2,442**	**-**	**-**	**588,036**	**38,496**	**30,205**	**3,100**
B. OFF-BALANCE-SHEET CREDIT EXPOSURES										
B.1 Impaired exposures	-	-	184	151	-	-	140	346	-	-
B.2 Performing exposures	1,954	6	615,391	1,664	-	-	261,140	826	12,265	44
Total (B)	**1,954**	**6**	**615,575**	**1,815**	**-**	**-**	**261,280**	**1,172**	**12,265**	**44**
TOTAL (A+B) 31/12/2019	**3,077,226**	**1,610**	**1,169,205**	**4,257**	**-**	**-**	**849,316**	**39,668**	**42,470**	**3,144**
Total (A+B) 31/12/2018	**2,993,909**	**4,203**	**608,638**	**1,475**	**-**	**-**	**624,705**	**54,032**	**51,429**	**2,724**

B.2 Distribution by territory of cash and off-balance-sheet credit exposures to customers

EXPOSURES/ GEOGRAPHIC AREAS	Italy North West		Italy North East		Italy Centre		Italy South and the Islands	
	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments
A. CASH CREDIT EXPOSURES								
A.1 Non-performing	62	1,806	3,104	19,652	44	49	-	-
A.2 Unlikely to pay	1,153	610	10,470	13,406	-	-	1,311	695
A.3 Impaired past due exposures	-	-	127	315	187	153	-	-
A.4 Performing exposures	111,556	799	908,189	5,131	2,966,953	2,658	6,839	62
Total (A)	**112,771**	**3,215**	**921,890**	**38,504**	**2,967,185**	**2,860**	**8,151**	**757**
B. OFF-BALANCE-SHEET CREDIT EXPOSURES								
B.1 Impaired exposures	1	2	139	344	184	151	-	-
B.2 Performing exposures	4,842	33	885,110	1,007	48	1,495	732	6
Total (B)	**4,843**	**36**	**885,248**	**1,351**	**232**	**1,645**	**732**	**6**
TOTAL (A+B) 31/12/2019	**117,614**	**3,251**	**1,807,138**	**39,855**	**2,967,417**	**4,505**	**8,883**	**763**
Total (A+B) 31/12/2018	-	-	-	-	-	-	-	-

The comparative figures as at 31 December 2018 are not available as the breakdown shown in the previous year was carried out on a different territorial scale. For comparative purposes, see the table below published in the 2018 financial statements.

EXPOSURES/ GEOGRAPHIC AREAS	Italy		Other EU countries		America		Asia		Rest of the world	
	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments
A. CASH CREDIT EXPOSURES										
A.1 Non-performing	6,849	35,922	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	14,179	17,708	-	-	-	-	-	-	-	-
A.3 Impaired past due exposures										
A.4 Performing exposures	3,974,098	6,806	30,498	8	125	1	-	-	-	-
Total (A)	**3,995,127**	**60,435**	**30,498**	**8**	**125**	**1**	**-**	**-**	**-**	**-**
B. OFF-BALANCE-SHEET CREDIT EXPOSURES										
B.1 Impaired exposures	1,263	787	-	-	-	--	-	-	-	-
B.2 Performing exposures	251,649	1,203	19	-	-	-	-	-	-	-
Total (B)	**252,912**	**1,991**	**19**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B) December-2018	**4,248,040**	**62,426**	**30,516**	**8**	**125**	**1**	**-**	**-**	**-**	**-**
Total (A+B) December-2017	**3,400,896**	**88,386**	**2,328**	**-**	**225**	**3**	**-**	**-**	**-**	**-**

B.3 Distribution by territory of cash and off-balance-sheet credit exposures to banks

EXPOSURES/ GEOGRAPHIC AREAS	Italy North West		Italy North East		Italy Centre		Italy South and the Islands	
	Net exposures	Overall value adjustments	Net exposures	Overall value adjustments	Net exposures	Overall value adjustments	Net exposures	Overall value adjustments
A. CASH CREDIT EXPOSURES								
A.1 Non-performing	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-
A.3 Impaired past due exposures	-	-	-	-	-	-	-	-
A.4 Performing exposures	572,357	1,847	1,856,284	979	642,790	343	310,957	229
Total (A)	**572,357**	**1,847**	**1,856,284**	**979**	**642,790**	**343**	**310,957**	**229**
B. OFF-BALANCE-SHEET CREDIT EXPOSURES								
B.1 Impaired exposures	-	-	-	-	-	-	-	-
B.2 Performing exposures	3,754,104	858	8,357,541	829	1,260,623	152	1,910,100	195
Total (B)	**3,754,104**	**858**	**8,357,541**	**829**	**1,260,623**	**152**	**1,910,100**	**195**
TOTAL (A+B) 31/12/2019	**4,326,461**	**2,705**	**10,213,826**	**1,808**	**1,903,413**	**496**	**2,221,058**	**424**

The comparative figures as at 31 December 2018 are not available as the breakdown shown in the previous year was carried out on a different territorial scale. For comparative purposes, see the table below published in the 2018 financial statements.

EXPOSURES/ GEOGRAPHIC AREAS	Italy		Other EU countries		America		Asia		Rest of the world	
	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments
A. CASH CREDIT EXPOSURES										
A.1 Non-performing	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Impaired past due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	2,053,583	5,073	13,855	22	27,556	16	120	-	317	-
Total (A)	**2,053,583**	**5,073**	**13,855**	**22**	**27556**	**16**	**120**	**-**	**317**	**-**
B. OFF-BALANCE-SHEET CREDIT EXPOSURES										
B.1 Impaired exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	10,192,203	5,804	2,347	17	-	-	4	-	536	1
Total (B)	**10,192,203**	**5,804**	**2,347**	**17**	**-**	**-**	**4**	**-**	**536**	**1**
Total (A+B) December-2018	**12,245,786**	**10,877**	**16,201**	**39**	**27556**	**16**	**124**	**-**	**853**	**2**
Total (A+B) December-2017	**1,739,601**	**-**	**8,700**	**-**	**13780**	**-**	**195**	**-**	**1304**	**-**

B.4 Large exposures

ITEMS	Total 31/12/2019	Total 31/12/2018
A) AMOUNT OF LARGE EXPOSURES		
a1) carrying amount	24,379,919	15,213,394
a2) weighted value amount	168,667	552
B) NUMBER OF POSITIONS OF LARGE EXPOSURES	**8**	**48**

It should be noted that the figures reported for 2018 have been modified compared to those reported in the published 2018 financial statements.

C. SECURITISATION TRANSACTIONS

This section does not cover securitisation transactions in which the Bank is the originator and for which, at the time of issue, the Bank subscribes to all the liabilities issued (so-called self-securitisation transactions, a description of which is provided in Section 4 "Liquidity risk" of this Part E).

Information of a qualitative nature

1. "Own" securitisation transactions

Securitisation of loans allows the procurement of significant financial assets as an alternative to direct debt, with the possibility of reducing risk assets for the purposes of solvency ratios, without removing the originator from the management of the relationship with the customer.

The transaction, therefore, is characterised by the use of a funding instrument on international markets to finance the Bank's loans and is part of the expectations of supporting the development of the local economy, in line with the company's strategic guidelines.

Below is information on own securitisations carried out during 2019:

"Buonconsiglio 2" securitisation

During 2019, the Bank participated in a securitisation of multi-originator loans pursuant to Law 130/1999, involving non-performing loans arising from contracts with customers resident in Italy (so-called Buonconsiglio 2).

More specifically, the transaction involved the assignment without recourse of portfolios of non-performing loans (secured and/or unsecured) granted by the Bank and other banks (mostly belonging to the Cassa Centrale Group) to customers, for a gross book value of EUR 649,466,830.

The arranger was Banca IMI S.p.A. while Centrale Credit Solutions S.r.l. (a company of the Cassa Centrale Group) has taken on the role of coordinator. In addition, the transaction involved the creation of a special purpose vehicle set up pursuant to Law no. 130/1999, called Nepal S.r.l., in which the Bank does not hold interests, nor do its employees hold corporate roles. The servicer of the operation is Guber Banca S.p.A.

With the aim of improving the financial structure of the operation, the creation of a REOCo (real estate owned company), set up in the form of a limited liability company, has also been provided to maximise the value of the properties used to guarantee the recovery of exposures.

The transaction was carried out mainly with the aim of improving the quality of the assets, as non-performing assets will be derecognised from the originators' financial statements. Following a specific technical analysis, it emerged that the transaction described meets the criteria for the derecognition of assets from the Bank's financial statements in accordance with IFRS 9.

The transaction was carried out by means of several related contracts, the outline of which are shown below:

- assignment without recourse, by the originator banks, of a portfolio of non-performing loans identified en bloc;
- acquisition of loans by the assignee/issuer - the special purpose vehicle Nepal S.r.l. - and issue by the latter of ABS securities characterised by a different degree of redeemability in order to raise financial resources;
- full subscription of class A - senior securities by the originator banks;
- subscription of class B - junior securities by third-party institutional investors (95%) and, in part (5%), by individual originators.

As indicated, the special purpose vehicle financed the purchase of loans by issuing bonds divided into classes. The securities have not been rated. The characteristics of the two types of securities issued are as follows:

Class A securities (senior securities)
3-month Euribor variable-rate bonds, plus a spread of 2.35% per annum, for a total value of EUR 126.6 million and maturing in January 2037.

Class B securities (junior securities)
Fixed-rate bonds (8% p.a.) and variable return (residual after payment of senior items) for a total value of EUR 54.525 million and maturing in January 2037.

On 12 December 2019, the aforementioned senior and junior securities were subscribed pro-rata by the originator banks in proportion to the price received by each and the remaining portion of the junior securities was subscribed by a third-party institutional investor.

The securities subscribed by the Bank amount to EUR 1,899 thousand for seniors and EUR 41 thousand for juniors.

The different types of securities have been given a different degree of subordination in the definition of payment priorities, both for principal and interest.

The securities will be redeemed in pass through mode. At each payment date, the principal shares for the redemption of the assets are allocated primarily to the redemption of senior securities. The second tranche of securities (junior) is subordinate to the reimbursement to the previous one. This type of securities does not have a predetermined coupon and is remunerated only in the presence of residual funds, after having repaid the senior securities and covered all expenses for the period (senior costs, class A interest, class B interest, etc.).

The reimbursement of the principal of Class B securities is therefore last in the hierarchy of payments, both in the event of early repayment and in the event of natural redemption of the securities.

2. Third party securitisation transactions

The Bank retains, within its portfolio, securities from third party securitisation transactions for a total of EUR 440 thousand.

These are unrated securities issued by the special purpose vehicle Lucrezia Securitisation S.r.l. as part of the interventions of the Institutional Guarantee Fund:

- the securities "EUR 211,368,000 Asset-Backed Notes due October 2026", with ISIN code IT0005216392, were issued by the special purpose vehicle on 3 October 2016, following the securitisation of the portfolios of non-performing loans acquired as part of the crisis resolution intervention of Banca Padovana in A.S. and BCC Irpina in A.S., they have a 10-year maturity and pay interest quarterly in arrears;
- the securities "EUR 78,388,000 Asset-Backed Notes due January 2027" with ISIN code IT0005240749, were issued by the special purpose vehicle on 27 January 2017, following the securitisation of the portfolios of non-performing loans acquired as part of the intervention for the BCC Crediveneto resolution, they have a 10-year maturity and pay interest quarterly in arrears;
- the securities "EUR 32,461,000 Asset-Backed Notes due October 2027" with ISIN code IT0005316846, were issued by the special purpose vehicle on 1 December 2017, following the securitisation of the portfolios of non-performing loans acquired as part of the intervention for the BCC Teramo

resolution, they have a 10-year maturity and pay interest quarterly in arrears.

The assets underlying these securities are composed of impaired loans, largely fully secured by properties. These securities are included under item 40. Financial assets measured at amortised cost, sub-item "b) loans to customers" of the Bank's statement of financial position.

As far as the economic aspects are concerned, the securities involved the recognition of interest income at an annual rate of 1%, for EUR 12 thousand.

It should be noted that in relation to the above securitisation transactions, the Bank does not play any role as servicer and does not hold any interest in the special purpose vehicle.

During the year, value adjustments were made to the "Notes Padovana e Irpina" and "Notes Crediveneto" securities owned in the portfolio for a total of EUR 685 thousand.

Moreover, in compliance with the provisions on organisational requirements in the same prudential provisions, with regard to the assumption of positions towards the transactions in question, the Bank must comply with the obligations of due diligence and monitoring.

In accordance with the above mentioned due diligence and monitoring requirements for the Bank, other than the assignor or the promoter, which takes positions as regards securitisation, the following should be noted.

As the Investor Bank, before taking positions in each securitisation transaction and for as long as they are held in the portfolio, an analysis is carried out on each transaction and the exposures underlying it, in order to gain full knowledge of the risks to which the Bank is exposed or would be exposed.

In particular, the Bank has verified:

- the maintenance by the assignor, on an ongoing basis, of the net economic interest;
- the provision of relevant information to perform due diligence;
- the structural characteristics of the securitisation that can have a significant impact on the performance of positions towards securitisation (e.g. contractual clauses, priority in redemptions, rules for the allocation of cash flows and related triggers, credit enhancement instruments, liquidity facilities, definition of default used, rating, historical analysis of the performance of similar positions);
- the risk characteristics of the assets underlying the securitisation positions;
- the communications made by the assignor/promoter regarding the due diligence carried out on the securitised assets, the quality of any collateral covering them, etc.

With reference to monitoring, in accordance with the provisions on the need for information to be assessed regularly at least once a year, as well as in the presence of significant changes in the performance of the transaction, the Bank has put in place processes and procedures for the acquisition of information on the assets underlying each transaction with reference to:

- nature of exposures, incidence of positions past due for more than 30, 60, 90 days;
- default rates;
- early repayments;
- exposures subject to enforcement procedures;
- nature of the collateral;
- creditworthiness of debtors;
- sectoral and geographical diversification;
- frequency of distribution of loan to value rates.

In relation to the above, periodic information flows have been agreed centrally with the servicer, to be made available to the affiliated Banks that have subscribed to securities of this type, to ensure their compliance with the regulatory requirement that they must be "constantly aware of the composition of the portfolio of securitised exposures" pursuant to Article 253 of the CRR.

The periodic flows received from the Institutional Guarantee Fund are transmitted to all affiliated Banks and supplement the Investor Report produced by the special purpose vehicle.

Information of a quantitative nature

C.1 Exposures deriving from primary "own" securitisation operations subdivided by type of securitised asset and type of exposure

TYPE OF SECURITISED ASSETS/ EXPOSURES	Cash exposures					
	Senior		Mezzanine		Junior	
	Carrying amount	Value adjustments/ write-backs	Carrying amount	Value adjustments/ write-backs	Carrying amount	Value adjustments/ write-backs
A. Subject of full derecognition from the financial statements	(1,899)	1	-	-	(41)	-
IMPAIRED ASSETS	(1,899)	1	-	-	(41)	-
- Non-performing	(1,899)	1	-	-	(41)	-
- Unlikely to pay	-	-	-	-	-	-
- Past due	-	-	-	-	-	-
PERFORMING ASSETS	-	-	-	-	-	-
B. Subject of partial derecognition from the financial statements	-	-	-	-	-	-
IMPAIRED ASSETS	-	-	-	-	-	-
- Non-performing	-	-	-	-	-	-
- Unlikely to pay	-	-	-	-	-	-
- Past due	-	-	-	-	-	-
PERFORMING ASSETS	-	-	-	-	-	-
C. Not derecognised from the financial statements	-	-	-	-	-	-
IMPAIRED ASSETS	-	-	-	-	-	-
- Non-performing	-	-	-	-	-	-
- Unlikely to pay	-	-	-	-	-	-
- Past due	-	-	-	-	-	-
PERFORMING ASSETS	-	-	-	-	-	-

Off-balance-sheet

As at 31 December 2019 the scenario was not present.

C.2 Exposures deriving from primary "third party" securitisation operations subdivided by type of securitised asset and type of exposure

TYPE OF UNDERLYING ASSETS/ EXPOSURES	Cash exposures					
	Senior		Mezzanine		Junior	
	Carrying amount	Value adjustments/ write-backs	Carrying amount	Value adjustments/ write-backs	Carrying amount	Value adjustments/ write-backs
Lucrezia Securitisation S.r.l. – securities	440	685				

C.3 Securitisation special purpose vehicles

SECURITISATION NAME/SPV NAME	Registered office	Consolidation	Assets			Liabilities		
			Loans	Debt securities	Other	Senior	Mezzanine	Junior
Lucrezia Securitisation srl - Padovana/Irpina	Roma Via Mario Carucci 131		58,734			145,099		
Lucrezia Securitisation srl - Castiglione	Roma Via Mario Carucci 131		7,066			32,461		
Lucrezia Securitisation srl - Crediveneto	Roma Via Mario Carucci 131		31,670			54,816		

C.4 Unconsolidated securitisation special purpose vehicles

The table has not been filled in as it is reportable in the consolidated financial statements.

C.5 Servicer activities - own securitisations: collections of securitised receivables and reimbursements of securities issued by the securitisation special purpose vehicle

The table has not been filled in because, as at the reporting date, there were no balances ascribable to the item in question.

D. DISCLOSURE ON STRUCTURED ENTITIES NOT CONSOLIDATED FROM AN ACCOUNTING VIEWPOINT (DIFFERENT FROM SECURITISATION SPECIAL PURPOSE VEHICLES)

This information is not provided given that the Bank drafts the consolidated financial statements.

E. DISPOSAL TRANSACTIONS

A. Financial assets sold and not fully derecognised

Information of a qualitative nature

Financial assets sold and not derecognised and financial liabilities related to assets sold and not derecognised shown in the tables of this section pertain mainly to repos carried out on own securities recognised as assets in the statement of financial position.

Information of a quantitative nature

E.1 Financial assets sold and recognised in full and associated financial liabilities: carrying amounts

	Financial assets sold and recognised in full				Associated financial liabilities		
	Carrying amount	of which: subject of securitisation transactions	of which: subject of repurchase agreements	of which impaired	Carrying amount	of which: subject of securitisation transactions	of which: subject of repurchase agreements
A. FINANCIAL ASSETS HELD FOR TRADING	-	-	-	X	-	-	-
1. Debt securities	-	-	-	X	-	-	-
2. Equities	-	-	-	X	-	-	-
3. Loans	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
B. OTHER FINANCIAL ASSETS OBLIGATORILY MEASURED AT FAIR VALUE	-	-	-	-	-	-	-
1. Debt securities	-	-	-	-	-	-	-
2. Equities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
C. FINANCIAL ASSETS MEASURED AT FAIR VALUE	-	-	-	-	-	-	-
1. Debt securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
D. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	-	-	-	-	-	-	-
1. Debt securities	-	-	-	-	-	-	-
2. Equities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
E. FINANCIAL ASSETS MEASURED AT AMORTISED COST	832,965	-	832,965	-	827,432	-	827,432
1. Debt securities	832,965	-	832,965	-	827,432	-	827,432
2. Loans	-	-	-	-	-	-	-
Total 31/12/2019	832,965	-	832,965	-	827,432	-	827,432
Total 31/12/2018	982,680	-	985,680	-	952,349	-	952,349

E.2 Financial assets sold and partially recognised and associated financial liabilities: carrying amounts

The information and the table are not provided because, as at the reporting date, there were no balances ascribable to this item.

E.3 Disposals with liabilities with reimbursement exclusively on assets sold and not fully derecognised: fair value

	Recognised in full	Partially recognised	Total	
			31/12/2019	31/12/2018
A. FINANCIAL ASSETS HELD FOR TRADING	-	-	-	-
1. Debt securities	-	-	-	-
2. Equities	-	-	-	-
3. Loans	-	-	-	-
4. Derivatives	-	-	-	-
B. OTHER FINANCIAL ASSETS OBLIGATORILY MEASURED AT FAIR VALUE	-	-	-	-
1. Debt securities	-	-	-	-
2. Equities	-	-	-	-
3. Loans	-	-	-	-
C. FINANCIAL ASSETS MEASURED AT FAIR VALUE	-	-	-	-
1. Debt securities	-	-	-	-
2. Loans	-	-	-	-
D. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	-	-	-	-
1. Debt securities	-	-	-	-
2. Equities	-	-	-	-
3. Loans	-	-	-	-
E. FINANCIAL ASSETS MEASURED AT AMORTISED COST (FAIR VALUE)	838,375	-	838,375	-
1. Debt securities	838,375	-	838,375	-
2. Loans	-	-	-	-
Total financial assets	838,375	-	838,375	-
Total associated financial liabilities	827,432	-	X	X
Net value 31/12/2019	10,943	-	838,375	X
Net value 31/12/2018	-	-	X	-

B. Financial assets sold and fully derecognised with recognition of continuing involvement

Information of a qualitative nature

As at the reporting date, the Bank had not sold any financial assets that had been fully derecognised, and the related continuing involvement should be recognised in the financial statements.

C. Financial assets sold and fully derecognised

As at the reporting date, the Bank does not have any transactions attributable to this scenario.

E.4 Covered bond transactions

The information is not provided because, as at the reporting date, there were no balances ascribable to this item.

F. CREDIT RISK MEASUREMENT MODELS

As at the reporting date, the Bank does not use internal portfolio models to measure credit risk exposure. For more specific considerations, please refer to Section 1 - Credit Risk, Information of a qualitative nature, 2.2 Management, measurement and control systems.

Section 2 - Market risks

2.1 INTEREST RATE RISK AND PRICE RISK - REGULATORY TRADING BOOK

Information of a qualitative nature

A. General aspects

The Finance Committee plans the investment choices relating to the trading book in accordance with the guidelines shared within the Group through the periodic portfolio management strategy documents and in compliance with any amounts of investment defined by the Board of Directors.

During the year, the Parent Company established that the trading book activity was limited to financial instruments held for intermediation with banking and non-banking customers and to derivatives entered into for hedging risks (such as, for example, forward foreign exchange transactions for intermediation with customers or derivatives linked to the fair value option).

B. Management processes and measurement methods relative to interest rate and price risk

Interest rate risk - Regulatory trading book

The measurement of interest rate risk on the regulatory trading book is supported by the daily reports provided by the Risk Management Department, which highlights the value at risk of the investment (VaR). This is calculated using RiskMetrics' applications and parametric methodology, over a ten-day period and with a 99% confidence interval, taking into account the volatilities and correlations between the various risk factors that determine the market risk exposure of the invested portfolio (including interest rate risk, equity risk, foreign exchange risk and inflation risk). The calculation of volatilities and correlations is made by assuming logarithmic variations in yields under the assumption of normal distribution of the same. The estimation of volatility is made starting from historical market data updated daily, then giving more weight to the most recent observations thanks to the use of the exponential moving average with a decay factor of 0.94, obtaining an indicator more responsive to market conditions, and using a length of the basic historical series equal to one year of findings. The exponential moving average approach is also used for correlation estimation.

To support the definition of the structure of its internal limits, important strategic choices, or specific analyses, simulations of purchases and sales of financial instruments within its asset allocation are available, obtaining an updated calculation of the new risk exposure in terms of both VaR and effective duration.

The monitoring of market risk exposure is also carried out by weekly verification of the various models available over a time period of ten days and a confidence interval of 99% (in addition to the parametric method described above, the historical simulation, carried out by assuming a future distribution of risk factor yields equal to that shown at historical level over a given time period, and in particular the Montecarlo method, which uses a procedure for simulating risk factor yields based on past volatility and correlation data, generating 10,000 random scenarios consistent with the market situation).

Additional risk statistics derived from VaR (such as marginal VaR, incremental VaR and conditional VaR), measures of sensitivity of income instruments (effective duration) and analyses linked to the evolution of correlations between the various risk factors present are monitored through reporting.

The analyses are available at different levels of detail: on the entire trading book and within the latter on groupings by type of instrument (equities, funds, fixed-rate and variable-rate government securities, supranational securities and corporate securities), up to the individual securities present.

Of particular importance is also the backtesting of the VaR model used daily, carried out on the entire portfolio of securities owned by comparing the VaR - calculated at 99% and over the daily time period - with the actual changes in the theoretical market value of the portfolio.

Weekly stress tests are available on the theoretical market value of the own securities portfolio through which changes in the theoretical countervalue of the trading book and the various groupings of instruments (equities, funds, fixed-rate and variable-rate government securities, supranational securities and corporate securities) present in it are studied with respect to certain market scenarios. As part of risk management strategies, various scenarios on the bond and equity front are monitored for a complete and improved analysis of the portfolio.

The reports described are monitored by the Risk Management and Finance Departments and periodically submitted to the Board of Directors. They are also analysed by the Finance Committee, which periodically assesses the Bank's and the Group's exposure to market risk. The Chief Executive Officer, the Planning and HR Department and the Risk Management Department, among others also participate in this.

In addition, an automatic email alert is active if the attention thresholds and/or limits in the Financial Risk Management Policy are exceeded.

The risk measurement model described is not utilised to determine capital requirements but represents a tool to support management and internal control of the risk.

Price risk - Regulatory trading book

In line with the section on interest rate risk - regulatory trading book, the measurement of price risk on the regulatory trading book is supported by the reports provided by the Risk Management Department, which highlights the value at risk of the investment (VaR). This is calculated using RiskMetrics' applications and parametric methodology, over a ten-day period and with a 99% confidence interval, taking into account the volatilities and correlations between the various risk factors that determine the market risk exposure of the invested portfolio (interest rate risk, equity risk, foreign exchange risk and inflation risk).

The risk measurement model described is not utilised to determine capital requirements but represents a tool to support management and internal control of the risk.

Information about the VaR calculations for the securities component of the regulatory trading book during the course of 2019 is reported below:

(Figures rounded to nearest Euros)

VaR 31/12/2019	VaR average	VaR minimum	VaR maximum
0	254,458	52,736	318,818

As at 31 December 2019 there were no longer any securities in the trading book, according to the strategic guidelines established by the Parent Company.

Information of a quantitative nature

1. Regulatory trading book: distribution by residual duration (re-pricing date) of financial assets and liabilities in cash as well as financial derivatives

TYPE/RESIDUAL DURATION	On demand	Up to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	From over 5 years to 10 years	Beyond 10 years	Indefinite duration
1. CASH ASSETS	-	-	-	-	-	-	-	-
1.1 Debt securities	-	-	-	-	-	-	-	-
- with option of advance reimbursement	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. CASH LIABILITIES	-	-	-	-	-	-	-	-
2.1 Borrowing reverse repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. FINANCIAL DERIVATIVES								
3.1 With underlying security								
- Options								
+ Long positions	-	-	-	-	600,000	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ Long positions	-	1,246	1,156	-	-	30	60	-
+ Short positions	-	1,246	1,156	-	-	30	60	-
3.2 Without underlying security								
- Options								
+ Long positions	1,660	4,005	1,552	4,318	26,084	19,165	11,696	-
+ Short positions	1,660	4,005	1,552	4,318	26,084	19,165	11,696	-
- Other derivatives								
+ Long positions	39,647	353,802	57,137	24,224	123,402	102,630	127,398	-
+ Short positions	39,647	390,714	60,544	23,531	122,406	102,630	127,398	-

2. Regulatory trading book: distribution of exposures in equities and stock market indices for the main countries of the listed market

The table is not reported given that a price risk sensitivity analysis for an internal model is supplied.

3. Regulatory trading book: internal models and other methodologies for sensitivity analysis

The measurement of price risk on the banking book is supported by reports provided by the Risk Management Department, which highlights the value at risk of the investment (VaR). This is calculated using RiskMetrics' applications and parametric methodology, over a ten-day period and with a 99% confidence interval, taking into account the volatilities and correlations between the various risk factors that determine the market risk exposure of the invested portfolio (including interest rate risk, equity risk, foreign exchange risk and inflation risk).

VaR measurement is available on a daily basis for monitoring and operational assessments carried out by the Risk Management Department and the Finance Department and is calculated on different degrees of detail that, in addition to the total portfolio, consider the banking book, the individual accounting categories, the various groupings by type of instrument (equities, funds, fixed-rate and variable-rate government securities, supranational securities and corporate securities), up to the individual securities present.

The risk measurement model described is not utilised to determine capital requirements but represents a tool to support management and internal control of the risk.

2.2 Interest rate risk and price risk - Banking book

Information of a qualitative nature

A. General aspects, management processes and measurement methods for interest rate and price risk

The Finance and Treasury Committee defines the investment choices relating to the banking book within the periodic strategy documents for the management of the proprietary portfolio approved by the Board of Directors.

Interest rate risk - Banking book

Primary sources of interest rate risk

The sources of the interest rate risk to which the Bank is exposed can be identified mainly in the lending, funding and finance processes, since the banking book consists mainly of loans and the various forms of funding from customers.

In particular, 'fair value' interest rate risk is derived from fixed-rate items while interest rate risk from cash flows is derived from variable-rate items.

However, items on demand generally include asymmetrical behaviours, depending on whether one considers liability or asset items; the former - being characterised by greater stability - primarily refer to fair value risk while the second are more sensitive to markets changes and therefore ascribable to cash flow risk.

Internal management processes and measurement methods for interest rate risk

The Bank has put in place appropriate mitigation and control measures aimed at avoiding the possibility of positions exceeding a certain level of objective risk.

These mitigation and control measures are codified in the corporate regulations aimed at designing monitoring processes based on position limits and systems of attention thresholds in terms of internal capital, which trigger the activation of appropriate corrective actions.

With regard to this point, the following are defined:

- policies and procedures for managing interest rate risk that are consistent with the nature and complexity of the activity carried out;
- measurement metrics consistent with the risk measurement methodology adopted by the Bank, on the basis of which an early warning system has been defined that allows for the timely identification and activation of appropriate corrective measures;
- operational limits and internal procedural provisions which aim to maintain exposure within limits that are consistent with the managerial policy and with the alert thresholds pursuant to prudential regulations.

From an organisational point of view, the Bank has identified the Finance Department as the structure responsible for overseeing this process of managing interest rate risk on the banking book.

The monitoring of interest rate risk exposure on the banking book is carried out on a quarterly basis.

As regards the methodology for measuring risk in terms of changes in the economic value and quantification of the corresponding internal capital, the Bank's Board of Directors uses the simplified algorithm described in Annex C, Title III, Chapter 1, Section III of Bank of Italy Circular no. 285/2013.

The methodology is used to estimate the change in the economic value of the banking book in the case of a hypothetical change in interest rates of +/- 200 basis points.

The application of the aforementioned simplified methodology is based on the following logical steps:

1. **definition of the banking book:** composed of a group of assets and liabilities which are not part of the regulatory trading book;
2. **determination of "relevant currencies":** the currencies whose measured weight - as a quota of total assets or liabilities of the banking book - is greater than 5%. Each relevant currency defines a group of positions. Currencies whose weight is less than 5% are grouped together;
3. **classification of financial assets and liabilities in time periods:** fourteen time periods are defined. Assets and liabilities with a fixed rate are classified on the basis of their residual useful life, while those with variable rates are classified on the basis of the date of renegotiation of the interest rate. Except for specific classification rules provided for certain assets and liabilities, assets and liabilities are included in the schedule according to the criteria set out in Bank of Italy Circular no. 272/2008 and subsequent updates "Manual for filling out the Accounts Matrix". Non-performing, unlikely to pay and impaired past due and/or overrun positions should be recognised in the relevant residual maturity bands on the basis of the recovery forecasts of the underlying cash flows made by the Bank for the purposes of the latest available financial statement valuations: in this regard, it is specified that, in the presence of impaired exposures subject to forbearance measures (forborne non-performing), reference is made to the flows and maturities agreed upon during the renegotiation/refinancing of the relationship. Also with regard to forborne performing exposures, these are allocated to time bands on the basis of the new conditions agreed (relating to amounts, repricing dates in the case of variable-rate exposures and new maturities in the case of fixed-rate exposures).

   Impaired exposures for which there are no cash flow recovery forecasts are typically allocated within the various time period sectors on the basis of a proportional allocation, utilising - as a basis for the allocation - the distribution of the recovery forecasts - for the other impaired exposures - within the various brackets of residual life (given the same type of impairment);
4. **weighting of net positions for each bracket:** within each bracket, asset and liability positions are offset, obtaining a net position. The net position for each bracket is multiplied by the corresponding weighting factor. Weighting factors per bracket are calculated as a product of the approximated duration - modified in relation to the bracket - and a hypothetical change in rates. In the case of downward scenarios, a non-negative interest rate constraint is guaranteed;
5. **sum of the net weighted positions for the various brackets:** the net weighted position of the individual aggregates approximates the change in present value of the items denominated in the currency of the aggregate in the event of the assumed rate shock;
6. **aggregation within the various currencies:** positive positions relative to individual 'relevant currencies' as well as the aggregate value of the 'non-relevant currencies' are summed together. The value which is obtained represents the change in company economic value in the case of the forecasted scenario.

For the purpose of quantifying internal capital under ordinary conditions, the Bank applied a parallel shift in the rate curve of +/- 200 bps, similarly to the scenario envisaged by the Supervisory Body for conducting the so-called supervisory test.

The Bank determines the riskiness indicator, represented by the ratio between internal capital, quantified against the assumed interest rate scenario, and the value of equity. The Supervisory Body sets the attention threshold at 20%.

For internal management purposes, the Bank monitors compliance with the 20% threshold on a quarterly basis. In the event of a reduction in the economic value of the Bank of more than 20% of its equity, the Bank shall take appropriate action.

With reference to the conduct of stress tests in the area of interest rate risk on the banking book, these are carried out by the Bank on a quarterly basis.

Additional stress scenarios were then defined as follows for comparison purposes:

- percentile method: the starting point is the detection, on the various nodes of the curve, of the annual percentage changes recorded over the last six years. The observations are sorted in ascending order and for the various nodes of the curve the 1st and the 99th percentile are identified. These values are taken as a reference to determine the downward and upward shocks using the modified duration provided for in Bank of Italy Circular no. 285/2013 and subsequent updates. In the downward scenario, the non-negativity constraint is applied, by taking the positioning of the detected curve at the reference period;
- short rates up and down: scenarios of interest rates falling or rising on the short part of the curve are assumed; the rises and falls are gradually decreasing or increasing along the curve, starting from +/-250 points (duration on demand) and reaching 0 points (duration over 20 years). The weighting percentages to be applied are determined on the basis of the amended duration provided for in Bank of Italy Circular no. 285/2013 and subsequent updates. In the downward scenario, the non-negativity constraint is applied, by taking the positioning of the detected curve at the reference period;
- steepener-flattener: scenarios are assumed in which the curve increases or decreases its slope; in the case of steepener, shocks are negative on the first part of the curve in a decreasing manner (-163 basis points from the duration on demand) and then become positive on the remainder (+90 basis points in the duration over 20 years). The flattener scenario is constructed in the opposite manner: it starts with positive shocks on the initial part of the curve (+200 basis points of the duration on demand) and ends with negative shocks on the remaining part (-59 basis points of the duration over 20 years). The weighting percentages to be applied are determined on the basis of the amended duration provided for in Bank of Italy Circular no. 285/2013 and subsequent updates. In both scenarios the non-negativity constraint is applied, by taking the positioning of the detected curve at the reference period.

In addition to the monitoring activities for interest rate risk through the methodology described above, the Bank implements operational management activities by availing itself of the support offered by the monthly Asset Liability Management (hereinafter also "ALM") reports available.

Within the analysis, assessment of the impact on capital for various cases of rate shocks is illustrated in the sensitivity report; the latter estimates the impact of parallel shifts in the yield curve of +/- 100 and +/- 200 basis points on the present value of assets, liabilities and derivatives.

This impact is further broken down by individual type of asset and liability in order to highlight their contribution to overall sensitivity and to understand the various levels of reactivity of items with fixed, variable and mixed rates.

Particular attention is paid to the analysis of the prospective effects deriving from the time distribution of fixed-rate items together with the distribution of indexed masses subject to minimum or maximum rates for the different ranges of the reference parameter.

A more sophisticated control and management of the Institute's overall exposure to rate risk is achieved through the measurements offered in the dynamic ALM reports. In particular, variability of the interest margin and of Equity is analysed for the different scenarios of changing interest rates and Bank growth across a time period of twelve months. The simulation assumes that the Bank maintains constant assets under management during the twelve-month period of analysis with gradual changes in interest rates of +/-100 basis points, thereby isolating the variability of the margin and Equity in different environments.

It should be noted that during the year Cassa Centrale Banca developed a new procedure for the management of interest rate risk. The data feed activities of the procedure that will be fully operational during 2020 have been prepared. The first analyses were carried out and subsequently shared within the Group.

The calculation logic of the new procedure is described below:

- value sensitivity analysis: the engine calculates the difference between discounted cash flow using a shock-free curve and discounted cash flow using a shock curve. Reports are processed individually (except for items on demand which are normally aggregated) using their specific financial characteristics;
- margin sensitivity analysis: the engine calculates the difference in interest margin against the interest rate shock scenario assuming the reinvestment of flows maturing or revising the rate (indexed ratios) to forward rates over a predefined time period (e.g. twelve months);
- options treatment (implicit): options (implicit and of different nature) are evaluated with the Black with shift model to take into account the negativity of the rates;
- treatment of behavioural models: the calculation engine allows for the behavioural models (if specifically parametrised) to be taken into account in the analysis (both value and margin); normally those for items on demand and those for the advance payment of loans are used.

Price risk - Banking book

In line with the section on interest rate risk - regulatory trading book, the measurement of price risk on the banking book is supported by the reports provided by the Risk Management Department, which highlights the value at risk of the investment (VaR). This is calculated using RiskMetrics' applications and parametric methodology, over a ten-day period and with a 99% confidence interval, taking into account the volatilities and correlations between the various risk factors that determine the market risk exposure of the invested portfolio (including interest rate risk, equity risk, foreign exchange risk and inflation risk).

VaR measurement is available on a daily basis for monitoring and operational assessments carried out by the Risk Management Department and the Finance Department and is calculated on different degrees of detail that, in addition to the total portfolio, consider the banking book, the individual accounting categories, the various groupings by type of instrument (equities, funds, fixed-rate and variable-rate government securities, supranational securities and corporate securities), up to the individual securities present.

The risk measurement model described is not utilised to determine capital requirements but represents a tool to support management and internal control of the risk.

Information about the VaR calculations for the securities component of the banking book during the course of 2019 is reported below:

(Figures rounded to nearest Euros)

VaR 31/12/2019	VaR average	VaR minimum	VaR maximum
19,229,343	32,591,432	19,229,343	57,940,864

Control over the reliability of the model is implemented through theoretical backtesting activities which verify daily changes in the market value of the banking book, as calculated by the model with an estimate of the expected loss for the day. In the most recent year of data collection, deviations were primarily due to sudden fluctuations in market factors linked in particular to geo-political tensions at international level or monetary policy expectations.

The year 2019 saw a continuation, with respect to VaR, of the quantification of issuer risk for Italian government securities, understood as VaR relating only to the risk factor expressed as the spread between the Italian and German government securities.

With regard to stress tests, the outcomes of simulations of the impact of different shock scenarios on the theoretical value of the portfolio on 31 December 2019 is reported below. The shocks replicate parallel movements of +/-25 and +/-50 basis points for the primary rate curves that were used in the valuation of securities within the owned portfolio.

(Figures rounded to nearest Euros)

Theoretical value as at 31/12/19	Shock value changes -25 bps	Shock value changes +25 bps	Shock value changes -50 bps	Shock value changes +50 bps
3,351,354,178	21,342,031	(20,970,797)	44,425,110	(41,592,579)

Information of a quantitative nature

1. Banking book: distribution by residual duration (re-pricing date) of financial assets and liabilities

TYPE/RESIDUAL DURATION	On demand	Up to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	From over 5 years to 10 years	Beyond 10 years	Indefinite duration
1. CASH ASSETS	**261,246**	**2,786,883**	**463,317**	**463,382**	**3,085,430**	**470,364**	**124,939**	**-**
1.1 Debt securities	-	202,016	22,509	28,076	2,480,920	416,967	104,321	-
- with option of advance reimbursement	-	1,940	-	-	14,905	23,443	-	-
- other	-	200,076	22,509	28,076	2,466,015	393,524	104,321	-
1.2 Loans to banks	31,233	1,920,819	354,301	400,181	502,096	216	-	-
1.3 Loans to customers	230,012	664,049	86,507	35,125	102,414	53,181	20,618	-
- current accounts	34,058	18,639	-	61	2,627	101	-	-
- other loans	195,954	645,410	86,507	35,064	99,786	53,080	20,618	-
- with option of advance reimbursement	42,776	586,484	72,176	33,940	83,822	46,483	15,305	-
- other	153,178	58,925	14,331	1,124	15,965	6,597	5,314	-
2. CASH LIABILITIES	**3,193,861**	**2,043,347**	**320,766**	**574,548**	**781,939**	**33,724**	**6,958**	**-**
2.1 Due to customers	713,160	1,116,332	248,067	216,341	1,615	33,724	6,958	-
- current accounts	494,169	-	-	-	631	33,224	-	-
- other payables	218,991	1,116,332	248,067	216,341	984	500	6,958	-
- with option of advance reimbursement	-	-	-	-	-	-	-	-
- other	218,991	1,116,332	248,067	216,341	984	500	6,958	-
2.2 Due to banks	2,480,702	927,015	72,698	354,921	770,237	-	-	-
- current accounts	2,199,739	-	-	-	-	-	-	-
- other payables	280,963	927,015	72,698	354,921	770,237	-	-	-
2.3 Debt securities	-	-	-	3,286	10,087	-	-	-
- with option of advance reimbursement	-	-	-	-	-	-	-	-
- other	-	-	-	3,286	10,087	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with option of advance reimbursement	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
TYPE/RESIDUAL DURATION	On demand	Up to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	From over 5 years to 10 years	Beyond 10 years	Indefinite duration
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	1	7,753	11,603	22,754	78,118	4,362	193	-
+ Short positions	13	99,845	20,526	4,400	-	-	-	-
- Other derivatives								
+ Long positions	-	18	-	-	-	-	-	-
+ Short positions	-	4	-	4	9	-	-	-
4. OTHER OFF-BALANCE-SHEET OPERATIONS								
+ Long positions	-	-	-	61	-	-	-	-
+ Short positions	-	-	-	61	-	-	-	-

2. Banking book: internal models and other methodologies for sensitivity analysis

For managerial purposes, the Bank also utilises the quantitative results contained in the monthly ALM reporting.

On the basis of dynamic ALM analyses with constant volumes as at 31 December 2018 - and given a scenario of a variation in interest rates of +/-100 basis points distributed over a time period of one year and uniformly across the entire rates curve (short, medium and long-term) - the effects on the interest margin and on the equity are reported in relation to the banking book with a specification of the percentage impact compared to equity/regulatory capital:

(Figures in thousands of euro)

	Increase 100 bps		Decrease 100 bps	
	Impact on interest margin	Change in Equity	Impact on interest margin	Change in Equity
Banking book: securities (absolute values)	7,092	(87,575)	(1,558)	36,259
as percentage of Regulatory Capital/Equity	0.64%	(7.72%)	(0.14%)	3.20%
Banking book: loans (absolute values)	34,631	(34,387)	(11,260)	17,477
as percentage of Regulatory Capital/Equity	3.11%	(3.03%)	(1.01%)	1.54%
Liabilities (absolute values)	(42,312)	25,919	19,630	(9,543)
as percentage of Regulatory Capital/Equity	(3.80%)	2.29%	1.76%	(0.84%)

2.3 Exchange rate risk

Information of a qualitative nature

A. General aspects, management processes and measurement methods for exchange rate risk

In line with the section on interest rate risk - regulatory trading book, the measurement of exchange rate risk relating to foreign currency income instruments held is supported by the reports provided by the Risk Management Department, which highlights the value at risk of the investment (VaR). This is calculated using RiskMetrics' applications and parametric methodology, over a ten-day period and with a 99% confidence interval, taking into account the volatilities and correlations between the various risk factors that determine the market risk exposure of the invested portfolio (including interest rate risk, equity risk, foreign exchange risk and inflation risk).

VaR measurement is available on a daily basis for monitoring carried out by the Risk Management Department and the Finance Department and is calculated on different degrees of detail that, in addition to the total portfolio, consider the banking book and trading book, the individual accounting categories, the various groupings by type of instrument (equities, funds, fixed-rate and variable-rate government securities, supranational securities and corporate securities), and the individual securities present.

The risk measurement model described is not utilised to determine capital requirements but represents a tool to support management and internal control of the risk.

B. Exchange rate risk hedging activities

Exchange rate risk hedging activities are implemented through a careful policy of essentially balancing booked foreign currency positions. To this end, during 2019, the Bank has put in place hedging transactions of exchange rate risk using outright derivative instruments.

Information of a quantitative nature

1. Distribution of assets, liabilities and derivatives by currency

ITEMS	Currency					
	USD	CHF	GBP	JPY	CAD	OTHER CURRENCIES
A. FINANCIAL ASSETS	**67,308**	**9,650**	**1,633**	**4,799**	**894**	**2,019**
A.1 Debt securities	27,214					
A.2 Equities						
A.3 Loans to banks	40,052	9,650	1,633	4,799	894	2,019
A.4 Loans to customers	42		-			-
A.5 Other financial assets						
B. OTHER ASSETS	**4,706**	**1,661**	**1,942**	**392**	**569**	**2,071**
C. FINANCIAL LIABILITIES	**85,375**	**11,310**	**5,695**	**838**	**2,375**	**3,335**
C.1 Due to banks	82,078	11,310	5,695	838	2,375	3,329
C.2 Due to customers	3,297					6
C.3 Debt securities						
C.4 Other financial liabilities						
D. OTHER LIABILITIES	**-**	**-**				**-**
E. FINANCIAL DERIVATIVES						
- Options						
+ Long positions						
+ Short positions						
- Other derivatives						
+ Long positions	65,954	899	3,843	395	2,499	847
+ Short positions	25,528	908	1,735	4,745	1,586	1,738
Total assets	**137,968**	**12,209**	**7,419**	**5,586**	**3,963**	**4,937**
Total liabilities	**110,903**	**12,218**	**7,430**	**5,583**	**3,961**	**5,074**
Imbalance (+/-)	**27,065**	**(9)**	**(11)**	**3**	**2**	**(136)**

2. Internal models and other methodologies for sensitivity analysis

The Bank's overall exposure to exchange rate risk is very limited: the effects of changes in exchange rates on net interest and other banking income, net profit for the year and equity, as well as the results of scenario analyses, are not reported.

Section 3 - Derivatives and hedging policies

3.1 Derivatives held for trading

A. Financial derivatives

A.1 Financial derivatives held for trading: notional values at the end of the period

UNDERLYING ASSETS/TYPE OF DERIVATIVES	Total 31/12/2019				Total 31/12/2018			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With offsetting agreements	Without offsetting agreements			With offsetting agreements	Without offsetting agreements	
1. DEBT SECURITIES AND INTEREST RATES	**-**	**857,105**	**48,045**	**-**	**-**	**713,471**	**54,251**	**-**
a) Options	-	106,641	-	-	-	113,495	-	-
b) Swaps	-	750,464	48,045	-	-	599,976	54,251	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. EQUITIES AND STOCK MARKET INDICES	**-**	**-**	**610,200**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	610,200	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. CURRENCIES AND GOLD	**-**	**72,412**	**-**	**-**	**-**	**111,001**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	72,412	-	-	-	111,001	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. COMMODITIES	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
5. OTHER	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**-**	**929,517**	**658,245**	**-**	**-**	**824,472**	**54,251**	**-**

The item "2 a) Equities and stock market indices" as at 31 December 2019 refers to the call option agreement, under which the Interbank Deposit Protection Fund and the Voluntary Intervention Scheme grant Cassa Centrale Banca an irrevocable option to purchase the ordinary shares of Banca Carige S.P.A. - Cassa di Risparmio di Genova e Imperia for a nominal value of EUR 610.2 million, held by the latter following the execution of the share capital increase. This option will be exercisable between 1 July 2020 and 31 December 2021.

A.2 Financial derivatives held for trading: Gross positive and negative fair value - breakdown by product

DERIVATIVE TYPES	Total 31/12/2019				Total 31/12/2018			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Senza controparti centrali		
		With offsetting agreements	Without offsetting agreements			With offsetting agreements	Without offsetting agreements	
1. POSITIVE FAIR VALUE								
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	24,560	308	-	-	11,489	336	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	168	-	-	-	536	-	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	**-**	**24,728**	**308**	**-**	**-**	**12,025**	**336**	**-**
2. NEGATIVE FAIR VALUE								
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	23,587	8	-	-	10,947	33	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	569	-	-	-	618	-	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	**-**	**24,155**	**8**	**-**	**-**	**11,565**	**33**	**-**

A.3 OTC financial derivatives held for trading: notional amounts, gross positive and negative fair value by counterparty

UNDERLYING ASSETS	Central counterparties	Banks	Other financial companies	Other subjects
Contracts not part of offsetting agreements				
1) DEBT SECURITIES AND INTEREST RATES				
- notional value	X	-	-	48,045
- positive fair value	X	-	-	308
- negative fair value	X	-	-	8
2) EQUITIES AND STOCK MARKET INDICES				
- notional value	X	-	610,200	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) CURRENCIES AND GOLD				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
4) COMMODITIES				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) OTHER				
- notional value	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-

UNDERLYING ASSETS	Central counterparties	Banks	Other financial companies	Other subjects
Contracts that are part of offsetting agreements				
1) DEBT SECURITIES AND INTEREST RATES				
- notional value	-	857,105	-	-
- positive fair value	-	24,560	-	-
- negative fair value	-	23,587	-	-
2) EQUITIES AND STOCK MARKET INDICES				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) CURRENCIES AND GOLD				
- notional value	-	69,814	-	2,598
- positive fair value	-	128	-	41
- negative fair value	-	560	-	9
4) COMMODITIES				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) OTHER				
- notional value	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

With reference to the valuation of the call option granted to Cassa Centrale Banca on share packages of Banca Carige S.p.A. - Cassa di Genova e Imperia, held by the Interbank Deposit Protection Fund (FITD) and the Voluntary Intervention Scheme (SVI), it should be noted that the instrument has a very specific connotation as it is strictly functional to the rescue operation of Banca Carige S.p.A. - Cassa di risparmio di Genova e Imperia. The same option is not listed on active markets and cannot be sold by Cassa Centrale Banca to third parties outside the Group without the prior consent of FITD and SVI. Based on the above considerations and taking into account that the call option cannot assume negative values, the directors of Cassa Centrale Banca have prudentially opted for a valuation of the call option as at 31 December 2019 equal to zero, which corresponds to the minimum value of the range of values of the valuation made by a leading consulting firm.

A.4 Residual life of OTC financial derivatives held for trading: notional values

UNDERLYING/RESIDUAL LIFE	Up to 1 year	From 1 to 5 years	Beyond 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	154,441	184,013	566,697	905,150
A.2 Financial derivatives on equities and stock market indices	-	610,200	-	610,200
A.3 Financial derivatives on currencies and gold	71,416	995	-	72,412
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31/12/2019	**225,857**	**795,208**	**566,697**	**1,587,762**
Total 31/12/2018	**321,092**	**146,849**	**410,783**	**878,723**

B. Credit derivatives

This section is not filled out given that the Bank does not hold credit derivatives.

3.2 Accounting hedges

The Bank does not implement hedging transactions attributable to this type of situation.

In any case, the Bank has equipped itself with the necessary organisational controls for an informed management of hedging transactions and related risks through the adoption of the Group's Hedge Accounting Policy.

3.3 OTHER INFORMATION ON DERIVATIVES (TRADING AND HEDGING)

A. Financial and credit derivatives

A.1 OTC financial and credit derivatives: net fair values by counterparties

	Central counterparties	Banks	Other financial companies	Other subjects
A. FINANCIAL DERIVATIVES				
1) Debt securities and interest rates				
- notional value	-	857,105	-	48,045
- positive net fair value	-	24,560	-	308
- negative net fair value	-	23,587	-	8
2) Equities and stock market indices				
- notional value	-	-	610,200	-
- positive net fair value	-	-	-	-
- negative net fair value	-	-	-	-
3) Currencies and gold				
- notional value	-	69,814	-	2,598
- positive net fair value	-	128	-	41
- negative net fair value	-	560	-	9
4) Commodities				
- notional value	-	-	-	-
- positive net fair value	-	-	-	-
- negative net fair value	-	-	-	-
5) Other				
- notional value	-	-	-	-
- positive net fair value	-	-	-	-
- negative net fair value	-	-	-	-
B. CREDIT DERIVATIVES				
1) Purchase of protection				
- notional value	-	-	-	-
- positive net fair value	-	-	-	-
- negative net fair value	-	-	-	-
2) Sale of protection				
- notional value	-	-	-	-
- positive net fair value	-	-	-	-
- negative net fair value	-	-	-	-

Section 4 - Liquidity risk

Information of a qualitative nature

A. General aspects, management processes and measurement methods for liquidity risk

Liquidity risk is defined as the possibility that the Bank may not be able to meet its payment commitments due to the inability to raise new funds and/or sell its assets on the market (funding liquidity risk), or that it may be forced to incur very high costs to meet these commitments (market liquidity risk). The funding liquidity risk, in turn, can be distinguished between: (i) mismatching liquidity risk, consisting of the risk associated with the different time profile of cash inflows and outflows determined by the misalignment of the maturities of financial assets and liabilities on (and off) the balance sheet; (ii) contingency liquidity risk, i.e. the risk that unexpected events may require a higher amount of cash and cash equivalents than estimated as necessary; and (iii) margin calls liquidity risk, i.e. the risk that the Bank, in the event of adverse changes in the fair value of financial instruments, is contractually required to restore the reference margins by means of collateral/cash margins.

In this regard, it should be noted that the Delegated Regulation of the European Commission (EU) no. 61/2015 introduced the Liquidity Coverage Requirement (LCR) for credit institutions (hereinafter also "DR-LCR"). The LCR is a short-term rule aimed at ensuring the availability of liquid assets by individual banks that allow them to survive in the short to very short term in the event of acute stress, without recourse to the market. The indicator compares the liquid assets available to the Bank with net cash outflows (difference between gross outflows and inflows) expected over a thirty-day time period, the latter developed taking into account a predefined stress scenario. The DR-LCR entered into force on 1 October 2015 and, after a phasing-in from 1 January 2018, a 100% requirement must be met. The DR-LCR integrates and, in part, amends the provisions of Regulation (EU) no. 575/2013 (CRR) which provides only for obligations of a reporting nature.

Liquidity risk can be generated by various factors both internal and external to the Bank. The sources of liquidity risk can therefore be distinguished in the following macro-categories:

- endogenous: represented by negative events specific to the Bank (e.g. deterioration of the Bank's creditworthiness and loss of confidence on the part of creditors);
- exogenous: when the origin of the risk can be traced back to negative events not directly controllable by the Bank (political crises, financial crises, catastrophic events, etc.) that cause situations of liquidity tension in the markets;
- combinations of the above.

The identification of the factors from which liquidity risk is generated is carried out by means of the following:

- the analysis of the time distribution of cash flows of financial assets and liabilities and off-balance sheet transactions;
- the identification of:
  - items that do not have a defined due date (on demand and revocation items);
  - financial instruments that incorporate optional components (explicit or implicit) that may change the entity and/or the time distribution of cash flows (e.g. early redemption options);
  - financial instruments that by their nature determine variable cash flows depending on the performance of specific underlying assets (e.g. derivatives);
- the analysis of the level of seniority of financial instruments.

The processes in which the Bank's liquidity risk arises are mainly represented by the Finance/Treasury, Funding and Credit processes.

The internal regulation of liquidity risk management meets the requirements set out in the supervisory provisions and guarantees consistency between the management measurements and the regulatory ones.

The Bank adopts a liquidity risk management and governance system which, in accordance with the provisions of the Supervisory Authorities and on the basis of the guidelines defined by the Board of Directors, pursues the objectives of:

- being liquid at all times and, therefore, to remain in a position to meet its payment obligations in situations of both normal business and stress;
- financing its activities at the best current and prospective market conditions.

To this end, in its function as a strategic supervisory body, the Bank's Board of Directors defines the strategies, policies, responsibilities, processes, risk objectives, tolerance thresholds and limits to exposure to liquidity risk (operating and structural), as well as instruments for liquidity risk management - under both normal business conditions and stress conditions - by formalising its internal regulations on liquidity risk management and governance.

The Bank's liquidity is managed by the Finance Department in accordance with the aforementioned strategic guidelines. To this end, it makes use of the commitment forecasts made through internal procedures where information on forecast cash requirements and availability can be found. The organisational controls of liquidity risk are defined in terms of line controls and activities of the control functions at level II and III. Liquidity risk is controlled by the Risk Management Department, which makes use of its representative at the Bank to check the availability of sufficient liquidity reserves to ensure solvency in the short term and diversification of sources of funding and, at the same time, to maintain a substantial balance between average maturities of lending and funding in the medium/long term.

The Bank intends to pursue a dual objective:

- the management of operating liquidity aimed at verifying the Bank's ability to meet expected and unforeseen short-term (up to 12 months) cash payment commitments;
- structural liquidity management aimed at maintaining an adequate ratio between total liabilities and medium/long-term assets (over 12 months).

The Bank has structured its control of short-term operating liquidity on two levels:

- the first level provides for intra-day and daily supervision of the treasury position;
- the second level provides for monthly monitoring of the overall operating liquidity position.

With reference to the monthly monitoring of the overall operating liquidity position, the Bank uses the analysis reports available monthly.

Monthly measurement and monitoring of the operating liquidity position is carried out by means of the following methods:

- the LCR indicator, for the 30-day liquidity position, as determined on the basis of the DR-LCR and transmitted (according to the template developed by the EBA) on a monthly basis to the Supervisory Authority;
- the management liquidity indicator over various maturities of up to 12 months, consisting of the ratio between liquid assets and net cash flows calculated using management metrics in the normal course of business;
- its liquidity position by means of the time to survival indicator, designed to measure the ability to cover the liquidity imbalance generated by inertial operations of balance sheet items;

- a set of synthetic indicators designed to highlight vulnerabilities in the Bank's liquidity position with regard to the various relevant risk factors, such as the concentration of redemptions, the concentration of funding, and dependence on interbank funding;
- analysis of the level of asset encumbrance and quantification of readily monetised assets.

The Bank's exposure to unexpected cash outflows mainly relates to:

- items that do not have a defined maturity (primarily current accounts and unrestricted deposits);
- liabilities at maturity (certificates of deposit, term deposits) which, at the request of the depositor, can be repaid early;
- its own bonds, for which the Bank operates in order to guarantee liquidity on the secondary market;
- commitments to exchange collateral arising from margining agreements relating to OTC derivative transactions;
- the margins available on the credit lines granted.

With reference to the management of structural liquidity, the Bank uses the analysis reports available monthly.

Maturity transformation indicators measure the duration and consistency of loans to customers, funding from customers at maturity and available capital in order to judge the consistency and sustainability over time of the Bank's financial structure.

The net stable funding ratio, consisting of the ratio between stable sources of funding and medium/long-term assets, is measured quarterly by means of the percentages provided by the Basel Committee in its October 2014 document.

In order to assess its vulnerability to exceptional but plausible liquidity stress situations, the Bank calculates and monitors the LCR indicator as determined on the basis of the DR-LCR and transmitted (according to the template developed by the EBA) on a monthly basis to the Supervisory Authority. Periodic scenario stress tests are also conducted. The latter, conducted according to a qualitative approach based on the company's experience and the indications provided by the regulations and supervisory guidelines, cover two scenarios of liquidity, market/systemic and Bank-specific crises. In particular, the Bank performs the stress analysis by extending the scenario covered by the LCR regulation, with the aim of assessing the impact of additional load tests.

The results of the analyses carried out are periodically documented to the Board of Directors.

In addition, crisis, system/market early warning indicators have been identified, i.e. a set of qualitative and quantitative measurements useful for identifying signs of a potential increase in exposure to liquidity risk. These indicators represent, together with the results of liquidity risk measurement, an important information element for the activation of liquidity risk mitigation measures.

With regard to the Contingency Funding Plan (hereinafter also referred to as the "CFP"), i.e. the organisational and operational procedures to be implemented to deal with situations of alert or liquidity crisis, it should be noted that management was centralised at the Parent Company; it follows that in the event of any critical issues regarding the liquidity profile encountered at the level of individual banks belonging to the Group, it is the Parent Company that intervenes using the resources available to the entire Group. The CFP is therefore only activated if there is a problem with the consolidated values of the Cassa Centrale Group. The Group's CFP defines the statuses of non-ordinary operations and the processes and tools for their activation/management (roles and responsibilities of the corporate bodies and organisational units involved, systemic and specific crisis early warning indicators, procedures for monitoring and activating non-ordinary operations, crisis management strategies and tools).

Traditionally, the Group has had a significant amount of liquid resources due to both the composition of its liquidity buffer, consisting mainly of high quality financial instruments eligible for refinancing operations with the Eurosystem, and the liquidity deposited in the Bank by the affiliated Banks due to the adoption of funding policies aimed at favouring direct retail funding by the affiliated Banks themselves.

The composition of the portfolio owned by the Bank, consisting mainly of high-quality financial instruments and the lines available at the ECB are the main instruments for mitigating liquidity risk.

As at the reporting date, the amount of cash reserves eligible for refinancing with the European Central Bank (ECB) totalled EUR 3.9 billion; there are also EUR 471 million of reserves held at the ECB and EUR 151 million of cash in coins and banknotes.

The use of collateralised funding from the ECB and other leading market counterparties, also on behalf of Group banks and customer banks, amounted to EUR 2.6 billion at year end.

Information of a quantitative nature

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

ITEMS/TIME PERIOD BRACKETS	On demand	From over 1 day to 7 days	From over 7 days to 15 days	From over 15 days to 1 month	From over 1 month to 3 months	From over 3 months to 6 months	From over 6 months to 1 year	From over 1 year to 5 years	Beyond 5 years	Indefinite duration
A. CASH ASSETS	**263,472**	**587,199**	**113,955**	**1,164,601**	**661,628**	**412,239**	**492,530**	**3,270,998**	**760,052**	**-**
A.1 Government securities	-	-	609	-	199,935	25,106	31,622	2,406,513	380,000	-
A.2 Other debt securities	-	-	-	3	586	1,348	6,076	60,278	140,461	-
A.3 UCITS units	55,955	-	-	-	-	-	-	-	-	-
A.4 Loans	207,517	587,199	113,346	1,164,598	461,107	385,785	454,832	804,207	239,591	-
- Banks	31,253	587,100	113,000	777,159	444,757	354,690	401,332	502,177	216	-
- Customers	176,264	99	346	387,440	16,350	31,095	53,500	302,030	239,375	-
B. CASH LIABILITIES	**3,193,734**	**272,019**	**167,292**	**1,146,170**	**461,060**	**321,687**	**576,529**	**783,485**	**40,682**	**-**
B.1 Deposits and current accounts	2,887,549	502	50	489,425	56,664	73,302	294,178	156,381	33,224	-
- Banks	2,391,256	502	-	489,239	56,547	72,698	293,715	155,750	-	-
- Customers	496,293	-	50	186	117	603	463	631	33,224	-
B.2 Debt securities	-	-	-	-	150	-	3,267	10,000	-	-
B.3 Other liabilities	306,185	271,517	167,241	656,745	404,245	248,386	279,084	617,104	7,457	-
C. OFF-BALANCE-SHEET OPERATIONS										
C.1 Financial derivatives with exchange of capital										
- Long positions	-	16,916	1,429	2,634	3,767	4,451	1,957	600,995	90	-
- Short positions	-	22,770	8,557	11,360	18,972	7,858	1,264	-	90	-
C.2 Financial derivatives without exchange of capital										
- Long positions	24,887	-	-	-	-	-	-	-	-	-
- Short positions	23,612	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be received										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Commitments to disburse funds										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

Self-securitisation transactions

The Bank did not implement any self-securitisation transactions.

Section 5 - Operating risks

Information of a qualitative nature

A. General aspects, management processes and measurement methods for operating risk

Operating risk, as defined by prudential regulations, is the "risk of sustaining losses deriving from the inadequacy or dysfunction of procedures, human resources and internal systems or those caused by exogenous events".

This definition includes legal risk (i.e. the risk of suffering losses resulting from violations of laws or regulations, contractual or non-contractual liability or other disputes), but does not consider reputational and strategic risk.

Operating risk therefore refers to different types of events that are not individually relevant and are quantified jointly for the entire risk category.

Operating risk - which is inherent in the performance of banking activities - is generated across all company processes. In general, the primary sources of operating risk are internal fraud, external fraud, workplace employment and safety reports, professional obligations with respect to clients or the nature and characteristics of products as well as damages from external events and the breakdown of IT systems and deficiencies in the handling of transactions or process management, as well as losses due to positions with commercial counterparties and suppliers.

The following subcategories of risk are significant in terms of operating risks, as set out in the same supervisory instructions:

- IT risk, i.e. the risk of incurring economic losses, reputation and market share losses in relation to the use of Information and Communication Technology (ICT);
- outsourcing risk, i.e. the risk associated with the choice to outsource the performance of one or more business activities to third-party suppliers.

Given that it is a transversal risk across processes, operating risk can be controlled and mitigated through currently effective regulations (regulations, executive provisions, proxies) which operate primarily for the purposes of prevention. Specific line controls are then set up on the basis of these regulations as a verification and additional system for monitoring this type of risk.

Currently effective regulations are also applied to IT procedures with the aim of constantly monitoring the correct assignment of authorisation as well as compliance with functional subdivisions on the basis of company roles.

Regulations and line controls are governed by the Board of Directors, implemented by the Management and updated, as a rule, by specialist managers.

With reference to organisational controls, the establishment of the Compliance function is important, which is responsible for monitoring and controlling compliance with regulations and which provides support to the process of preventing and managing the risk of being subject to judicial or administrative sanctions as well as the risk of reporting significant losses following the violation of external regulations (laws or regulations) or internal ones (Articles of Association, codes of conduct, corporate governance codes).

The operating risk management process consists of the following steps:

- **identification and assessment,** which includes the detection, collection and classification of quantitative and qualitative information relating to operating risk; these risks are constantly and clearly identified, reported and relayed to top management;
- **measurement,** which includes the activity of determining operating risk exposure based on information collected at the identification stage;
- **monitoring and control,** which includes activities concerning the regular monitoring of the operating risk profile and exposure to significant losses, through the provision of a regular information flow that promotes active risk management;
- **risk management,** which includes activities aimed at containing operating risk consistently with the established risk appetite, implemented by intervening on significant risk factors or through their transfer, through the use of insurance coverage or other instruments;
- **reporting,** activities aimed at preparing information to be transmitted to corporate bodies (including control bodies) and to all corporate structures involved, regarding the risks assumed or assumable.

During the year, the Bank implemented a framework for the recognition of operating loss events and the related economic effects.

Finally, there are the third level controls carried out by the Internal Audit Department, which periodically reviews the functionality of the control system as part of the various corporate processes.

As part of the overall assessment, with specific reference to the risk component linked to the outsourcing of business processes/activities, it should be noted that the Bank mainly uses the services offered by the Parent Company and its instrumental companies. These circumstances constitute a mitigation of the risks assumed by the Bank in outsourcing important control or operational functions.

With regard to all the existing outsourcing profiles, the procedures have been activated to ascertain the correct performance of the supplier's activities by preparing, according to the different types, different levels of contractual protection and control with regard to the list of outsourcing of important operational functions and corporate control functions.

The Bank internally maintains the expertise required to effectively control the outsourced important operational functions (hereinafter also "IOF") and to manage the risks associated with outsourcing, including those arising from potential conflicts of interest of the service provider. In this context, an internal contact representative has been identified within the organisation for each of the outsourced activities, with adequate professional requirements, responsible for monitoring the level of services provided by the outsourcer and set out in the respective outsourcing contracts and for reporting to corporate bodies on the status and performance of the outsourced functions.

With reference to the regulatory measurement of the prudential requirement for operating risks, the Bank, in view of its organisational, operational and dimensional profiles, has approved the application of the Basic Indicator Approach (BIA).

On the basis of this methodology, the capital requirement for operating risks is measured by applying the regulatory coefficient of 15% to the average of the last three data recordings - on an annual basis - of an indicator of the volume of corporate operations (so-called relevant indicator, referring to the year-end situation).

If one of the observations shows that the relevant indicator is negative or zero, this figure shall not be taken into account in the calculation of the three-year average.

The adoption of a Business Continuity and Emergency Plan to protect the Bank against critical events that may affect its overall operations is also part of the measures to mitigate these risks. The Business Continuity Management Policies, the Business Continuity Plan and the Disaster Recovery Plan were updated by resolution of the Board of Directors on 9 November 2016. In addition, on 23 October 2019, the Board of Directors approved the organisational/operational model of the Cassa Centrale Group with regard to business continuity, assigning operations in the area of business continuity to the Processes, Internal Regulations and Business Continuity Office.

YEAR	Amount
Year T	157,548
Year T-1	116,442
Year T-2	69,304
RELEVANT INDICATOR AVERAGE LAST 3 YEARS	**114,431**
CAPITAL REQUIREMENT (15% OF THE AVERAGE)	**17,165**

Information of a quantitative nature

With reference to quantitative information, during the year, operating losses were mainly concentrated in the type of event "Execution, delivery and management of processes".

PART F - Information on equity

Section 1 - The company's capital

Information of a qualitative nature

One of the consolidated strategic priorities of the Bank is represented by the amount and movements of its capital assets. Capital is, in fact, the first safeguard against the risks associated with banking business and the main reference parameter for the assessments conducted by the Supervisory Authority and the market on the solvency of the intermediary. It makes a positive contribution to the formation of operating income, makes it possible to meet the Bank's technical and financial fixed assets, accompanies the growth in size and represents a decisive element in the development phases.

The Bank's equity is determined by the sum of the share capital, the share premium reserve, profit reserves, valuation reserves, equity instruments, own shares and the profit for the year, for the portion to be allocated to the reserve, as indicated in Part B of this section.

The notion of capital that the Bank uses in its valuations can be traced back to the notion of "Own Funds" as established by Regulation (EU) no. 575/2013 (CRR), divided into the following components:

- Tier 1 capital (T1), consisting of Common Equity Tier 1 capital (CET 1) and Additional Tier 1 capital (AT1);
- Tier 2 capital - (T2).

The capital thus defined, which is the main control over corporate risks in accordance with prudential supervisory regulations, is in fact the best reference for effective management, both strategically and in terms of current operations, as it is a financial resource capable of absorbing the possible losses produced by the Bank's exposure to all the risks assumed, assuming a role of guarantee towards depositors and creditors in general.

Supervisory regulations require the use of internal methodologies to measure the Bank's overall capital adequacy, both currently and prospectively and in the event of stress, in order to ensure that the financial resources available are adequate to cover all risks even in adverse economic conditions; this with reference not only to the risks of the so-called "Pillar I" (represented by credit and counterparty risks - measured according to the category of debtor counterparties, the duration and type of transactions and the personal and collateral received - market risks on the trading book and operating risk), but also to additional risk factors - so-called "Pillar II" risks - that impact on the business activity (such as, for example, concentration risk, interest rate risk on the banking book, etc.).

The monitoring of current and prospective capital adequacy is therefore developed in a dual sense:

- regulatory capital against Pillar I risks;
- total internal capital against Pillar II risks, for the purposes of the ICAAP process.

In order to ensure proper capital dynamics under normal operating conditions, the Bank mainly relies on self-financing, i.e. the strengthening of reserves through the allocation of net profits. The Bank allocates a large part of its net profit for the year to indivisible reserves. Compliance with capital adequacy is also pursued through careful dividend distribution policies of the limited available component of profit, careful investment management, in particular lending, depending on the riskiness of the counterparties and the related absorption, and through strengthening plans based on the issue of subordinated liabilities or additional equity instruments that can be included in the relevant own funds aggregates.

With the aim of maintaining a constantly adequate capital position, the Bank has equipped itself with processes and tools to determine the level of internal capital adequate to face any type of risk taken on, as part of an assessment of exposure, current, prospective and in a stressful situation that takes into account the company's strategies, development objectives and the evolution of the reference context.

Every year, as part of the process of defining the budget objectives, a careful check is carried out on the compatibility of the projections: depending on the expected dynamics of the statement of financial position and income statement aggregates, if required, the initiatives necessary to ensure capital balance and the availability of financial resources consistent with the Bank's strategic and development objectives are already identified and activated at this stage.

Verification of compliance with supervisory requirements and the consequent adequacy of capital are implemented on a quarterly basis. The elements which are audited primarily include ratios pertaining to the financial structure of the Bank (loans, problem receivables, fixed assets, total assets) and the degree of hedging of risks.

Further, specific analyses for the purposes of the prior assessment of capital adequacy are carried out, if necessary, with a view to extraordinary transactions, such as mergers and acquisitions, disposals of assets.

As regards minimum capital requirements, reference is made to the mandatory parameters established by the current regulatory provisions (Article 92 of the CRR), on the basis of which, the Bank's common equity CET 1 capital must meet at least 4.5% of total risk-weighted assets ("CET1 capital ratio"), Tier 1 capital must represent at least 6% of the total of the aforementioned weighted assets ("Tier 1 capital ratio") and total Bank regulatory capital must represent at least 8% of total weighted assets ("total capital ratio").

The Bank is also subject to the additional prudential limits to business operations envisaged for cooperative credit banks, as indicated in Bank of Italy Circular no. 285/2013 and subsequent updates.

As at the reporting date, the Bank presents:

- a ratio of Common Equity Tier 1 - CET1 - to risk-weighted assets (CET 1 ratio) of 62.03 %;
- a ratio of Tier 1 capital to risk-weighted assets (Tier 1 capital ratio - Tier 1 ratio) of 62.03 %;
- a ratio of own funds to risk-weighted assets (total capital ratio) of 62.03%.

The amount of own funds is not only fully sufficient on all three binding capital levels, but also adequate to cover the Capital Conservation Buffer.

The Bank has drawn up and maintains its Recovery Plan in line with the relevant regulatory provisions and in line with the Risk Appetite Framework adopted.

B. Information of a quantitative nature

B.1 Company's capital: breakdown

ITEMS/VALUES	Amount 31/12/2019	Amount 31/12/2018
1. Share capital	952,032	952,032
2. Share premium	19,029	19,029
3. Reserves	131,293	101,324
- of profit	131,275	101,306
a) legal	27,252	25,701
b) statutory	-	-
c) own shares	-	-
d) other	104,023	75,605
- other	18	18
4. Equity instruments	-	-
5. (Own shares)	-	-
6. Valuation reserves:	930	(16,363)
- Equities measured at fair value through other comprehensive income	(866)	(3,594)
- Hedging of equities measured at fair value through other comprehensive income	-	-
- Financial assets (other than equities) measured at fair value through other comprehensive income	1,323	(13,359)
- Tangible assets	-	-
- Intangible assets	-	-
- Hedging of foreign investments	-	-
- Cash flow hedging	-	-
- Hedging instruments [non designated elements]	-	-
- Exchange rate differences	-	-
- Non-current assets and groups of assets held for disposal	-	-
- Financial liabilities measured at fair value through profit or loss (changes in credit rating)	-	-
- Actuarial gains (losses) from defined benefit plans	(423)	(307)
- Quotas of valuation reserves relative to shareholdings measured with the equity method	-	-
- Special revaluation laws	896	896
7. Profit (loss) for the year	30,897	31,017
Total	**1,134,181**	**1,087,039**

The share capital of the Bank is composed of 18,158,304 ordinary shares and 150,000 preference shares with a nominal value of EUR 52 each and totalling EUR 952,031,808.

The reserves pursuant to point 3. include already existing profit reserves as well as the positive and negative reserves from the first-time adoption of IAS/IFRS (so-called FTA reserves) not recognised in other equity items.

The valuation reserves included in point 6. are detailed in Table B.2 below.

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

ASSETS/VALUES	Total 31/12/2019		Total 31/12/2018	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	1,855	(533)	3,425	(16,783)
2. Equities	550	(1,416)	309	(3,903)
3. Loans	-	-	-	-
Total	**2,405**	**(1,949)**	**3,734**	**(20,687)**

B.3 Valuation reserves for financial assets measured at fair value through other comprehensive income: annual changes

	Debt securities	Equities	Loans
1. OPENING BALANCES	**1,653**	**(3,594)**	**-**
2. POSITIVE CHANGES	**11,637**	**3,865**	**-**
2.1 Fair value increases	5,678	860	-
2.2 Value adjustments for credit risk	858	X	-
2.3 Reversals of negative reserves to the income statement: from sale	4,381	X	-
2.4 Transfers to other components of equity (equities)	-	-	-
2.5 Other changes	721	3,005	-
3. NEGATIVE CHANGES	**11,967**	**1,137**	**-**
3.1 Fair value decreases	4,082	329	-
3.2 Write-backs for credit risk	2,083	-	-
3.3 Reversals of positive reserves to the income statement: from sale	2,016	X	-
3.4 Transfers to other components of equity (equities)	-	-	-
3.5 Other changes	3,785	809	-
4. CLOSING BALANCES	**1,323**	**(866)**	**-**

The opening balances of the reserve relating to debt securities differs from the closing balances published for the previous year (EUR -13,359 thousand) in that the same reserve was modified by EUR 15,012 thousand following the reclassification of three bonds from "Financial assets measured at fair value through other comprehensive income" to "Financial assets at amortised cost".

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

ITEMS	Total 31/12/2019	Total 31/12/2018
1. OPENING BALANCES	(307)	357
2. POSITIVE CHANGES	27	-
2.1 Actuarial gains (losses) from defined benefit plans	-	-
2.2 Other changes	27	-
2.3 Business combinations	-	-
3. NEGATIVE CHANGES	(143)	-
3.1 Actuarial losses from defined benefit plans	(100)	(50)
3.2 Other changes	(44)	-
3.3 Business combinations	-	-
4. CLOSING BALANCES	(423)	(307)

Section 2 - Regulatory capital and adequacy ratios

With regard to the contents of this section, reference should be made to the information on own funds and capital adequacy contained in the disclosure to the public (so-called Third Pillar), prepared in accordance with Regulation (EU) no. 575/2013 of 26 June 2013 (CRR).

PART G - Business combinations regarding companies or branches

Section 1 - Transactions implemented during the year

During the course of the year, the Bank did not implement business combinations with companies or company branches, as regulated by IFRS 3, nor did it carry out any business combinations with entities subject to common control (so-called Business combinations between entities under common control).

Section 2 - Transactions implemented after the close of the year

After the end of the 2019 financial year and until the date of approval of the draft financial statements by the Board of Directors, the Bank did not carry out business combinations with companies or company branches, as regulated by IFRS 3, nor did it carry out any business combinations between entities under common control.

Section 3 - Retrospective adjustments

No adjustments relating to business combinations that occurred in the same year or in previous years were recorded during 2019.

PART H - Transactions with related parties

The Bank, in compliance with the procedures provided for by sector regulations, has adopted the Group Regulations for the management of transactions with related parties.

The aforementioned Regulation, which takes into account the provisions of Bank of Italy Circular no. 263 of 27 December 2006 and subsequent updates, is intended to govern the identification, approval and execution of transactions with related parties carried out by the Parent Company, the affiliated Banks and Group companies, as well as the organisational structure and internal control system that the Cassa Centrale Group uses in order to preserve the integrity of decision-making processes in transactions with related parties, ensuring constant compliance with the prudential limits and decision-making procedures established by the aforementioned Bank of Italy Circular.

For stricter accounting purposes, the provisions of IAS 24 - Related Party Disclosures also apply, for which the Bank has taken into account the information provided at Group level with regard to the identification of the related scope of consolidation.

More specifically, under the Cassa Centrale Group's internal regulations, the following are identified as related parties:

Natural persons:

1. Executives with strategic responsibilities (including Directors) of the entity preparing the financial statements: executives with strategic responsibilities are those which retain powers and responsibilities, directly or indirectly, pertaining to the planning, management and control of the Company's activities;
2. the immediate family members of "executives with strategic responsibilities":
   - close family members of a person are those family members who are expected to influence, or be influenced by, that person in their dealings with the entity, including:
     - the children and the spouse (even if legally separated) or cohabitant of that person;
     - the children of that person's spouse or cohabitant;
     - the dependants of that person or of that person's spouse or cohabitant;
     - the brothers, sisters, parents, grandparents and grandchildren - even if not living together - of that person.
3. person who has significant influence over the entity preparing the financial statements.

Legal persons:

- entity who has significant influence over the entity preparing the financial statements;
- entity over which a person identified in the previous paragraph (natural persons) has significant influence or is one of the executives with strategic responsibilities of the same (or one of its parent companies);
- entity that has control or joint control over the entity which drafts the financial statements;
- entity controlled or jointly controlled by one of the entities referred to in the previous point (natural persons);
- the companies/affiliated Banks belonging to the Cassa Centrale Group (controlled and directly and/or indirectly jointly controlled);
- associates and joint ventures and their subsidiaries;
- entity that is part of a joint venture of another entity and the entity that prepares the financial statements is an associate of the other entity;
- plan of benefits relative to the post-employment period for employees of the Group or a related entity.

1. Information on compensation of executives with strategic responsibilities

Executives with strategic responsibilities are those which retain powers and responsibilities, directly or indirectly, pertaining to the planning, management and control of the Company's activities.

The following table shows, in accordance with the requirements of IAS 24, para. 17, the amount of compensation paid during the year to the members of the Management and Control Bodies as well as the compensation relating to other Executives with strategic responsibilities that fall within the notion of related party.

	MANAGEMENT BODIES		CONTROL BODIES		OTHER MANAGERS		TOTAL AS AT 31/12/2019	
	Amount pertinent	Amount paid	Amount pertinent	Amount paid	Amount pertinent	Amount paid	Amount pertinent	Amount paid
Salaries and other short-term benefits	1,588	1,512	242	242	4,607	4,435	6,437	6,189
Benefits relative to the post-employment period (social security, insurance, etc.)	-	-	-	-	162	-	162	-
Other long-term benefits	-	-	-	-	-	-	-	-
Compensation for termination of employment	-	-	-	-	-	-	-	-
Payments in shares	-	-	-	-	-	-	-	-
Total	**1,588**	**1,512**	**242**	**242**	**4,769**	**4,435**	**6,599**	**6,189**

2. Information on transactions with related parties

The table below provides information on the statement of financial position and income statement transactions with related parties during the period.

	Assets	Liabilities	Guarantees issued	Guarantees received	Revenues	Costs
Parent Company	-	-	-	-	-	-
Subsidiaries	3,307,350	3,375,882	-	9,233	72,674	54,976
Associates	33,815	4,282	-	20	111	351
Directors and Executives	150	1,039	-	-	-	4,959
Other related parties	1,973	2,317	-	34	-	-
Total	**3,343,288**	**,3,383,520**	**-**	**9,287**	**72,785**	**60,286**

It should be noted that "Other related parties" include the close relatives of Directors, Statutory Auditors and other Executives with strategic responsibilities, as well as subsidiaries, joint ventures and associates of the same parties or their close relatives.

During the year there were no analytical value adjustments or losses for receivables from related parties. Only the collective write-down was applied to receivables from related parties in accordance with IFRS 9.

Relations and transactions implemented with related parties relate to ordinary credit and service activities, they are normally developed during the year according to the needs or benefits of the parties, in the common interest of the parties. The conditions applied to individual relationships and transactions with such counterparties do not differ from current market conditions, or are aligned, if the conditions are met, with the conditions applied to employees.

Transactions with related parties do not have a significant incidence on the financial situation, economic result and cash flows of the Bank.

PART I - Payment agreements based on own equity instruments

As at the reporting date, the Bank had no payment agreements in place based on its own equity instruments.

This section does not contain any evaluation and is therefore omitted.

PART L - Segment reporting

Since the Bank is not listed or is an issuer of widely distributed securities, it is not required to complete the segment reporting required by IFRS 8.

PART M - Information on leasing

Section 1 - Lessee

Qualitative information

With reference to the qualitative aspects of the first-time adoption of IFRS 16, reference should be made to the paragraph "Transition to IFRS 16" included in Part A - Accounting Policies, Section 4 - Other matters, a) Newly applied accounting standards in 2019 of these Explanatory Notes.

Quantitative information

All the quantitative information relating to the rights of use acquired through lease, payables for leases and the related income statement components have already been presented in other sections of these Explanatory Notes.

Specifically:

- information on rights of use acquired through lease is provided in Part B - Information on the statement of financial position, Assets, section 8 - Tangible assets and section 9 - Intangible assets;
- information on payables for leases is provided in Part B - Information on the statement of financial position, Liabilities, Section 1 - Financial liabilities measured at amortised cost;
- the information on interest expense on payables for leases and other charges related to rights of use acquired through lease, profits and losses deriving from sale and leaseback transactions and income deriving from sub-lease transactions, can be found in Part C - Information on the income statement, in the respective sections.

Reference is therefore made to the considerations set out in the aforementioned information parts.

It is hereby declared that at the closing date of the financial year there were no commitments formally entered into by the Bank on lease contracts not yet concluded.

Section 2 - Lessor

This is not applicable to the Bank.

Annexes to the financial statements of Cassa Centrale Banca

Annex A) Report on the guarantee scheme

Report on the guarantee scheme

The financial soundness of the Group is assured through the signing of the Guarantee Agreement, whereby the Parent Company and the affiliated Banks (hereinafter also "the Parties") jointly and severally guarantee, within the limits of their free capital, the external creditors and provide each other with support to preserve the solvency and liquidity of each Affiliated Bank and the Parent Company.

To this end, Cassa Centrale Banca, as Parent Company of the Cassa Centrale Group, has established the financial resources readily available for the proper functioning of the guarantee scheme, using the results of the stress tests expressed in terms of the probability of default and loss in the event of default by each party to the Guarantee Agreement, calculated by applying the methodology defined in a specific Regulation on the cross-guarantee system methodology.

The readily available financial funds, as determined above, have been divided between the ex-ante and ex-post portions of the cross-guarantee.

The ex-ante portion represents the portion of the Parent Company's pre-established financial funds readily available to the Parties for the implementation of intra-group support measures, while the ex-post portion represents the portion of the financial resources allocated to the Parties' financial statements but subject to readily available constraints, which may be called by the Parent Company if the ex-ante portion is not available, as well as in the other cases indicated in the Guarantee Agreement.

The ex-ante portion was incorporated with readily available funds resulting from the subscription by the affiliated Banks of newly issued ordinary shares of the Parent Company, eligible as Tier 1 capital, in accordance with statutory and supervisory regulations. This portion was invested by the Parent Company exclusively in liquid assets and/or assets which can easily be liquidated falling within the categories set out in Article 10 of Commission Delegated Regulation (EU) 2015/61 of 10 October 2014, which supplements Regulation (EU) no. 575/2013 (so-called Level 1 assets).

The ex-post portion, in order to make it immediately usable if required, has been incorporated directly in the financial statements of Cassa Centrale Banca, partly with the liquidity collected by the affiliated Banks through a term deposit maturing over 12 months and bearing interest at an annual rate of 0.08% and the remainder with the liquidity made available by the Parent Company itself. This portion was invested, as was the case for the ex-ante portion, in Level 1 assets.

Having said all this, the Parent Company, following the stress tests mentioned above, determined the need for a total amount of readily available funds, for the 12-month period (1 July 2019 - 30 June 2020), of EUR 281.5 million, broken down as follows:

- ex-ante portion amounting to EUR 174.1 million;
- ex-post portion amounting to EUR 107.4 million.

It should be noted that no intra-group support was provided during 2019.

The statement of financial position and income statement as at 31 December 2019 of the management of the guarantee scheme, with specific reference to the ex-ante portion, are set out below in Euro.

Statement of financial position

	ASSETS	31/12/2019
40.	Financial assets measured at amortised cost	174,160,440
	a) Loans to banks	48,378,115
	b) Loans to customers	125,782,324
	TOTAL ASSETS	**174,160,440**

The balance of "Loans to banks", under assets at amortised cost, includes the amount of cash and cash equivalents deposited in the Target 2 account at the Bank of Italy.

The balance of "Loans to customers" is made up of the value of Italian government securities, with Hold to Collect business models, in which the readily available funds of the ex-ante portion were invested.

The following table shows the composition of the portfolio of government securities servicing the guarantee scheme:

ISIN	Security	Expiry date	Gross exposure as at 31/12/2019	Interest income
IT0005289274	C.T.Z. 30/10/2019	10/30/2019	-	2,500
IT0005329336	C.T.Z. 30/03/2020	3/30/2020	49,978,125.92	80,851
IT0005350514	C.T.Z. 27/11/2020	11/27/2020	24,903,207.56	96,708
IT0005244782	BTP-01AP22 1.2% 17/22	4/1/2022	25,203,503.74	222,130
IT0005172322	BTP 0.95% 15/3/23	3/15/2023	25,765,219.73	3,662
Total			**125,850,057**	**405,851**
Provision to cover losses (ECL 12 months)			**(67,732)**	
Carrying amount as at 31/12/2019			**125,782,324**	

	LIABILITIES	31/12/2019
160.	Share capital	174,055,021
180.	Profit (loss) for the year	105,419
	Total liabilities	**174,160,440**

The capital represents the ideal part of CET 1 of the parent company with which the ex-ante portion of the guarantee scheme was incorporated.

The profit for the year represents the result of the management of the guarantee scheme with reference to the year ended 31 December 201

Income statement

	INCOME STATEMENT	31/12/2019
10.	Interest income and similar revenues	173,152
30.	**Interest margin**	**173,152**
100.	Profit (loss) from disposal/repurchase of:	18,223
	a) Financial assets measured at amortised cost	18,223
120.	**Net interest and other banking income**	**191,375**
130.	Net value adjustments/write-backs due to credit risk relative to:	(85,956)
	a) Financial assets measured at amortised cost	(85,956)
150.	**Net income from financial activities**	**105,419**
260.	**Profit (loss) before tax from current operating activities**	**105,419**
300.	**Profit (loss) for the year**	**105,419**

Interest income is mainly attributable to the coupon yield on Italian government securities in which the ex-ante portion of the guarantee scheme of EUR 405.9 thousand is invested and to interest income, calculated at a negative rate, accrued on the account with the Bank of Italy amounting to EUR -232.7 thousand.

The net value adjustments for credit risk are attributable to allocations for the provisions to cover losses for the year on the aforementioned Italian government securities, which reflect, in accordance with IFRS 9, an expected loss at 12 months.

Annex B) Audit and non-audit fees

Audit and non-audit fees

TYPE OF SERVICES	Fees (Thousand of euros)
Auditing	885
Certification services	60
Other services	48
Total	**993**

Please note that the fees indicated do not include VAT and out-of-pocket expenses.

FSC RECYCLED Paper made from recycled material FSC® C044047

The FSC Recycled label identifies a product obtained from the recovery, treatment and reuse of fibre from waste paper. Compared to other production methods, using post-consumer waste allows for significant energy, water and wood savings.

Litografia Editrice Saturnia FSC certified company INT-COC-001304

Cassa Centrale Banca - Credito Cooperativo Italiano S.p.A.

Registered office and General Management

Via Segantini, 5 – 38122 Trento
Tel. 0461 313111

Editorial coordination: Marketing Service

Graphic design and page-setting: Marketing Service and Message Spa

Printing: Litografica Editrice Saturnia snc

GRUPPO CASSA CENTRALE

CREDITO COOPERATIVO ITALIANO

gruppocassacentrale.it