BANCA FINNAT

GRUPPO BANCA FINNAT

# FINANCIAL STATEMENTS AT 31 DECEMBER 2019 - 90TH FINANCIAL YEAR

# FINANCIAL STATEMENTS

AT 31 DECEMBER 2019

90TH FINANCIAL YEAR

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## FINANCIAL STATEMENTS AT 31 DECEMBER 2019



## GROUP'S CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2019

# CORPORATE BODIES

**BOARD OF DIRECTORS**

Carlo Carlevaris
*Honorary Chairman*

Flavia Mazzarella
*Chairman*

Leonardo Buonvino
*Deputy Chairman*

Marco Tofanelli
*Deputy Chairman*

Arturo Nattino
*Managing Director*

Ermanno Boffa
*Director*

Roberto Cusmai
*Director*

Giulia Nattino
*Director*

Maria Sole Nattino
*Director*

Lupo Rattazzi
*Director*

Andreina Scognamiglio
*Director*

**BOARD OF STATUTORY AUDITORS**

Alberto De Nigro
*Chairman*

Barbara Fasoli Braccini
*Permanent Auditor*

Francesco Minnetti
*Permanent Auditor*

Laura Bellicini
*Alternate Auditor*

Antonio Staffa
*Alternate Auditor*

**MANAGEMENT**

Arturo Nattino
*General Manager*

Giulio Bastia
*Joint General Manager*
*Manager in charge of preparing the accounting documents*

Alberto Alfiero
*Deputy General Manager*

**AUDITING FIRM**
*EY S.p.A.*

# EXCERPT FROM THE NOTICE OF CALL OF THE SHAREHOLDERS' MEETING

(in accordance with Art. 125-bis, Paragraph 1, Italian Legislative Decree no. 58/1998)

Notice is hereby given to the Shareholders of Banca Finnat Euramerica S.p.A., that the General Shareholders' Meeting will be held at the Bank's Registered Office in Rome (Palazzo Altieri - Piazza del Gesù, 49) on 29 April 2020 at 10 am in single call, except in the case of updates, which shall promptly be communicated, resulting from developments linked to the COVID-19 health emergency, as well as from any regulatory provisions that should be issued in relation to this emergency, to discuss and resolve on the following:

AGENDA

1. Statutory financial statements for the year ended 31 December 2019 complete with the related reports by the Board of Directors, the Board of Statutory Auditors and the Auditing Firm. Proposed allocation of the year's profit. Presentation of the consolidated financial statements at 31 December 2019. Inherent and consequent resolutions;
2. Remuneration Report prepared in accordance with Article 123-ter of Italian Legislative Decree no. 58/98, including the disclosure on the remuneration policies in favour of Directors, Employees and outside workers who are not employees. Inherent and consequent resolutions.

* * * * *

In consideration of the COVID-19 health emergency and in relation to the provisions contained in art. 106, of Decree Law no. 18 of 17 March 2020, targeted at minimising movements and mass gatherings, participation in the shareholders' meeting and the exercise of voting rights can only take place through the conferral of the appropriate proxy to the Appointed Representative.
Information about:

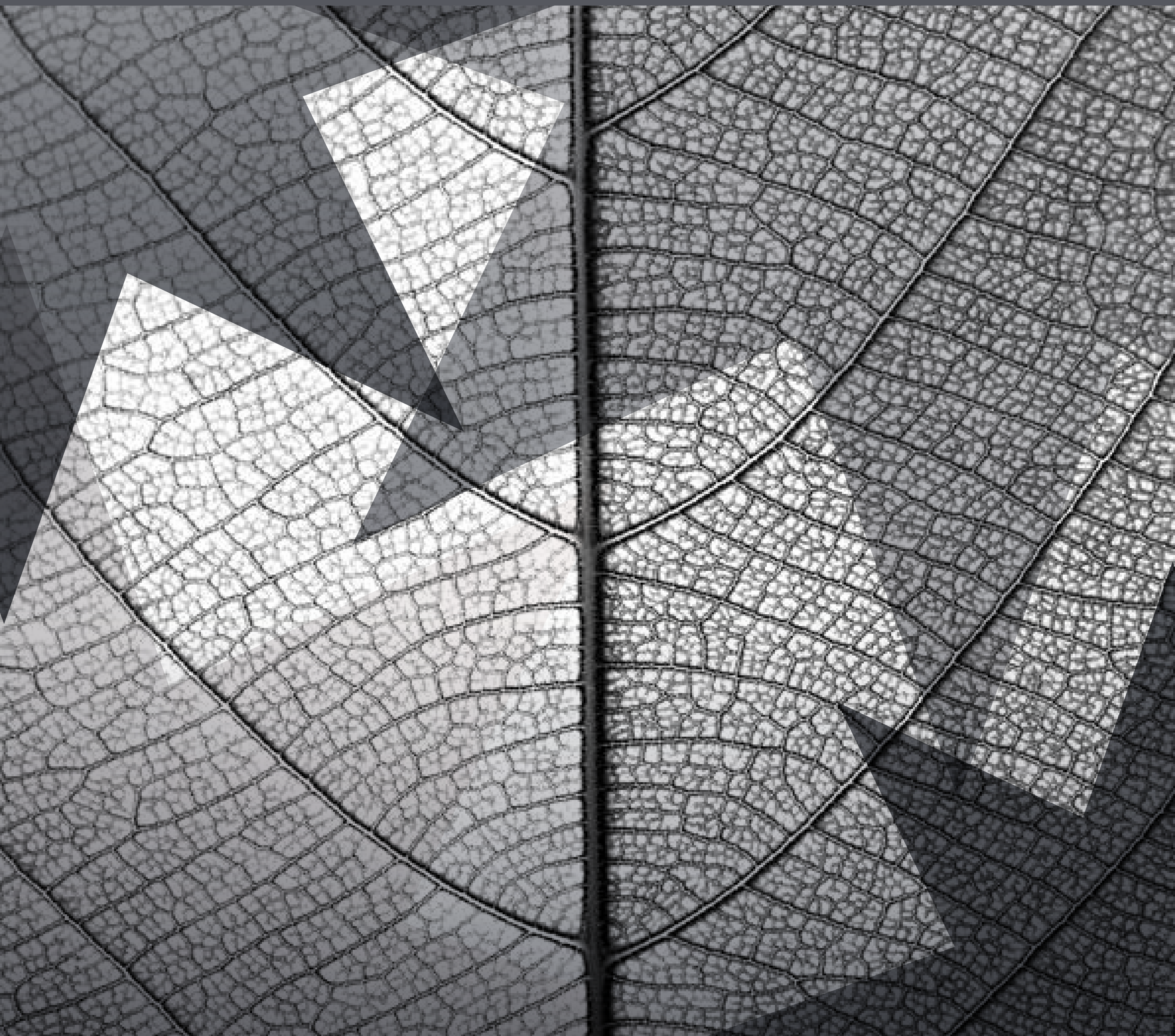
- attendance at the Shareholders' Meeting (in this regard, it is specified that the "record date" is 20 April 2020);
- participation in the Shareholders' Meeting and the exercise of voting rights, exclusively through the Appointed Representative;
- the right to ask questions on the items on the agenda;
- the exercise of the right to supplement the agenda and to submit new draft resolutions;
- the availability of the reports on the agenda items and of the documentation pertaining to the Shareholders' Meeting;
- the share capital;

is provided in the full text of the call notice available on the website www.bancafinnat.it ("Investor Relations/Corporate Governance/Shareholders' Meetings" section) and at the authorised storage mechanism called "NIS-Storage" (on the website www.emarketstorage.com).
It should also be noted that the date and/or place and/or participation and/or methods of voting and/or holding of the Shareholders' Meeting indicated in this call notice are subject to compatibility with legislation in force and/or the provisions issued by the competent authorities based on the COVID-19 health emergency, in addition to the fundamental principles of the protection of the health of the company's shareholders, employees, representatives and advisors. Any changes shall promptly be communicated according to the same methods as those envisaged for the publication of the notice and/or, nonetheless, through the information channels set forth in the legislation in force from time to time.
This excerpt is published on 30 March in the daily newspaper "Il Messaggero".

Rome, 30 March 2020

The Chairman of the Board of Directors
(*Ms. Flavia Mazzarella*)

# FINANCIAL STATEMENTS OF BANCA FINNAT EURAMERICA S.P.A. AT 31 DECEMBER 2019



# Directors' Report on operations and draft resolutions to the shareholders' meeting of Banca Finnat Euramerica S.p.A.

**Dear Shareholders,**

Prior to presenting the report on operations for 2019, following is an overview of the domestic and international macroeconomic background, on the financial markets and on the property market in 2019.

## Domestic and international macroeconomic background

The fears that had emerged at the end of 2018, regarding the inevitability of an imminent phase of recession for the global economy brought about by the ongoing deterioration in international trade due to trade tensions between the US and China, did not materialise in the end, due in particular to the unanimous decision, by the main Central Banks, in response to the fears of recession risks, to radically alter their monetary policy approach with respect to that initially envisaged. The gradual "normalisation" of reference rates, which should have represented one of the unique characteristics of economic policies in 2019, therefore left room for joint monetary relaxation policies which prompted 20 of the Central Banks from a panel of 32 to cut reference rates during the year, and led the US Fed to lower rates on federal funds as many as three times between July and October. These radical changes in the monetary policy approach enabled the global economy to avoid recessionary drifts and could be adopted following a renewed deflationary phase which affected the global economy. In fact, inflation at global level fell in August below the 2% threshold, while in the Eurozone, production prices went from trend-based annual increases of 4.9% in October 2018 to trend-based decreases of 1.9% in October 2019, while annual trend-based growth in consumer prices fell, in the same time interval, from 2.2% to 0.7%, with a 5-year inflation-indexed swap rate over a time period of five years, set at an all-time low of 1.12% at the start of October 2019.
In the Italian economy, the slump in the performance of prices was also drastic in this case, with production prices going from trend-based annual increases of 7.1% at the start of October 2018 to trend-based decreases of 4.1% in October 2019 and consumer price trends down, in the same time interval, from 1.6% per annum to 0.2%.
As regards macroeconomic trends, the US economy has now undoubtedly entered a phase of full "maturity" of its economic cycle (annualised growth of its GDP went from 4.2% in the second quarter of 2018 to

2.1% in the third quarter of 2019), but the capacity to continue to create employment (the unemployment rate reached the lowest level in fifty years, at 3.5% of the workforce), in a context that remains non-inflationary and with fiscal pressure at all-time lows, made it possible to sustain the increase in consumer confidence and with it the trend in said consumption. The feared macroeconomic slowdown, as a result of the contraction in international trade, vice versa, hit the Eurozone in particular, based on the weight of its exports on GDP (exports account for 45% of German GDP compared to 12% for US GDP). The decrease recorded alone by German exports in the automobile sector, by virtue, in particular, of lower Chinese demand (Chinese imports of vehicles -15% in the 2018/2019 two-year period), led to a decrease of 3.6% in German manufacturing production during the year and saw the automobile sector decline by 11.4%, making a notable contribution to bringing leading indicators of European manufacturing to the lowest levels in the last 7 years. Only the staying power of the services sector allowed the Eurozone to avoid fully recessionary drifts, however downturns in economic growth were in evidence everywhere. In 2019, annual economic growth was therefore reduced, in the Eurozone, to 1.2% (from 1.9% in 2018 and from 2.5% in 2017); growth stood at 0.6% in Germany (from 1.5% in 2018 and 2.5% in 2017), while Italy appears to be in full stagnation, with limited growth at 0.2%, from growth of 0.8% registered in 2018 and 1.7% in 2017.

## The financial markets

In connection with this non-stellar macroeconomic context, especially for the Eurozone and despite the clear difficulties of the whole international economy and, in many cases, the significant reduction in corporate profits, one of the best years in history was concluded, in terms of performances for both the equity markets and the bond markets.

The final figures for 2019 show that all the main investment classes offered more than positive returns after a situation in which, in 2018, as a result of fears of a recession that emerged suddenly, all asset classes had, vice versa, recorded significant negative performances. On the US market, stock indexes reached absolute highs, in the wake of macroeconomic figures that always remained essentially favourable, while in the Eurozone, the positive trends recorded in the equity markets were in clear contrast to a macroeconomic picture that essentially continued to deteriorate. If the equity markets benefitted, in contrast to the clear difficulties of the macroeconomic context, from a generalised fall in bond yields which made the equity segment more attractive, the bond segment simultaneously took advantage of a significant decrease in the inflationary trends and expectations of long-term inflation, a circumstance that determined not only a drastic slump in bond yields (with a simultaneous increase in the value of the fixed-income market of roughly 6 billion dollars) but also brought, at the peak of the large-scale purchases on the bond segment recorded particularly in August, the value of bonds with negative nominal yields (40% of all bonds in the Eurozone and Japan) back to more than 17 thousand billion dollars. Yields on the US 10-year bonds fell from 3.26% in October 2018 to 1.5% in August 2019, then rose to 1.92% at the end of the year; the market yield on the 10-year Bund fell from 0.6% in October 2018 to a negative yield of 0.7% in August, staying in negative territory at 0.18% at the end of the year (with the entire curve of German rates remaining at negative yields); again in August, the yields on the 10-year bonds in Spain and Portugal were practically zero (from yields at the end of 2018 of 1.41% and 1.71% respectively), while the yield on the 10-year BTP fell, for the first time in its history, below the 1% threshold (0.82%), from 2.73% at the end of 2018, closing the year at yields of 1.41%. On the primary domestic market, the decline across the board in bond yields

allowed the Treasury to place, at the end of the year, a 10-year BTP at an annual gross yield of 1.29%, from the average yields of 2.6% offered at the start of 2019, while the yield on issue of the 30-year bond fell during the same time interval from 3.68% to 2.29%.
Only towards the end of 2019, in conjunction with a harmonious rise in market rates, did the value of the negative bonds in issue fall below 12 thousand billion dollars, corresponding to just under 20% of total bonds in issue. Over the whole of 2019, global bonds returned a yield of 8%, the German 10-year Bund rose by 8%, the US 10-year Treasury bond more than 10%, European "investment grade" bonds generated a Total Return of close to 4%, while high-yield bonds rose by 14% in the US and 17% in Europe.
As regards the equity markets, the MSCI World index rose by 26% and the value of the global stock markets increased by 17 thousand billion dollars. The Athens stock market was among the best performers during the year, up by 49.6%, and the Russian stock market grew by 42.3%. On the US market, the S&P 500 index recorded an increase of 28.4% in dollars (best performance since 2013) and 31.4% in Euros, while the Nasdaq technological index offered a 34.6% return in dollars (best performance in the last six years; for the first time, the barrier of 9,000 points was surpassed, from the 5,000 points reached at the start of 2000, at the peak of the internet securities bubble) and 37.7% in Euros. In relation to the European markets, the index representative of the Eurozone DJ Eurostoxx 50 rose by 25.1%, the French index CAC40 gained 26.7%, the German DAX 25.5%, Ibex 35 of Madrid 12.7%, the UK FTSE 100 12.9%, the SMI of Zurich 26% in Francs and 30.7% in Euros, while the Stoxx Europe 600 index offered a return of 23.25%. On the Asia Pacific markets, the Japanese index Nikkei 225 rose by 18.2% in Yen and 21.7% in Euros; the Hang Seng index of the Hong Kong stock market rose by 9.6% in local currency and 12.8% in Euros, while the CSI 300 of the Shanghai stock market offered a return of 35.6% in Yuan and 36.6% in Euros. On emerging markets, share prices offered an average return of 11%.
In relation to the Italian market, the FTSE MIB index recorded an increase of 28.6%, reaching a total capitalisation of 651 billion euros (equal to 36.8% of GDP compared to 70% recorded in 2000), while the equity market capitalisation of the Euro area stood at 7,305 billion euros. Within the Eurozone, the Italian stock market capitalisation accounts for 8.6% of the total, France's is 33.3% and Germany's 25.8%. As regards listed securities on our domestic market, these reached a total of 375, of which 242 on the MTA market (78 on the STAR segment) and 132 on the AIM market. New admissions stood at 41, of which 35 new listings (IPO), of which 4 on the MTA market (2 STAR segment) and 31 on the AIM market, while 6 were the result of mergers and business combinations.
As regards the capital raised by the 35 companies that are listed, this amounted to 2.5 billion euros; the value of the 10 share capital increase transactions carried out on the market stood at 363 million euros, while the value of the 14 Take-over bids launched on the market during the year came to 864 million euros.
Share trading reached a daily average of 2.2 billion euros, with 256 thousand contracts stipulated, while on the whole, more than 64 million contracts were exchanged for a value of more than 544 billion euros.
On the commodities markets, raw materials increased by 15.7% on average. In the energy domain, WTI oil rose by 36.5%, the Brent grade listed on the London stock market rose by 27.7%, while on the New York stock market, listed natural gas lost 24.7% and diesel gained 31.9%.
On the precious metals market, 2019 was a record year in terms of gold purchases by the Central Banks and, in October 2019, gold reserves rose by 550 tonnes. Hence, during the year, gold gained 18.2%, while silver rose by 15.8%. In terms of industrial metals, copper gained 4.2%, nickel 32.9%, prices of iron ore rose by 26.5%, while aluminium rose 1.14%. As regards agricultural products, wheat rose by almost 10%,

the price of soya went up by 6% while maize increased by just 3.2%. As regards colonial products, coffee rose by 28.9%, sugar by 12.2% while cotton declined by 4.1%.
In the currency market, the Euro fell during the year against all the main reference currencies. The Euro lost 2.2% against the US Dollar at 28 December 2018, fell 3.3% against the Swiss Franc, 5.5% against the UK Pound Sterling and 3.5% against the Japanese Yen.



## The property market in 2019

In 2019, the Italian property market saw a substantial increase in transaction volumes and turnover, despite not keeping pace with the rate of growth in the other European countries, with the exception of the Milan area, where the market is in line with the best markets in Europe. Total turnover of the Italian market in 2019 should be approximately 129.4 billion euros, marking growth of 3.8% over 2018: this is the effect of the increase in volumes traded in almost all markets, but with stable or decreased prices everywhere. Growth of a further 2.2% is forecast in 2020, nonetheless below the European average.

Purchases continue to grow in the residential sector, with 670 thousand purchases in 2019, 9.8% higher than 2018. Prices remain stable, but with continued decreases in the less attractive peripheral and semi-central areas of the Italian provincial capitals. Only in 2020 is a slight recovery in prices of around 1% expected: this is the average of new homes, which rose by around 2%, and existing homes, which still continues to post a negative figure. Turnover driven by growing purchases/sales rose by more than 3.1% during the year. The residential asset class also saw, this year, marginal investment volumes for institutional investors, predominantly due to a lack of products, but the residential sector officially entered the sphere of interest of investors, who are targeting Student Housing and Multifamily initiatives, with the objective of seizing on the greater demand for rented accommodation in the main Italian metropolitan areas. The consolidation of this sector, similar to what has happened in other countries, could lead, in the future to a significant increase in investment volumes in Italy.

The forecasts for 2019 for the services sector are a further increase of 7.1% compared to 2018, for a total of 7.5 billion euros. The picture is completed with an estimated 0.2% decrease in prices for 2019. The market is increasingly focused on Milan and some districts of the capital. In these areas, it is the new supply (of high quality and international standards) that attracts the demand of large companies. After decades of a shortage of supply, demand is now being matched by adequate product levels, and therefore lots of moves are taking place. In the areas concerned, lease fees are also on the rise, while yields are in line with the major European capitals of the services sector. However, outside of these areas the market is extremely weak, with only "turn-key" and class A constructions. On the whole, the demand for spaces did not increase (in fact, companies have personnel downsizing plans in place), but there is a strong trend in moves to new and more functional buildings, but with increasingly more reduced space per employee.

The industrial sector remains driven by logistics, whose excellent performances are influenced, in particular, by the increased outsourcing of logistics services of a number of companies. On the whole, turnover is estimated at 4.85 billion euros in 2019, 5.4% higher than 2018. A decrease in prices continues to be forecasted, albeit to a lesser extent than previous years (-0.4%). The main change in the year just ended is urban logistics (so-called 'Last Mile'), the result of changes in consumption habits. The growth in volumes is accompanied by the drop in yields, which are increasingly closer to 5%.

Retail posted a stable performance, recording transactions totalling almost 2 billion euros. In 2019, the main players were the Factory Outlets, whose brilliant performances are connected with the capacity to capitalise on tourist flows, in contrast to a reduction in investments in the more traditional shopping centres. The High Street sector continues to make a significant contribution to the prime markets, thanks to both domestic private investors and institutional investors. On the whole, prices are estimated to be up slightly in 2019 (+0.1%).

The Hotel sector amounts to roughly 3.3 billion, marking a record not just in terms of investment volumes, but in relation to the variety of transactions and investors. It seems conceivable to think that 2020 will see 2 billion euros surpassed and that the next three years will be extremely positive for the sector.

The real estate funds segment continues to grow at a sustained rate: real estate assets held directly by the 480 active funds amounted to 77 billion euros, marking an increase of 13.2% over 2018. The forecasts for 2020 point to an increase in NAV and assets 10% higher. The global asset allocation is essentially stable. A slight increase in residential and logistics, offices segment stable; commercial down. The prospects for 2020, based on the information gathered from the asset management companies, are positive and in line with the previous year.

* * * * *

**Dear Shareholders,**

We hereby submit for your evaluation and approval the Separate Financial Statements for the year ended at 31 December 2019, which present a net profit of 778 thousand euros, 5,320 thousand euros less than the previous year, which stood at 6,098 thousand euros. The result for the year under review was adversely impacted by losses on receivables and impairment on equity investments.

The main items that form the financial year results are shown below and compared with the corresponding figures of the previous year:

- **Net banking income** totals 42,310 thousand euros, compared to 40,348 thousand euros in the previous financial year. The total increase by 1,962 thousand euros consists of the following:

  *increases*
  - 3,925 thousand euros for Interest margin (16,378 thousand euros at 31 December 2019 compared to 12,453 thousand euros in the previous year);
  - 1,302 thousand euros for Net fees and commissions (21,289 thousand euros at 31 December 2019, compared to 19,987 thousand euros in the previous year);

  *decreases*
  - 280 thousand euros for Dividend and similar income (6,904 thousand euros at 31 December 2019, compared to 7,184 thousand euros in 2018);
  - 1,567 thousand euros as Profit on trading. At 31 December 2019, the item had a negative balance of 1,737 thousand euros, versus a negative balance of 170 thousand euros in 2018;
  - 592 thousand euros for Profit on disposal of financial assets designated at amortised cost and financial assets designated at fair value through other comprehensive income (positive balance of 706 thousand euros at 31 December 2019, versus a positive balance of 1,298 thousand euros in 2018);
  - 826 thousand euros for Profits (losses) on other financial assets mandatorily at fair value (a negative balance of 1,230 thousand euros at 31 December 2019 compared to a negative balance of 404 thousand euros in 2018).

- **Net losses on credit risk** amounted to 12,004 thousand euros at 31 December 2019, compared to 4,139 thousand euros in 2018. The losses for the period under review concerned Financial assets designated at amortised cost for 12,161 thousand euros (including the adjustment made on the receivable due from the company Bio-On described in detail in the comments to balance sheet item "4.2 Financial assets designated at amortised cost: breakdown by product of loans to customers"), while Assets designated at fair value through other comprehensive income present value recoveries of 157 thousand euros. At 31 December 2018, losses on "Financial assets designated at amortised cost" amounted to 3,408 thousand euros and losses on "Financial assets designated at fair value through other comprehensive income" amounted to 732 thousand euros.

- **Administrative expenses** amounted to 32,284 thousand euros in 2019, versus 33,541 thousand euros in 2018, down by 1,257 thousand euros overall.

In particular, application of the new accounting standard IFRS 16 entails the recognition of the lease payments, instead of in the items in question, among the costs for amortisation of the right of use amounting to 1,997 thousand euros (156 thousand euros referred to personnel expenses and 1,841 thousand euros referred to other administrative expenses) and among interest expenses on payables amounting to 117 thousand euros. The main changes and impacts relating to the adoption of the new accounting standard IFRS 16 are commented on in a specific section in Part A - Accounting policies Section 2 - Other aspects.

The breakdown of administrative expenses is as follows:

- personnel expenses of 19,190 thousand euros were down by 36 thousand euros compared to last year (19,154 thousand euros);
- other administrative expenses, totalling 13,094 thousand euros, decreased by 1,293 thousand euros compared to the previous year (14,387 thousand euros). This decrease is attributable, for 1,841 thousand euros, to the different accounting of lease payments. The other administrative expenses also include recoveries from customers of some costs allocated under “Other operating income/expenses”.

- **Other operating income/expenses** at 31 December 2019 showed a positive balance of 5,013 thousand euros versus 5,123 thousand euros in 2018. The item comprises the recoveries of costs from customers, amounting to 4,566 thousand euros (4,657 thousand euros in the past year).

- **Profit (loss) from equity investments.** The item presents a negative balance of 1,558 thousand euros and, in addition to the value adjustment on the equity investment Previra Invest S.p.A. in liquidation for 48 thousand euros, also includes the value adjustments made, as a result of impairment, to the equity investments Aldia S.p.A. and Liphe S.p.A. respectively for 910 thousand and for 600 thousand euros held by the Bank under a joint venture with the company Bio-On. (Adjustments described in detail in the comments on the financial statements item “7.5 Equity investments: annual changes”). Last year, the item presented a negative balance of 224 thousand euros and concerned the write-down of the equity investment Imprebanca S.p.A.

- **Income taxes** had a positive balance of 989 thousand euros versus a negative balance of 957 thousand euros at 31 December 2018.

* * *

The comprehensive income in 2019 that also includes the change in the “Valuation reserve” is reported in the Statement of Comprehensive Income.

## Direct and indirect deposits

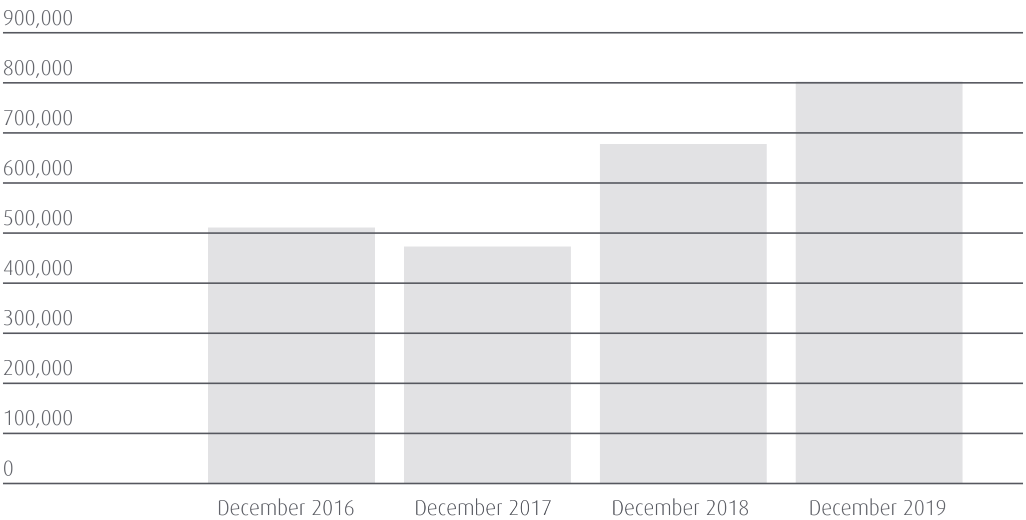
The breakdown of the Bank's deposits is as follows:

(in thousands of euros)

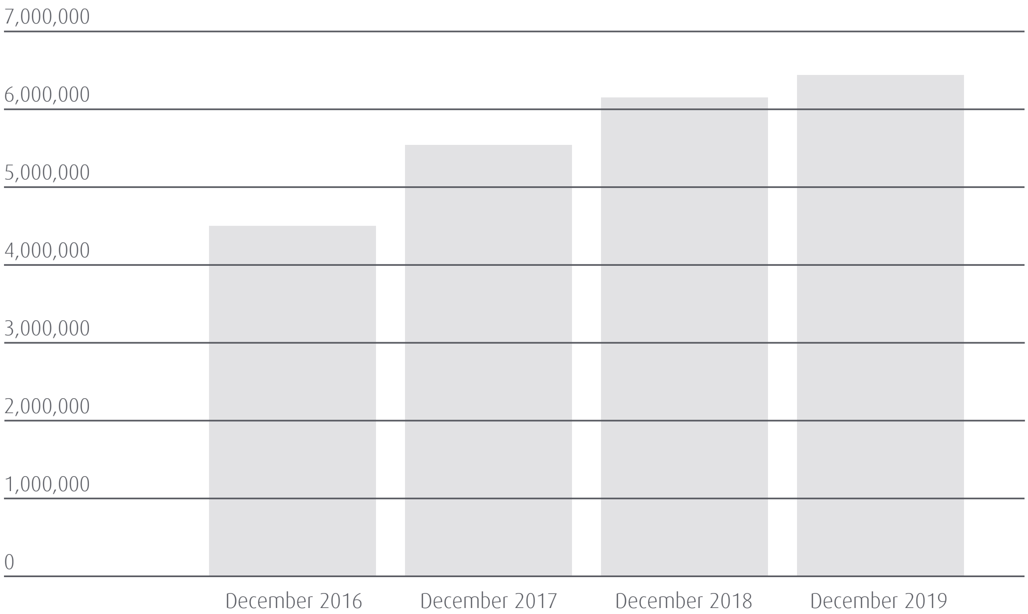
| | December 2016 | December 2017 | December 2018 | December 2019 |
|---|---|---|---|---|
| **Direct deposits from customers** | **510,686** | **472,787** | **677,119** | **802,644** |
| - Due to customers (current accounts) | 418,331 | 358,892 | 439,262 | 565,790 |
| - Time deposits | 68,530 | 91,301 | 209,607 | 211,941 |
| - Securities issued | 23,825 | 22,594 | 28,250 | 24,913 |
| **Indirect deposits** | **4,505,144** | **5,540,931** | **6,152,748** | **6,441,594** |
| - Individual management | 459,775 | 571,803 | 480,921 | 484,820 |
| - Delegated management | 251,061 | 285,681 | 278,565 | 279,479 |
| - Deposits under administration (UCIs and securities) | 3,471,594 | 3,924,304 | 4,544,537 | 4,539,880 |
| - Deposits under administration under advice (UCIs and securities) | 255,778 | 649,060 | 695,044 | 859,826 |
| - Third-party insurance products | 66,936 | 110,083 | 153,681 | 277,589 |
| **Total deposits** | **5,015,830** | **6,013,718** | **6,829,867** | **7,244,238** |

In particular, direct and indirect deposits from customers, described above, do not include repo transactions having the Cassa di Compensazione e Garanzia as the counterparty.
All assets shown in the statement also take into account the amount invested in them and originating from the other types highlighted.

**Direct deposits from customers**



**Indirect deposits**




## Operative offices

The Bank has operative branches in Rome, Milan and Novi Ligure.
The head office is at Piazza del Gesù, 49, Rome, where 3 branches are also located: in Corso Trieste, 118, at Via Catone, 3 (Piazza Risorgimento) and at Via Piemonte, 127.

## Business segments

Following is an overview of the activities carried out by the Bank and Group companies in 2019.

**Investment banking**
Investment banking, also in this year, reported a largely satisfactory performance.

As regards **brokerage**, an increase in both volumes (in particular in the equity market) and commissions was recorded compared to 2018. More in detail, the latter increased by more than 10%, both fixed-income and derivatives. Foreign shares increased, albeit more modestly; domestic shares were in line with the previous year.
A look at the various customer segments shows an increase in fees generated by the "private" segment and institutional investors, a slight decrease on the corporate segment (which, nonetheless, remained significant), while the banking retail segment, at one time so important for our bank, is now barely relevant.
The positive trend in transactions on CO2 certificates was confirmed which, despite remaining a niche activity, is worthy of mention too because the Bank, now at the end of a long process, is preparing to be

admitted as both an broker and a clearer on the ICE market (it will be the second Italian bank operating on that market), which represents a distinctive factor that will definitely make our institution more visible and, hopefully, will be the driving force for a further increase in operations.
Corporate broking activities always perform very well. The bank remains the undisputed leader on the AIM market for its specialist role. This year, 11 new mandates of this type were started (of which 3 on companies for which the IPO was also overseen), even though, for various reasons (two annulments, delisting, transfers to the MTA segment) 7 of them no longer exist: the balance is nonetheless positive.
There is a greater focus on coverage for small issuers (typically AIM and that's not all), which is endeavouring to distinguish itself with services which, going well beyond the mere production of research, aim to distinctively qualify the relationship with issuers that benefit from it: the initiatives launched this year, in this regard, include an innovative periodic analysis, conducted by each issuer covered, on the trends in the respective secondary markets as well as a new report that, for the aforementioned companies, surveys ESG issues and includes them in a specific sheet provided to institutional investors who are increasingly more sensitive to these matters.

**Own-account activities** saw a very significant revaluation of our securities portfolio, thanks to the stellar performance of Italian Government bonds, which account for their main component, which determined considerable capital strengthening. By contrast, the contribution of the Trading book (which has rather more modest dimensions than the Banking book) was not positive due, essentially, to an equity exposure which deteriorated significantly, and which was only partially offset by the capital gains, albeit significant, realised on the bond component. "Carry trade" transactions continue to be implemented, which made a significant contribution this year too.

Moving on to **asset management**, it is worth pointing out that the financial markets, after a poor 2018, recovered strongly, which enabled the savings products managed by the bank to achieve decidedly positive results.
In effect, the performances in absolute terms of the management lines are among the best in the last 10 years and, in some cases, are also better than those of the benchmark, something not predicted considering that the management choices were extremely prudent from the start of the year, with the primary objective of greatly reducing the risks of losses more than maximising yields. Fortunately some easy decisions on niche asset classes (*Emerging Market*, *High Yield*) offset the underweight prudentially decided on in the equity markets and on Italian Government bonds (quite heavily impacted last year, but, by contrast, have performed well in 2019).
The results of the sub-funds of the SICAV, whose management was delegated to the Bank, reflect those of the GPM lines: the bond funds recorded positive performances also above the benchmarks. Those of all the other funds were below the benchmarks, but largely positive in absolute terms, with the sole exception of the Fund dedicated to AIM which, in a negative year for that market, closed at -1.53%, however above its benchmark by more than 4%, as happened in 2018 too.

**Advisory & Corporate finance**

The Bank provides corporate finance consultancy services and assistance to private and public companies, with a special focus on medium-sized companies, through its Advisory & Corporate finance department.

The team dedicated to this activity continued to develop its operating capacity, consolidating its activity on AIM Italia, an unregulated market dedicated to small and medium-sized businesses with high development and growth potential, in which Banca Finnat has an important competitive position, and also developing its position on the MTA in its role of Sponsor. M&A and structured finance activities are also at the growth phase, by also taking advantage of the growing needs of SMEs for specialist services to obtain financial resources.

In 2019, the following Capital Market transactions were successfully completed: i) the listing on the AIM Italia market of AMM S.p.A., Officina Stellare S.p.A. and Radici Pietro Industries & Brands S.p.A., in relation to which Banca Finnat performed the role of Nomad and Global Coordinator for assistance with the organisation, management and execution of the reserved placement of shares in support of the listing; ii) two engagements by two issuers listed on the MTA, Gequity S.p.A. and Borgosesia S.p.A., for assistance with the structuring of a transaction falling, pursuant to art. 2.10.1 of the Regulation of markets organised and managed by Borsa Italiana, under the case of Reverse Merger transactions and Sponsor, in said transaction, for the issuing of declarations compliant with the provisions of art. 2.3.4, paragraph 2, letters c) and d) of said regulation. In addition, the following were completed: i) financial assistance for the promoting company involved in the construction of a service infrastructure and tourist attractions (including an aquarium), as part of a project developed in the city of Rome; ii) financial assistance for a company active in the sale of utensils and hardware targeted at the obtainment of new medium/long-term lines of financing; iii) financial assistance for a company operating in the tourism-hotel sector, aimed at the structuring of a financial transaction for the restructuring of a part of the current debt exposure and the obtainment of new finance for development; iv) financial assistance for a company that operates in the supply of "end-to-end" solutions for the banking and financial world, aimed at the issuing of a professional opinion on the method of drafting, by and large, of the consolidated economic plan and iv) financial assistance for the development of the business plan and with the obtainment of the financial resources for the financing of the same of a company operating in the aeronautical sector.
Among currently ongoing mandates, the following are pointed out: i) financial assistance for the updating of the business plan of a company operating in the sector of marketing clothing and financial assistance for relations with its banks/lenders; ii) the appointment for assistance to a company operating in the sector of the production of profiles for the do-it-yourself (DIY) market and the traditional market of hardware and building materials in the process of admission to listing on the AIM Italia market; iii) financial assistance to support the monitoring, implementation and updating of the business plan of a group operating in the MICE (Meeting, Incentive, Congress & Events) market. Lastly, in 2019, the on-going Nomad activity for some companies listed on the AIM continued. At 31 December 2019, there were 19 companies assisted on the AIM market.

### Commercial division

The year just ended was especially satisfying from all perspectives. Private banking volumes surpassed 5.5 billion, the performances of portfolios managed and those under advice were highly positive, overcoming the difficulties of the previous year. Customer growth was continuous, generating 500 new customers for a total of over 650 new accounts. The introduction of MIFID II required a number of procedural and IT adjustments, which influenced relations with customers, both in terms of operating methods and the documentation. Despite the extent of these changes, the work flow with customers did not suffer any slowdown, in fact it increased markedly, generating extremely positive flows. The transparency that has historically characterised Banca Finnat's business model, based on independence and personalised pricing related to the value of the service offered, represents a context which is fully consistent with the objectives that the new MIFID 2 regulation has aimed to achieve, in particular as regards clarity in representing costs. Aside from the excellent performances of our asset management, the growth in class I policies should be underlined, which account for almost 300 million in terms of assets under advice. This highly protective tool for customers has enabled us to improve the mix between the different asset classes, maintaining a low overall volatility, despite the presence of an increase in the equity component.

In order to enhance the control of volatility and of the performances of customer portfolios, with increasing depth, from asset classes to individual instruments, as well as the evolution of parameters over time, an appropriate tool was constructed in-house: WebManagement. This application also enables the monitoring of risk and of the control of consistency also at aggregate, bank, area, team and individual banker level.

As regards commercial growth, the most significant event was the inauguration of the new office in via Manzoni, Milan, in the prestigious Gallarati Scotti building. This property solution is testimony to the excellent results that the Bank is achieving in Northern Italy and the desire to improve them, also thanks to the constant insertion of private bankers. On the whole, assets under management in the Northern area are approaching one billion. The BFE service model with highly personalised private banking, capable of integrating the different skills available at Banca Finnat such as Financial Planning, Corporate Finance and personalised credit, guaranteeing customers with comprehensive wealth management activities, is proving to be in line with the needs of the entrepreneurial component in Northern Italy, which enhances this holistic and flexible approach.

The growth in the network is also continuing in Rome, with further strengthening in the via Piemonte branch.

Training played a particularly important role in 2019, both for acknowledgement of MIFID II, but also in building the necessary skills deriving from expansion in the coverage of customers' needs. We have structured training courses calibrated on the seniority of employees and on the complexity of the customers served by them. In particular, aside from the structural process of enhancement of asset allocation expertise, a specialist wealth management course was constructed, also thanks to the know-how of Finnat Fiduciaria. In relation to training, the completion of the coaching course and focus on behavioural finance should be pointed out, an absolutely key theme following the significant volatility recorded by the markets in the second half of 2018.

In the year just ended, there was a renewed focus on the structural needs that are gathering momentum in our company: the lengthening of life expectancy and the related requirements, which are accompanied by a particularly marked decrease in higher incomes, and excessively unbalanced assets on old property assets. This context is accompanied by growing difficulties in the job market for the new generations. The response in terms of services was structured together with our Fiduciaria, offering succession planning solutions centred on the financing of property assets, targeted at their optimisation, income-generation, correct use of pension formulas. From this perspective, in order to expand the platform of wealth management services in line with the long-term objectives described, the offer of the insurance company Zurich was added, which integrates that of the long-established partner HDI and of Amissima. In addition, we reinforced the financial planning advisory activities, with the insertion in Milan of a senior professional with a tax and fiduciary background.

In order to be able to offer a better, more complete and well-structured service in terms of the aspects described above, the Sales Department adopted an advanced CRM (Zoho), which makes it possible to identify the needs of the customer at individual and owner level. This is a highly personalised system, free from any type of standardisation, which helps private bankers to map the requirements of the individual customer so as to devise individual solutions.
Also in 2019, support continued to be provided to SMEs, participating in three placements on AIM, AMM, Officine Stellari, Radici.
In real estate, the collaboration with InvestiRE was particularly important in introducing customers of high standing interested in the opportunities offered by real estate asset management company.



**Asset Management - Real Estate Fund Management**
InvestiRE SGR is positioned in the market as a primary operator, specialised in the development of property portfolios in different market segments, aimed at national and international investors. InvestiRE, based on the latest data available, is the second SGR in Italy and at 31 December 2019 it managed approximately 7.1 billion euros of assets through 45 funds (all reserved funds except one retail fund) and it represents over 250 national and international institutional investors, including insurance companies, pension, private equity, real estate funds and banks.

On the whole, in 2019, assets under management recorded a net increase of around 3% compared to 31 December 2018, without considering the transfer to the investee REDO SGR S.p.A. - Benefit Company, of the management mandates of the Fondo Immobiliare di Lombardia Comparto Uno and Comparto Due (Lombardy Real Estate Fund, Sub-fund one and Sub-fund two), which took place as part of a transaction completed at the end of the year and targeted at the creation of a vehicle, in partnership with Fondazione Cariplo, specialised in social housing in Lombardy. In particular, the main marketing activities are described below, and they involved:

- listed funds at the final liquidation phase: 2019 saw the closure of the liquidation of the retail funds Obelisco and Securfondo;
- in relation to the funds that manage public real estate assets, the FIP Fund completed sales totalling 57 million euros;
- the funds comprising mainly residential properties (FPEP, HELIOS and INPGI) which continued the fractional sale activities: the INPGI and FPEP Funds signed deeds, respectively, for a total price of around 60 million euros and 43 million euros respectively; the Helios Fund also completed sales for a total price of 11.5 million euros and, in December, continued investments with the contribution of two properties primarily for residential use located in Rome, for an amount of 36 million euros;
- the social housing funds, which continued the apartment marketing activities (lease, future sale agreement, sale); in particular, the Cà Granda Fund completed sales for 47 million euros;
- the Funds with short-term disinvestment plant, whose activity is focused on real estate trading (Omega and Neptune Funds) that completed sales totalling approximately 47 million euros;
- the Distressed & Non Performing Assets area (Securis I, II, III, Sistema BCC, BCC Roma) continued its property portfolio disposal activities: deeds were signed totalling approximately 18.5 million euros. The Securis III Fund also completed the contribution of a property portfolio for an amount of roughly 24 million euros.

Among the investment activities of the funds under management, of note is a market interest in the health care segment in which the SGR is active through the Spazio Sanità Fund, which collected new subscriptions during the year for 13 million euros, and in the hotel sector in which the SGR is active through several funds under management.

New project development activities also continued, which led, among other things, to:

- the establishment of a new real estate fund whose property assets are composed of a complex primarily for residential/accommodation use located in Friuli Venezia Giulia, for a total of 151 million euros;
- the establishment of a new fund whose property assets are composed of properties for retail use located throughout the country and leased to a single primary lessee for a value of 103 million euros;
- lastly, in November, the asset management company took over a real estate fund whose property assets are composed of a complex for logistics/commercial use located in Rome for a total of 37 million euros.

Existing portfolio enhancement activities made provision, in 2019, for development projects, both for the redevelopment of the existing portfolio and the newly constructed one, for roughly 150 million euros, of which more than 50% relating to development projects in the social housing sector; these are augmented by additional development initiatives through future goods purchases, primarily in the Social Housing sector, nonetheless subject to supervision by the Asset Management Company during the construction phase, until the completion of the works and subsequent delivery to the funds. In relation to development activities in the funds mainly to be used for services, the following should be noted:

- the continuation, by Immobilium Fund and Rocket Fund of works to renovate the office properties in Milan and Rome respectively, with planned developments, based on the lease agreements reached with leading international companies, for over 25 million euros;
- for the Secondo RE Fund, works to reconvert a property located in Rome from offices to a 4-star hotel for roughly 7 million euros, whose completion and delivery to the manager took place in February 2020;
- the Monterosa Fund continued activities to renovate an office property in the centre of Milan, carrying out works for approximately 5 million euros.

**Trusteeship**

During the year, Finnat Fiduciaria continued to develop its activities, recording constant satisfaction of its customers and of the banking group it belongs to.

The Company continued to assist its customers in addressing planning, protection and succession questions related to business activities and to financial and property assets.

The year was also characterised by intense governance activities carried out by the Body with strategic supervision functions and, therefore, the shareholders are reassured over constant respect for the rules, their evolution and the correct application of the internal policies and procedures therein also supported by the Parent Company, in particular, as regards the Internal Audit, Anti-money laundering, Compliance and Risk Control functions.

The well-established initiatives undertaken by the Company have made it possible to successfully continue with the recovery of receivables, consolidating the results achieved in previous years, having collected 88% of the 2019 turnover at 31 December 2019.
Total "trusteeship accounts" came to 1,774 million euros, compared to 1,529 million euros at 31 December 2018, marking an increase of 245 million euros.



The purpose of Finnat Gestioni, which operates in the sector of asset management of private and institutional customers, is to manage and provide financial advice to the assets deposited on the foreign depository bank identified by the customer.
Considering the uncertainty of global markets and the European political instability, note the interest of customers in 2019 in diversification in the deposit of savings and in asset allocation.
In 2019, the assets under management and the profitability of Finnat Gestioni exhibited encouraging signs of consolidation with respect to 2018.

**Research & Development, organisation**

In the period in question, the Bank engaged in the following projects:

*Organisation Area*

- Increased the levels of security regarding the on-line operations of customers, consistently with the requirements laid down by the PSD2 regulation (Payment Service Directive - Dir. 2015/2366/EU).
- Completed the process of digitalisation of documentation regarding branch transactions of private centres.
- Implemented various support tools for the benefit of private bankers' activities, with the objective of raising the service levels offered to customers.

*IT and Technologies Area*

- Activated a new telephone call recording management system.
- Introduced a new system in support of data management and internal reporting in the Bank.

**Corporate governance**

The corporate governance structure of Banca Finnat Euramerica, originally approved by the Board of Directors at the meeting held on 26 June 2009, in accordance with the provisions of the Bank of Italy issued on 4 March 2008 concerning the corporate governance of Banks, and the subsequent Note dated 19 February 2009, is based on a traditional administration and control system, by virtue of which:

- the Board of Directors alone is responsible for the management of the company;
- the Board of Statutory Auditors is responsible for the supervision of the company and, in this position, it monitors compliance with the Articles of Association and controls the management;
- the Shareholders' Meeting expresses the will of the shareholders.

The governance principles of Banca Finnat Euramerica, besides being grounded in the applicable laws and regulations in force in Italy, are also inspired by international best practices on the matter and by the recommendations of the Corporate Governance Code of Listed Companies.
The Board of Directors preventively identified the composition of the Governing Body that is deemed optimal in qualitative and quantitative terms, in view of the proper and most effective performance of the

duties of the Board, in accordance with the prescriptions of the Bank of Italy's Instruction of 11 January 2012 on organisation and corporate governance.

The Board of Directors carries out its own self-assessment on a yearly basis. This self-assessment was updated, after preparing a new questionnaire, on 13 March 2019.
Pursuant to the applicable Supervisory Provisions laid down by the Bank of Italy and in the light of the regulations issued on 30 March 2011, the Bank reported to the Shareholders' Meeting held on 24 April 2019 about the remuneration policies and incentives adopted.

With regard to the provisions of Article 36 of Italian Law Decree no. 201 of 6 December 2011, amended and converted into Italian Law no. 214 of 22 December 2011 laying down "Urgent provisions for the growth, fairness and consolidation of public accounts", and the formalities required by the Criteria for the enforcement of Article 36 of Italian Law Decree "*Salva Italia*" (known as "Interlocking prohibition"), relating to company employees and the appointed members of the Board of Directors and Board of Statutory Auditors, on 24 January 2020 the Board of Directors made the necessary assessments of compliance with envisaged criteria.

The Shareholders' Meeting of 24 April 2019 approved, among other things, the Shareholders' Meetings Regulations, as proposed by the Board of Directors.
The Shareholders' Meeting of 1 August 2019 approved: the assignment of the audit engagement to the company KPMG S.P.A. for the 2020-2028 nine-year period; approved the amendments to Articles 4.4 – 7.1 – 7.5 of the Shareholders' Meeting Regulation; approved a recalculation of the directors' fees.

The Board of Directors meeting held on 27 June 2019, with the favourable opinion of the Risk Committee, which relied on the opinion of the Appointments Committee, the Remuneration Committee and the Board of Statutory Auditors, appointed Maria De Simone as Head of the Internal Control function.

In the course of the meetings of the Board of Directors in 2019, the Board was kept constantly informed on compliance with the new European directives concerning MIFID II and Privacy, in particular with regard to the new GDPR.

All information required by current regulations is published on the website: www.bancafinnat.it in the Investor Relations, Regulated Information section.

**Consob Market Regulation – requirements set forth under Article 36 (Subsidiaries established and regulated by the Law of non-EU States)**

Banca Finnat Euramerica undertakes that, in accordance with paragraph 2 of Article 36 of Consob Regulation no. 1619/2007 (Market Regulation), the provisions set out by said Article 36 on the conditions for the listing of parent companies, companies set up or governed according to the laws of States not belonging to the European Union and of significant relevance for the purpose of the consolidated financial statements, do not apply to the subsidiary Finnat Gestioni S.A., since the above mentioned subsidiary falls beneath the limits envisaged by the regulation and does not, therefore, hold "significant relevance".

## Market disclosure information

Regarding market disclosure, the Group declares that:

- with reference to the request formulated by Bank of Italy with its communication of 17 June 2008, the Bank, at 31 December 2019, was not exposed to and/or did not hold an interest, either directly or through vehicle companies or other non-consolidated entities, in financial instruments or UCIs characterised by high-risk investments, such as: - SPE (Special Purpose Entities) - CDO (Collateralized Debt Obligations) - Other exposures vis-à-vis subprime and Alt-A - CMBS (Commercial Mortgage-Backed Securities) - Leveraged Finance;
- the Board of Directors of Banca Finnat Euramerica S.p.A., pursuant to Consob Resolution no. 18079 of 20 January 2012, decided, on 21 January 2013, to comply with the simplification system set forth in Articles 70 (paragraph 8) and 71 (paragraph 1-bis) of the Regulation adopted by Consob with Resolution no. 11971 of 14 May 1999 as amended and supplemented, by making use of the right, of listed companies, to depart from the obligation to submit the information documents required by Annex 3B of the Consob Regulation relating to future significant extraordinary operations such as mergers, demergers, capital increase by non-cash contributions, acquisitions and sales;
- with reference to the requests contained in joint Document no. 2 dated 6 February 2009 by the Bank of Italy, Consob and Isvap and in their subsequent Document no. 4 dated 4 March 2010 and the provisions of paragraphs 15 and 25 of IAS 1, regarding disclosures to be made with respect to going concern assumptions, please refer to the commentary provided in Part A, Section 2 – General financial reporting principles and Part E – Information on risks and related hedging policies of the Notes to the Financial Statements;
- the Bank, within the prescribed deadline of 1 February 2018, exercised the option for the application of the transitional rules prescribed by the Regulation (EU) 2017/2395, amending "Regulation (EU) No 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds and for the large exposures treatment of certain public sector exposures denominated in the domestic currency of any Member State". The aforesaid transitional rules provide the possibility of including in Common Equity Tier 1 capital a transitional positive component, calculated in percentage terms, of the increase undergone by the allocations for expected losses on receivables by effect of the first-time adoption of IFRS 9. This benefit is recognised for a period of 5 years according to decreasing rates (95% in 2018, 85% in 2019, 70% in 2020, 50% in 2021, 25% in 2022). From 1 January 2023 onwards, the impact deriving from the first-time adoption of IFRS 9 will be fully reflected in the calculation of own funds. In addition to the possibility of delaying the impact deriving from the first-time adoption of the new accounting standard to 1 January 2018, the transitional arrangements provide the possibility of delaying any impacts of the new impairment model also in the first years following the date of first-time adoption of IFRS 9 albeit limited to those deriving from the measuring of performing financial assets.

## Capital adequacy, prudential ratios and risk management disclosure

Information about the Bank's capital adequacy and risk management are illustrated at length in the Notes to the Financial Statements, respectively in Part F – Information on shareholders' equity and in Part E – Information on risks and related hedging policies.

**Own funds and capital ratios**

The Regulatory Capital is determined based on the harmonised regulations for Banks and the Investment companies contained in the Regulation ("CRR") and in the EU Directive ("CRD IV") of 26 June 2013 which transfer to the European Union the standards defined by the Basel Committee on Banking Supervision (the so-called Basel 3).

In order to enact the regulations, the Bank of Italy issued, on 17 December 2013, Circular no. 285 "Prudential Supervision Provisions for Banks".

Own funds at 31 December 2019 amounted to 236,661 thousand euros (224,661 thousand euros at 31 December 2018), whereas the Total capital ratio, CET1 capital ratio and Tier1 ratio stood at 45.22% (43.6% at 31 December 2018). The Bank exercised the option to apply the transitional provisions for the deferment over time of the impacts of the application of the new accounting standard on own funds – illustrated in the section "Market disclosure information". Without this application, Own funds would have been equal to 235,629 thousand euros, while the Total capital ratio, the CET1 capital ratio and Tier1 ratio would have been equal to 45.12%.

These indices widely exceed minimum capital requirements at consolidated level mandated for us by the Bank of Italy at the conclusion of the supervisory review and evaluation process (SREP) established by Directive 2013/36/EU (CRD IV).

**Exposure to debt securities and sovereign debt financing**

The details required by the Consob with its communication of 31 October 2018 about the "Communication on information to be provided in financial report with regard to exposures held by listed companies in sovereign debt securities" are provided in the Directors' Report to the consolidated financial statements.

**Adoption of the new accounting standard IFRS 16**

Please refer to the Notes to the Financial Statements, Part A - Accounting policies, Section 4 - Other aspects, which illustrate the main changes and the impacts of the adoption of the new accounting standard.

## Performance of subsidiaries

**InvestiRE SGR S.p.A.**

The company, based in Rome and incorporated on 4 February 2002, has the purpose of establishing and managing real estate funds and was authorised by the Bank of Italy on 9 May 2002.
On 29 December 2014, the merger by absorption of Beni Stabili Gestioni SGR S.p.A. and Polaris Real Estate SGR S.p.A. within InvestiRE Immobiliare SGR S.p.A. was finalised, with accounting and tax effects as from 1 January 2015.
As a result of this transaction, the share capital was increased from 8,600,000 euros to 14,770,000 euros and the company is owned by Banca Finnat Euramerica, with 50.16%, by Beni Stabili Siiq, with 17.90%, by Regia S.r.l. (G. Benetton Group) with 11.64%, by Fondazione Cariplo with 8.65%, by Cassa Italiana di Previdenza e Assistenza Geometri with 7.72%, by ICCREA Holding with 2.38% and by Fondazione Cassa dei Risparmi di Forlì with 1.55%.

At 31 December 2019, the company managed 45 real estate funds with the GAV of the managed assets totalling 7,078 million euros compared to 7,322 million euros at 31 December 2018, which would have been 6,895 thousand euros net of the FIL 1 and FIL 2 Funds, managed by REDO SGR S.p.A. after the transfer to the latter of the associated business unit. Following this transaction, the value of goodwill of InvestiRE SGR S.p.A. was reduced by 9.6 million euros, corresponding to the portion relating to the business transferred. At 31 December 2019, InvestiRE SGR S.p.A. held a stake of 33.33% in REDO SGR S.p.A. (company incorporated on 17 December 2018 together with Fondazione Cariplo, which held the remaining 66.66%), for a value of 4,533 thousand euros.
The details of the REDO transaction are outlined in the paragraph "Main transactions in the year".

The draft financial statements at 31 December 2019 show a profit of 6,154 thousand euros compared to 6,487 thousand euros at 31 December 2018 and a book value of the shareholders' equity of 80,852 thousand euros compared to 81,197 thousand euros at 31 December 2018. In 2019, the company recognised a total fee and commission income of 28,664 thousand euros compared to 29,746 thousand euros in 2018.

**Finnat Fiduciaria S.p.A.**

The company – incorporated in accordance with Italian Law no. 1966 of 23 November 1939 – is based in Rome and operates as an equity and security trust company. It has a share capital of 1,500,000 euros held entirely by Banca Finnat Euramerica S.p.A.
At 31 December 2019, assets under management totalled 1,774 million euros, versus 1,529 million euros at 31 December 2018 (including the mandates relating to the administration and custody of assets without a fiduciary registration not previously included).
The draft financial statements at 31 December 2019 show a profit of 92 thousand euros versus 88 thousand euros in the previous year. In 2019, the company generated fee and commission income of 1,578 thousand euros versus 1,615 thousand euros at 31 December 2018. At 31 December 2019, the company had a shareholders' equity of 2,035 thousand euros, versus 2,032 thousand euros at 31 December 2018.

**Finnat Gestioni S.A.**

The company, established on 10 April 2008, is based in Lugano and provides financial management and consultancy services including, in particular, asset and portfolio management services.

The Bank holds a 70% stake in the company's share capital, which amounts to CHF 750,000, while the remaining stake is held by EFG Bank. Managed assets at 31 December 2019 totalled CHF 116.4 million, compared to CHF 113.7 million at 31 December 2018.

The book value of shareholders' equity at 31 December 2019 amounted to CHF 2,317 thousand, compared to CHF 2,289 thousand at 31 December 2018.

The draft financial statements for 2019 show a profit of CHF 494 thousand compared to CHF 509 thousand at 31 December 2018.

In 2019, the company generated fee and commission income of CHF 909 thousand versus compared to CHF 900 thousand at 31 December 2018.

**Natam Management Company S.A.**

The company, established on 30 August 2016, has its registered office in Luxembourg and share capital of 750,000 euros divided into 750 shares with a face value of 1,000 euros each, entirely subscribed by Banca Finnat.

The purpose of Natam is to perform collective asset management both in favour of harmonised funds and of alternative investment schemes.

The draft 2019 financial statements show a profit of 81 thousand euros versus compared to 116 thousand euros at 31 December 2018.

The book value of shareholders' equity, at 31 December 2019, amounted to 738 thousand euros, compared to 657 thousand euros at 31 December 2018.

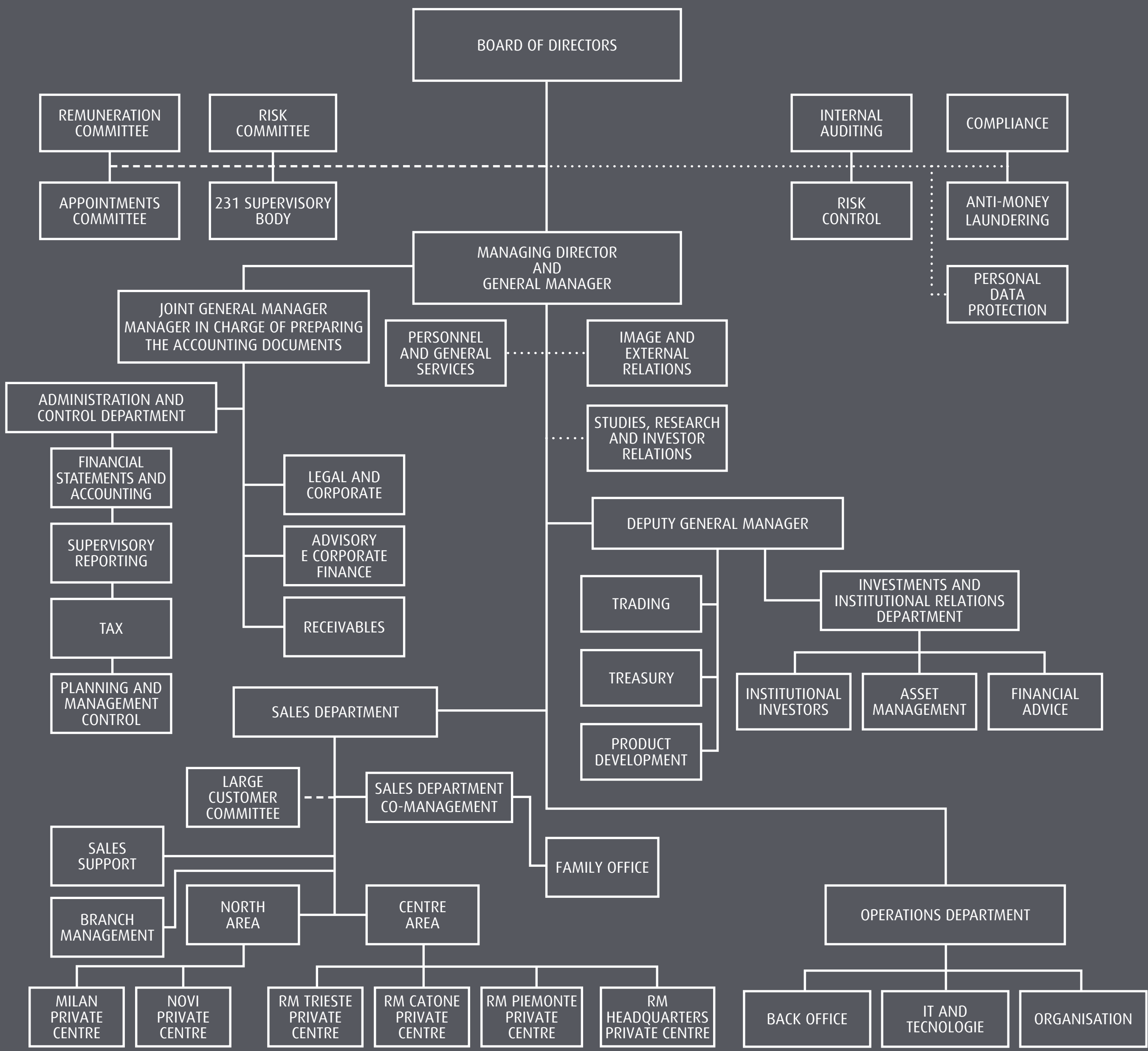
In 2019, the company generated fee and commission income of 1,776 thousand euros compared to 1,729 thousand euros at 31 December 2018.

* * *

The Report on Operations of the consolidated financial statements contains the chart illustrating the Group structure and the related shareholdings.

## The structure of Banca Finnat Euramerica

The organisation structure of the Bank is as follows:



The total number of personnel in the Bank increased by 9 persons compared to 31 December 2018 as shown in detail below:

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| **personnel employed** | **188** | **180** |
| - executives | 29 | 29 |
| - managers | 87 | 84 |
| - clerical workers | 72 | 67 |
| **contractors** | **7** | **7** |
| **financial advisors** | **5** | **4** |
| **Total** | **200** | **191** |

With regard to changes in the number of personnel employed, during the year 8 persons terminated their employment whilst 17 persons were hired in all (7 with undefined duration employment contracts).

The change relates to both the natural turnover of personnel, and the need for the strengthening of some work areas, such as, in particular, the sales network which, in 2019, in response to 2 staff leaving, hired 4 new staff members (42 staff members at present, compared to 40 previously).

Only one termination was for disciplinary reasons (dismissal with just cause).

In 2019, a total number of more than 3,300 training hours were administered, with a total number of 1,197 participations (the training initiatives involved 173 employees).
The initiatives in 2019 involved in particular:

- consolidation and updating of the knowledge with high specialist content of the commercial network, with a special focus on insurance, anti-money laundering and MIFID II;
- updating of knowledge in the field of privacy (training on the GDPR).

## Treasury shares

At 31 December 2019, the Bank held 28,810,640 treasury shares, representing 7.9% of the share capital with a total value of 14,059 thousand euros. In 2019, the Bank did not carry out any transactions on treasury shares.

**STOCK EXCHANGE CAPITALISATION OF BANCA FINNAT EURAMERICA**

| | Number of shares | Market price 9 March 2020 | Capitalisation 9 March 2020 (in thousands of euros) | Shareholders' equity (in thousands of euros) | Share capital (in thousands of euros) |
|---|---|---|---|---|---|
| **ORDINARY SHARES** | 362,880,000 | 0.2300 | 83,462 | 237,697 | 72,576 |

## Related party transactions

The Bank complies with the Regulations for Related Party Transactions, approved by the Board of Directors on 2 August 2013 to define responsibilities and rules governing the identification, approval and implementation of related party transactions carried out by the Bank or by companies of the Banca Finnat banking group, in accordance with Article 2391-bis of the Italian Civil Code, the Consob Regulation adopted with Resolution no. 17221 of 12 March 2010 and Title V, Chapter 5 of the Bank of Italy Circular no. 263 introducing "New Prudential Supervision Provisions for Banks", respectively.
The Bank has completed transactions both with subsidiaries and related parties, ordinary transactions of lesser significance and transactions for a small amount and under market conditions which have not significantly impacted the company's financial position or results of operations.
The Bank did not carry out any transactions with related parties or subjects other than related parties considered to be of an "atypical or unusual" nature, and which, due to their magnitude/relevance might have cast doubts on the safeguarding of the company's assets and the protection of minority shareholders' rights.

Information required under IAS 24 is shown in Part H of the Notes to the Financial Statements.

## Option for the domestic consolidated tax system

The Bank and its Italian-based subsidiaries have joined the "domestic consolidated tax system", pursuant to Articles 117-129 of the TUIR (Consolidated Income Tax Act). The option was renewed in June 2019 for the 2019-2021 period.

By virtue of this option, the Group companies determine their proportion of the taxes payable and the corresponding tax income (taxable income or tax loss) is transferred to the Parent Company, relating to which a single taxable income or loss is reported (resulting from the arithmetical sum of its own and its participating subsidiaries' incomes/losses) and, consequently, a single income tax debit/credit is determined.

## Comparison of key balance sheet and income statement figures of the 2019 and 2018 financial years

We present to you below, in summary form, the main data of the financial statements at 31 December 2019, compared with the corresponding data in 2018.

The tables reflect the minimum mandatory layout provided for in Circular Letter 262/2005 issued by the Bank of Italy (update 6).



**BALANCE SHEET OF BANCA FINNAT EURAMERICA S.p.A.**

(in thousands of euros)

| | 31.12.2019 | 31.12.2018 | Absolute change |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 696 | 659 | 37 |
| Financial assets designated at fair value through profit or loss | 78,624 | 59,248 | 19,376 |
| a) financial assets held for trading | 57,696 | 37,410 | 20,286 |
| c) other financial assets mandatorily at fair value | 20,928 | 21,838 | (910) |
| Financial assets designated at fair value through other comprehensive income | 365,398 | 297,413 | 67,985 |
| Financial assets designated at amortised cost | 1,499,680 | 1,423,634 | 76,046 |
| a) due from banks | 71,317 | 78,405 | (7,088) |
| b) loans to customers | 1,428,363 | 1,345,229 | 83,134 |
| Equity investments | 77,109 | 72,463 | 4,646 |
| Property and equipment | 13,570 | 4,669 | 8,901 |
| Intangible assets | 507 | 475 | 32 |
| Tax assets | 5,403 | 8,118 | (2,715) |
| Other assets | 25,675 | 26,315 | (640) |
| **TOTAL ASSETS** | **2,066,662** | **1,892,994** | **173,668** |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| Financial liabilities designated at amortised cost | 1,815,923 | 1,649,542 | 166,381 |
| a) due to banks | 369 | 271 | 98 |
| b) due to customers | 1,790,641 | 1,621,021 | 169,620 |
| c) debt securities issued | 24,913 | 28,250 | (3,337) |
| Financial liabilities held for trading | 152 | 323 | (171) |
| Tax liabilities | 1,391 | 1,596 | (205) |
| Other liabilities | 9,414 | 11,496 | (2,082) |
| Provisions for termination indemnities | 1,983 | 2,014 | (31) |
| Provisions for risks and charges | 102 | 783 | (681) |
| a) commitments and guarantees given | 102 | 101 | 1 |
| c) other provisions for risks and charges | - | 682 | (682) |
| Shareholders' equity | 237,697 | 227,240 | 10,457 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **2,066,662** | **1,892,994** | **173,668** |

**INCOME STATEMENT OF BANCA FINNAT EURAMERICA S.p.A.**

(in thousands of euros)

| | FY 2019 | FY 2018 | Change | |
|---|---|---|---|---|
| | | | absolute | percentage |
| **Interest margin** | **16,378** | **12,453** | **3,925** | **32%** |
| **Net fees and commissions** | **21,289** | **19,987** | **1,302** | |
| Dividend and similar income | 6,904 | 7,184 | (280) | -4% |
| Profit (losses) on trading | (1,737) | (170) | (1,567) | |
| Profit (losses) on disposal or repurchase of: | 706 | 1,298 | (592) | |
| a) financial assets designated at amortised cost | 464 | 377 | 87 | |
| b) financial assets designated at fair value through other comprehensive income | 242 | 921 | (679) | |
| Profits (losses) on other financial assets and liabilities designated at fair value through profit or loss: | (1,230) | (404) | (826) | |
| b) other financial assets mandatorily at fair value | (1,230) | (404) | (826) | |
| **Net banking income** | **42,310** | **40,348** | **1,962** | **5%** |
| Net losses/recoveries on credit risk of: | (12,004) | (4,140) | (7,864) | |
| a) financial assets designated at amortised cost | (12,161) | (3,408) | (8,753) | |
| b) financial assets designated at fair value through other comprehensive income | 157 | (732) | 889 | |
| Gains/losses from contractual changes without derecognition | 7 | - | 7 | |
| **Net income from financial operations** | **30,313** | **36,208** | **(5,895)** | **-16%** |
| Personnel expenses | (19,190) | (19,154) | (36) | |
| Other administrative expenses | (13,094) | (14,387) | 1,293 | |
| Net provisions for risks and charges | 682 | (148) | 830 | |
| Net losses on property and equipment and intangible assets | (2,377) | (363) | (2,014) | |
| Other operating income/expenses | 5,013 | 5,123 | (110) | |
| **Operating costs** | **(28,966)** | **(28,929)** | **(37)** | **0%** |
| Profit (loss) from equity investments | (1,558) | (224) | (1,334) | |
| **Profit (loss) from continuing operations before taxes** | **(211)** | **7,055** | **(7,266)** | **-103%** |
| Taxes on income from continuing operations | 989 | (957) | 1,946 | |
| **Profit (loss) for the year** | **778** | **6,098** | **(5,320)** | **-87%** |

Following are a series of Bank operating ratios at 31 December 2019 compared with the operating ratios of the previous year.

| | FY 2019 (%) | FY 2018 (%) |
|---|---|---|
| Interest margin/net banking income | 38.71 | 30.86 |
| Net fees and commissions/net banking income | 50.32 | 49.54 |
| Cost/income ratio<br>(operating costs/net banking income) | 68.46 | 71.70 |
| ROE<br>(profit (loss) for the year/shareholders' equity) | 0.33 | 2.68 |
| ROA<br>(profit (loss) for the year/total assets) | 0.04 | 0.32 |

# Main transactions in the year, significant subsequent events and operating outlook



**The main transactions in the year**

Concerning the main transactions and most significant events in the year relating to the Bank, it should be pointed out that:

- On 24 April 2019, the Shareholders' Meeting of the Bank:
  - approved the Financial Statements at 31 December 2018 and the distribution, to the Shareholders, of a gross dividend of 0.01 euros per share, due for payment from 14 May 2019 (coupon date: 13 May 2019);
  - approved the Remuneration Policy prepared in pursuance of Article 123-ter of Italian Legislative Decree 58/98.
- On 27 June 2019, the Bank's Board of Directors granted the Chairman a mandate to convene the Ordinary Shareholders' Meeting on 1 August 2019, to decide, among other things, with regard to the appointment of the auditing firm for the nine-year period from 2020 to 2028 and the determination of the fee.
- On 27 June 2019, in compliance with the obligations set out in the shareholder agreements, signed on 15 March 2019 with the company Bio-On S.p.A., the shareholders' meetings of Liphe S.p.A. and Aldia S.p.A. resolved to appoint (i) two of the four members of the Board of Directors; and (ii) the Chairman of the Board of Statutory Auditors and one alternate auditor, on the appointment of Banca Finnat. In consideration of the above, starting from the consolidated half-yearly financial report at 30 June 2019, Liphe S.p.A. and Aldia S.p.A. were classified by the Bank as joint ventures and therefore both equity investments, equal to 10% of the share capital of each, were recognised in the consolidated financial statements using the equity method, as required by IAS 28. Subsequently, on 13 September 2019, the shareholders' meetings of Liphe S.p.A. and Aldia S.p.A., again in compliance with the provisions of the shareholder agreements, resolved: (i) some amendments to the articles of association; and (ii) an increase in share capital under option to shareholders from 50 thousand euros to 13 million euros in Aldia S.p.A. and from 50 thousand euros to 7.5 million euros in Liphe S.p.A.. In order to subscribe to the portion of the above share capital increases, on 30 September 2019, Banca Finnat paid 1,295 thousand euros into Aldia S.p.A. and 745 thousand euros into Liphe S.p.A..
- On 1 July 2019, as part of the strategic lines directed at the development of Private Banking activities, to be carried out through the expansion of the customer base and the strengthening of the Northern Italy area, as prescribed by the Business Plan, the Bank moved its registered office in Milan from Via Meravigli no. 3 to Via Manzoni no. 30, inside the prestigious historic building Gallarati Scotti, dating back to the beginning of the Eighteenth century.
- On 1 August 2019, the Shareholders' Meeting of Banca Finnat Euramerica – as a result of the imminent expiry of the nine-year engagement assigned in due course to the auditing firm E&Y S.p.A. – approved, among other things, the appointment of the auditing firm KPMG S.p.A., for the financial years from 2020 to 2028, to carry out the external audit of the statutory and consolidated financial statements and the limited audit of the condensed consolidated half-yearly financial statements, as well as the accounting checks.
- The publication by the media of a report concerning the company Bio-On, produced by a speculative fund at the end of July 2019, in which the company was accused of alleged accounting irregularities and false corporate communications concerning the production capacity and quality of the products

offered, led to a significant reduction in the market value of the company's shares, as well as the intervention by the competent bodies aimed at verifying the truthfulness or groundlessness of these allegations.

In October 2019, the Public Prosecutor's Office of Bologna challenged top executives of the company and others for committing offences of false corporate communications and market rigging. On behalf of the Public Prosecutor's Office, the Italian Tax Police seized assets and financial resources of some of the suspects. At the same time, Borsa Italiana S.p.A. suspended the share of Bio-on S.p.A. from trading on the AIM Italia market. The Court of Bologna also nominated a court-appointed administrator with the task of verifying the overall situation – accounting, economic and financial – of the company, as well as verifying the ongoing business continuity. Following the claim presented by the court-appointed administrator, on 20 December 2019, the Court of Bologna, by means of ruling no. 137, declared the company Bio-On bankrupt, appointing the Deputy Judge and two receivers.

At 31 December 2019, Banca Finnat claimed a receivable from the company Bio-On S.p.A., for a total amount of roughly 15 million euros. The loan is expected to be repaid through deferred payments until 15 September 2020. However, the first tranche of 7 million euros, due on 30 September 2019, was not repaid and, therefore, the total amount of the loan was classified among non-performing forborne exposures as unlikely to pay.

Following the declaration of the opening of the compulsory winding-up, the receivable will be repaid according to the rules of bankruptcy proceedings, and subsequently, the Board of Directors resolved, at the time of the drafting of the financial statements, to classify the receivable due from the company Bio-On as a bad loan effective from 31 December 2019 and record the associated impairment.

Between the end of July and December 2019, the Bank received from Consob (pursuant to art. 115, paragraph 1, letter c-bis) and art. 6-bis, paragraph 4, letter a) of Legislative Decree no. 58/1998) and the Bank of Italy some requests for data and information regarding relations with Bio-On S.p.A. and regarding the activities of the Bank itself as well as relating to the relevant evaluations conducted by the Bank. The Bank quickly provided the required responses.

In addition, on 28 November 2019, Consob sent to the Bank's Board of Statutory Auditors a request for data and information pursuant to art. 115, paragraph 1, of Legislative Decree no. 58/1998 again in relation to relations with Bio-On S.p.A. The Board of Statutory Auditors provided a quick response to this request.

**With reference to the other Group companies, the project that led to the start of the operations of REDO SGR, an investee of InvestiRE SGR S.p.A., is outlined below:**

- During the year, the first phase of the project connected with the REDO – specialised operator in social housing in Lombardy – operation was completed. The project, which is structured into several phases, provides for the establishment of a body specialised in the structuring and development of social housing, university housing and urban regeneration with a social impact carried out by InvestiRE in partnership with the Fondazione Cariplo – with the contribution of CDP Investimenti SGR – directed in the long term at the establishment of a multi-sector Sicaf under own management.

  As set forth in the project, on 17 December 2018, REDO SGR S.p.A. was established, with a share capital of 500,000 euros, of which 33.33% is subscribed by the subsidiary InvestiRE SGR S.p.A. and 66.66% by Fondazione Cariplo.
- On 3 April 2019, taking into account the well-reasoned and binding opinion of the Risk Committee which relied on the fairness opinion with regard to the price of the transaction (i.e. 11.5 million euros)

issued by an independent expert, the Board of Directors of the Bank decided in favour of the transfer of the business unit of InvestiRE SGR to the newly incorporated REDO and on the same date the Board of Directors of the subsidiary InvestiRE SGR S.p.A. approved the transfer. The information document pertaining to the transfer of the business unit by the subsidiary InvestiRE SGR S.p.A. to REDO SGR S.p.A. was published on the authorised storage mechanism SDIR-NIS/NIS-Storage and on the Bank's website on 10 April 2019, as set out in art. 5 of Consob Reg. 17221/2010.

- On 18 April 2019, the shareholders' meetings of the sub-funds of the FIL Fund (FIL 1 and FIL 2) approved the replacement of the management company InvestiRE with REDO.
- On 7 June 2019, the share capital increase of 1,000,000 euros (including premium of 900,000 euros) resolved by the extraordinary shareholders' meeting of the company held on 28 May 2019 was completed, with the payment by the two shareholders, based on the percentage stakes held.
- On 16 October 2019, the Bank of Italy issued the measure in which REDO SGR was authorised to exercise the collective savings management service, subjecting the company's registration in the register of asset management companies to the approval of some amendments to the company's articles of association; these amendments were approved by the extraordinary shareholders' meeting of REDO SGR on 21 October 2019 and, on 6 November 2019, the Bank of Italy communicated the registration of REDO SGR S.p.A. in the register of asset management companies, effective from 25 October 2019.
- On 27 November 2019, effective from 1 December 2019, the deed was signed for the transfer of the business unit from InvestiRE to REDO SGR SpA and for the transfer to said entity of the management mandates of Funds Fil 1 and 2 and, subsequently, on 23 December 2019, as set out in the agreements, the sale by InvestiRE to Fondazione Cariplo of 63.89% of the equity investment in REDO SGR S.p.A. was completed. Following the transactions described, InvestiRE holds 33.3% in REDO SGR S.p.A. and Fondazione Cariplo 66.6%, as at the time of establishment.

**Significant events occurring after the end of the financial year**

In the period spanning the end of the 2019 financial year and the date on which these financial statements were prepared, no significant events or factors that could affect the financial position, capital position, or results of operations of the Bank emerged.

It should be noted, however, that the pandemic caused by the new "Coronavirus" (COVID-19) which spread throughout continental China at the start of January 2020 in a period extremely close to the end of the financial year and, subsequently, also in other countries including Italy, caused a slowdown or suspension in economic and commercial activities in a number of sectors. The Company considers this to be a non-adjusting event after the reporting period pursuant to IAS 10.

Paragraph 125 of IAS 1 requires entities to provide disclosure relating to the assumptions about the future and the other main causes of uncertainty in the estimates at the close of the year which present a material risk of giving rise to significant adjustments in the carrying amounts of assets and liabilities by the next year. In respect of a fluid, rapidly changing and volatile situation, a quantitative estimate of the potential impact of the Coronavirus on the Company's financial position cannot be provided at present, in view of the multitude of determining factors that are still unknown.

This potential impact will therefore be considered in the accounting estimates in 2020, including those relating to all the main events for which the use of subjective evaluations and estimates by the

management is most needed, in support of the determination of the carrying amount of assets and liabilities, as described in Section 4 – Other aspects of the Notes to the Financial Statements.
The unexpected development of the external scenario and its possible repercussions outlined previously therefore call for more prudence when making future projections of the income statement and balance sheet results.
However, it should be noted that the Bank has, from the outset, monitored developments in the global situation and then nationally, determined by the spread of the new Coronavirus. In accordance with the provisions of IAS 1 and also following the recommendations of the ESMA of 11 March 2020, the Bank has implemented measures targeted at ensuring business continuity, by establishing the appropriate crisis management committee. The Bank has implemented various initiatives, including the preparation of a technological framework to promote company smart working. By following the recommendations drawn up by the national authorities and institutions, the Bank has quickly enabled a significant percentage of its employees to work from home, achieving the primary objective of protecting the health of its employees and subsequently guaranteeing the continuity of its operations and services offered to customers. Behavioural communications and recommendations have also been circulated to employees, and various health measures have been taken at its offices and private centres.

**Business outlook**

The forecasts contained in the Budget, prepared at the start of the year, with the involvement of the different areas of Bank business, predict a positive net result in 2020 which promises to be better than the year just ended. However, the Bank will update the forecasts in 2020 to take account of the impacts of the developments in the COVID-19 epidemiological emergency.

* * *

**Dear Shareholders,**

We submit the financial statements for 2019, comprising the Balance Sheet, Income Statement, Statement of Comprehensive Income, Statement of changes in Shareholders' Equity, Statement of Cash Flows and Notes to the Financial Statements, as well as the related attachments and the Report on Operations, for your approval.

We would also suggest allocating the year's profits as follows:

| | | |
|---|---|---|
| **profit for the year** | **777,688** | **euros** |
| • to the legal reserve, for 5% | | |
| to be set aside in compliance with the law and the articles of association | 38,884 | euros |
| • to extraordinary reserve | 738,804 | euros |
| **totalling** | **777,688** | **euros** |

Additionally, the stated allocation of the year's profits complies with the provisions of Article 6 of Italian Legislative Decree no. 38/2005.

* * * *

As a result of the proposed allocations, the item “Reserves” will break down as follows:

| | | |
|---|---|---|
| • legal reserve | 11,524,664 | euros |
| • dividend adjustment reserve | 6,724,772 | euros |
| • reserve for purchased treasury shares | 14,059,346 | euros |
| • extraordinary reserve | 85,292,076 | euros |
| • profit brought forward from restated IAS 19 | 179,409 | euros |
| • IFRS 9 FTA reserve | (488,407) | euros |
| • reserve for merger surplus | 524,609 | euros |
| Total profit reserves | 117,816,469 | euros |
| Other reserves | | |
| • profits on treasury shares | 4,277,111 | euros |
| • gains (losses) on HTCS shares | (35,302) | euros |
| **Total reserves** | **122,058,278** | **euros** |

Before moving to the analysis of the various financial statement items, the Board wishes to thank all the Company’s staff for the excellent work they have done.

Rome, 19 March 2020

**On behalf of the Board of Directors**

The Chairman

(*Ms. Flavia Mazzarella*)

**BALANCE SHEET OF BANCA FINNAT EURAMERICA S.P.A.**

(amounts in euros)

| | Asset items | 31.12.2019 | 31.12.2018 |
|---|---|---|---|
| **10.** | Cash and cash equivalents | 696,020 | 658,718 |
| **20.** | Financial assets designated at fair value through profit or loss | 78,623,764 | 59,247,913 |
| | a) financial assets held for trading | 57,695,998 | 37,410,303 |
| | c) other financial assets mandatorily at fair value | 20,927,766 | 21,837,610 |
| **30.** | Financial assets designated at fair value through other comprehensive income | 365,397,528 | 297,412,930 |
| **40.** | Financial assets designated at amortised cost | 1,499,680,157 | 1,423,634,017 |
| | a) due from banks | 71,316,976 | 78,405,353 |
| | b) loans to customers | 1,428,363,181 | 1,345,228,664 |
| **70.** | Equity investments | 77,109,495 | 72,463,384 |
| **80.** | Property and equipment | 13,569,520 | 4,668,807 |
| **90.** | Intangible assets | 507,399 | 475,249 |
| | of which: | | |
| | - goodwill | 300,000 | 300,000 |
| **100.** | Tax assets | 5,402,651 | 8,117,868 |
| | *a) current* | 3,407,940 | 2,226,555 |
| | *b) deferred* | 1,994,711 | 5,891,313 |
| **120.** | Other assets | 25,675,019 | 26,314,991 |
| | **Total assets** | **2,066,661,553** | **1,892,993,877** |

**BALANCE SHEET OF BANCA FINNAT EURAMERICA S.P.A.**

(amounts in euros)

| | Liabilities and shareholders' equity | 31.12.2019 | 31.12.2018 |
|---|---|---|---|
| **10.** | Financial liabilities designated at amortised cost | 1,815,922,407 | 1,649,542,660 |
| | a) due to banks | 368,647 | 271,441 |
| | b) due to customers | 1,790,640,770 | 1,621,021,252 |
| | c) debt securities issued | 24,912,990 | 28,249,967 |
| **20.** | Financial liabilities held for trading | 151,767 | 322,737 |
| **60.** | Tax liabilities | 1,390,824 | 1,595,919 |
| | a) current | 14,450 | 420,614 |
| | b) deferred | 1,376,374 | 1,175,305 |
| **80.** | Other liabilities | 9,414,828 | 11,494,376 |
| **90.** | Provisions for termination indemnities | 1,982,853 | 2,014,245 |
| **100.** | Provisions for risks and charges | 101,624 | 783,622 |
| | a) commitments and guarantees given | 101,624 | 101,376 |
| | c) other provisions for risks and charges | - | 682,246 |
| **110.** | Valuation reserves | 57,122,316 | 43,770,278 |
| **140.** | Reserves | 121,280,592 | 118,855,745 |
| **160.** | Share capital | 72,576,000 | 72,576,000 |
| **170.** | Treasury shares (-) | (14,059,346) | (14,059,346) |
| **180.** | Profit (loss) for the year (+/-) | 777,688 | 6,097,641 |
| | **Total liabilities and shareholders' equity** | **2,066,661,553** | **1,892,993,877** |

**INCOME STATEMENT OF BANCA FINNAT EURAMERICA S.P.A.**

(amounts in euros)

| | Items | FY 2019 | FY 2018 |
|---|---|---|---|
| **10.** | Interest income and similar income | 18,713,241 | 14,035,114 |
| | of which: interest income calculated with the effective interest method | 1,871,717 | (940,200) |
| **20.** | Interest expense and similar expense | (2,335,605) | (1,581,917) |
| **30.** | **Interest margin** | **16,377,636** | **12,453,197** |
| **40.** | Fee and commission income | 22,733,207 | 21,547,257 |
| **50.** | Fee and commission expense | (1,444,629) | (1,560,749) |
| **60.** | **Net fees and commissions** | **21,288,578** | **19,986,508** |
| **70.** | Dividend and similar income | 6,903,723 | 7,184,018 |
| **80.** | Profit (losses) on trading | (1,737,055) | (170,035) |
| **100.** | Profit (losses) on disposal or repurchase of: | 706,157 | 1,298,104 |
| | a) financial assets designated at amortised cost | 464,258 | 377,122 |
| | b) financial assets designated at fair value through other comprehensive income | 241,899 | 920,982 |
| **110.** | Profits (losses) on other financial assets and liabilities designated at fair value through profit or loss | (1,229,087) | (404,349) |
| | b) other financial assets mandatorily at fair value | (1,229,087) | (404,349) |
| **120.** | **Net banking income** | **42,309,952** | **40,347,443** |
| **130.** | Net losses/recoveries on credit risk of: | (12,003,599) | (4,139,319) |
| | a) financial assets designated at amortised cost | (12,160,510) | (3,407,641) |
| | b) financial assets designated at fair value through other comprehensive income | 156,911 | (731,678) |
| **140.** | Gains/losses from contractual changes without derecognition | 6,771 | - |
| **150.** | **Net income from financial operations** | **30,313,124** | **36,208,124** |
| **160.** | Administrative expenses: | (32,283,954) | (33,541,378) |
| | a) personnel expenses | (19,189,744) | (19,154,302) |
| | b) other administrative expenses | (13,094,210) | (14,387,076) |
| **170.** | Net provisions for risks and charges | 681,998 | (147,850) |
| | a) commitments and guarantees given | (248) | (13,984) |
| | b) other net allocations | 682,246 | (133,866) |
| **180.** | Net losses/recoveries on property and equipment | (2,317,875) | (335,573) |
| **190.** | Net losses/recoveries on intangible assets | (59,080) | (27,258) |
| **200.** | Other operating income/expenses | 5,012,720 | 5,122,543 |
| **210.** | **Operating costs** | **(28,966,191)** | **(28,929,516)** |
| **220.** | Profit (loss) from equity investments | (1,558,024) | (224,057) |
| **260.** | **Profit (loss) from continuing operations before taxes** | **(211,091)** | **7,054,551** |
| **270.** | Taxes on income from continuing operations | 988,779 | (956,910) |
| **280.** | **Profit (loss) from continuing operations after taxes** | **777,688** | **6,097,641** |
| **300.** | **Profit (loss) for the year** | **777,688** | **6,097,641** |

**STATEMENT OF COMPREHENSIVE INCOME OF BANCA FINNAT EURAMERICA S.P.A.**

(amounts in euros)

| | Items | FY 2019 | FY 2018 |
|---|---|---|---|
| **10.** | **Profit (loss) for the year** | **777,688** | **6,097,641** |
| | **Other comprehensive income after taxes that may not be reclassified to the income statement** | | |
| **20.** | Equity designated at fair value through other comprehensive income | 5,292,833 | (368,361) |
| **70.** | Defined benefit plans | (52,877) | (29,245) |
| | **Other comprehensive income after taxes that may be reclassified to the income statement** | | |
| **140.** | Financial assets (other than equity) designated at fair value through other comprehensive income | 8,112,082 | (8,176,025) |
| **170.** | **Total other comprehensive income after tax** | **13,352,038** | **(8,573,631)** |
| **180.** | **Comprehensive income (Item 10+170)** | **14,129,726** | **(2,475,990)** |

Item 20 also includes the change in the fair value of the equity investments in subsidiaries.

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AT 31 DECEMBER 2019

(in euros)

| | | | | Allocation of previous FY profit | |
|---|---|---|---|---|---|
| | Balances at 31.12.2018 | Change in opening balances (*) | Balances at 1.01.2019 | Reserves | Dividends and other allocations |
| **Share capital:** | **72,576,000** | | **72,576,000** | **-** | **-** |
| a) ordinary shares | 72,576,000 | | 72,576,000 | - | - |
| b) other shares | | | - | - | - |
| **Share issue premiums** | **-** | | **-** | **-** | **-** |
| **Reserves:** | **118,855,745** | | **118,855,745** | **2,468,842** | **-** |
| a) profit | 114,569,939 | | 114,569,939 | 2,468,842 | |
| b) other | 4,285,806 | | 4,285,806 | - | - |
| **Valuation reserve** | **43,770,278** | | **43,770,278** | **-** | **-** |
| **Capital instruments** | **-** | | **-** | | |
| **Treasury shares** | **(14,059,346)** | | **(14,059,346)** | | |
| **Profit (loss) for the year** | **6,097,641** | | **6,097,641** | **(2,468,842)** | **(3,628,799)** |
| **Shareholders' equity** | **227,240,318** | **-** | **227,240,318** | **-** | **(3,628,799)** |

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AT 31 DECEMBER 2018

(in euros)

| | | | | Allocation of previous FY profit | |
|---|---|---|---|---|---|
| | Balances at 31.12.2017 | Change in opening balances (*) | Balances at 1.01.2018 | Reserves | Dividends and other allocations |
| **Share capital:** | **72,576,000** | | **72,576,000** | **-** | **-** |
| a) ordinary shares | 72,576,000 | | 72,576,000 | - | - |
| b) other shares | | | - | - | - |
| **Share issue premiums** | **-** | | **-** | **-** | **-** |
| **Reserves:** | **93,947,378** | **(488,407)** | **93,458,971** | **25,388,081** | **-** |
| a) profit | 89,670,265 | (488,407) | 89,181,858 | 25,388,081 | |
| b) other | 4,277,113 | | 4,277,113 | - | - |
| **Valuation reserve** | **53,488,826** | **(1,144,917)** | **52,343,909** | **-** | **-** |
| **Capital instruments** | **-** | | **-** | | |
| **Treasury shares** | **(14,059,346)** | | **(14,059,346)** | | |
| **Profit (loss) for the year** | **36,274,481** | | **36,274,481** | **(25,388,081)** | **(10,886,400)** |
| **Shareholders' equity** | **242,227,339** | **(1,633,324)** | **240,594,015** | **-** | **(10,886,400)** |

(*) Change in opening balances concerns adjustments made on the first-time adoption of IFRS 9.

| Changes during the year | | | | | | | | Shareholders' equity at 31.12.2019 |
|---|---|---|---|---|---|---|---|---|
| Changes in reserves | Shareholders' equity transactions | | | | | | Comprehensive income FY 2019 | |
| | New share issue | Purchase of treasury shares | Extra dividend distribution | Change in capital instruments | Derivatives on treasury shares | Stock options | | |
| **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **72,576,000** |
| - | - | - | - | - | - | - | - | 72,576,000 |
| - | - | - | - | - | - | - | - | - |
| **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **(43,995)** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **121,280,592** |
| | | | | | | | | 117,038,781 |
| (43,995) | - | - | - | - | - | - | - | 4,241,811 |
| **-** | **-** | **-** | **-** | **-** | **-** | **-** | **13,352,038** | **57,122,316** |
| | | | | **-** | | | | **-** |
| **-** | | | | | | | | **(14,059,346)** |
| **-** | **-** | **-** | **-** | **-** | **-** | **-** | **777,688** | **777,688** |
| **(43,995)** | **-** | **-** | **-** | **-** | **-** | **-** | **14,129,726** | **237,697,250** |

| Changes during the year | | | | | | | | Shareholders' equity at 31.12.2018 |
|---|---|---|---|---|---|---|---|---|
| Changes in reserves | Shareholders' equity transactions | | | | | | Comprehensive income FY 2018 | |
| | New share issue | Purchase of treasury shares | Extra dividend distribution | Change in capital instruments | Derivatives on treasury shares | Stock options | | |
| **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **72,576,000** |
| - | - | - | - | - | - | - | - | 72,576,000 |
| - | - | - | - | - | - | - | - | - |
| **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **8,693** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **118,855,745** |
| - | | | | | | | | 114,569,939 |
| 8,693 | - | - | - | - | - | - | - | 4,285,806 |
| **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(8,573,631)** | **43,770,278** |
| | | | | **-** | | | | **-** |
| **-** | | | | | | | | **(14,059,346)** |
| **-** | **-** | **-** | **-** | **-** | **-** | **-** | **6,097,641** | **6,097,641** |
| **8,693** | **-** | **-** | **-** | **-** | **-** | **-** | **(2,475,990)** | **227,240,318** |

**STATEMENT OF CASH FLOWS (indirect method)**

(in euros)

| | Amount | |
|---|---|---|
| | **31.12.2019** | **31.12.2018** |
| **A. OPERATING ACTIVITIES** | | |
| **1. Management** | **17,502,990** | **7,497,864** |
| - net profit (loss) for the year (+/-) | 777,688 | 6,097,641 |
| - capital gains/losses on financial assets held for trading and on other financial assets and liabilities designated at fair value through profit or loss (-/+) | 2,248,925 | 986,459 |
| - capital gains/losses on hedging assets (-/+) | - | - |
| - net losses/recoveries on credit risk (+/-) | 12,003,599 | 4,139,319 |
| - net losses/recoveries on property and equipment and intangible assets (+/-) | 2,414,103 | 396,448 |
| - net allocations to the provisions for risks and charges and other costs/revenues (+/-) | 188,659 | 976,825 |
| - taxes, duties and tax credits not liquidated (+/-) | 988,779 | (956,910) |
| - net losses/recoveries on discontinued operations net of tax effect (+/-) | - | - |
| - other adjustments (+/-) | (1,118,763) | (4,141,918) |
| **2. Cash generated by/used in financial assets** | **(180,867,436)** | **(117,195,619)** |
| - financial assets held for trading | (21,305,533) | 7,642,847 |
| - financial assets designated at fair value | - | - |
| - other financial assets mandatorily at fair value | (319,243) | 921,010 |
| - financial assets designated at fair value through other comprehensive income | (67,827,687) | (100,067,389) |
| - financial assets designated at amortised cost | (92,017,797) | (20,188,011) |
| - other assets | 602,824 | (5,504,076) |
| **3. Cash generated by/used in financial liabilities** | **152,176,672** | **124,615,647** |
| - financial liabilities designated at amortised cost | 155,329,239 | 123,583,452 |
| - financial liabilities held for trading | (170,970) | 180,086 |
| - financial liabilities designated at fair value | - | - |
| - other liabilities | (2,981,597) | 852,109 |
| **Cash generated by/used in operating activities** | **(11,187,774)** | **14,917,892** |

| | Amount | |
|---|---|---|
| | 31.12.2019 | 31.12.2018 |
| **B. INVESTING ACTIVITIES** | | |
| **1. Cash generated by** | **3,906,356** | **4,834,956** |
| - disposals of equity investments | - | - |
| - dividends received on equity investments | 3,890,266 | 4,833,724 |
| - disposals of property and equipment | 16,090 | 1,232 |
| - disposals of intangible assets | - | - |
| - disposals of business units | - | - |
| **2. Cash used in** | **(2,404,518)** | **(263,474)** |
| - purchases of equity investments | (2,050,000) | - |
| - purchases of property and equipment | (263,289) | (135,165) |
| - purchases of intangible assets | (91,229) | (128,309) |
| - purchases of business units | - | - |
| **Cash generated by/used in investing activities** | **1,501,838** | **4,571,482** |
| **C. FINANCING ACTIVITIES** | | |
| - issues/purchases of treasury shares | - | - |
| - issues/purchases of capital instruments | - | - |
| - dividend distribution and other purposes | 9,723,238 | (19,460,031) |
| **Cash generated by/used in financing activities** | **9,723,238** | **(19,460,031)** |
| **CASH GENERATED/USED DURING THE YEAR** | **37,302** | **29,343** |

*Key*:
(+) generated
(-) used

| RECONCILIATION | 31.12.2019 | 31.12.2018 |
|---|---|---|
| **FINANCIAL STATEMENT ITEMS** | | |
| Cash and cash equivalents at the beginning of the year | 658,718 | 629,375 |
| Total net cash generated/used during the year | 37,302 | 29,343 |
| Cash and cash equivalents: effect of exchange rate changes | | |
| Cash and cash equivalents at the end of the year | 696,020 | 658,718 |

# NOTES TO THE FINANCIAL STATEMENTS OF BANCA FINNAT EURAMERICA S.p.A.

Set out below are the sections of the Notes to the Financial Statements applicable to the Bank.

**Part A – Accounting policies**

A.1 – General information

- Section 1 - Statement of compliance with international accounting standards
- Section 2 - General financial reporting principles
- Section 3 - Subsequent events
- Section 4 - Other aspects

A.2 – Information on the main financial statement items

A.3 – Information on transfers between portfolios of financial assets

A.4 – Information on fair value

A.5 – Report on the so-called "day one profit/loss"

**Part B – Information on the balance sheet**

ASSETS

- Section 1 - Cash and cash equivalents - Item 10
- Section 2 - Financial assets designated at fair value through profit or loss - Item 20
- Section 3 - Financial assets designated at fair value through other comprehensive income - Item 30
- Section 4 - Financial assets designated at amortised cost - Item 40
- Section 7 - Equity investments - Item 70
- Section 8 - Property and equipment - Item 80
- Section 9 - Intangible assets - Item 90
- Section 10 - Tax assets and liabilities - Items 100 (assets) and 60 (liabilities)
- Section 12 - Other assets - Item 120

LIABILITIES

- Section 1 - Financial liabilities designated at amortised cost - Item 10
- Section 2 - Financial liabilities held for trading - Item 20
- Section 6 - Tax liabilities - Item 60
- Section 8 - Other liabilities - Item 80
- Section 9 - Provisions for termination indemnities - Item 90
- Section 10 - Provisions for risks and charges - Item 100
- Section 12 - Shareholders' equity - Items 110, 130, 140, 150, 160, 170 and 180

Other information

**Part C – Information on the income statement**

- Section 1 - Interest - Items 10 and 20
- Section 2 - Fees and commissions - Items 40 and 50
- Section 3 - Dividend and similar income - Item 70
- Section 4 - Profits (losses) on trading - Item 80

## Part A – Accounting policies

### A.1 – General information

**Section 1 - Statement of compliance with international accounting standards**

The financial statements of Banca Finnat Euramerica at 31 December 2019 are drafted by applying the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS), as amended by the International Accounting Standards Board (IASB) and approved by the European Commission, in force at 31 December 2019, in accordance with the procedures laid down in EC Regulation no. 1606/02.

The international accounting standards have been applied taking into account, where necessary, the "Framework for the Preparation and Presentation of Financial Statements" (the Framework).

For further guidance on the application of the new accounting standards, the Company has also referred to the interpretations provided by the International Financial Reporting Interpretations Committee (IFRIC), as well as the documents issued to support the introduction of the IAS/IFRS in Italy by the Organismo Italiano di Contabilità (OIC) – the Italian Accounting Board – and the documents produced by the Italian Bankers' Association (ABI).

If no standard or applicable interpretation applied specifically to a transaction, other event or condition, reference was made to the provisions and guidelines contained in the standards and interpretations dealing with similar and related issues, taking into account the Framework provisions.

**Section 2 - General financial reporting principles**

In accordance with the requirements jointly issued by the Bank of Italy, Consob and Isvap no. 2 of 6 February 2009 and paragraphs 25 and 26 of IAS 1, the Directors of the Bank have taken into account with the utmost caution and attention – for the purpose of preparing the financial statements – a series of financial, management and other indicators, in order to identify the existence of any circumstance that may be relevant for assessing the compliance with the 'going concern' requirement.

As a result of the audits carried out in respect of the realisable value of the assets – based on prudent weighted assessments – and in consideration of the reliability and results of the risk measurement systems, the Directors of the Bank are confident there is no evidence that could cast doubts in respect of the going concern assumption. Given the size of the Bank's assets, the substantial financial resources owned and the breakdown, quality and liquidity of the Bank's portfolio of financial assets, the Directors of the Bank have prepared these financial statements in the full conviction that the Bank meets the requirements of a going concern in the foreseeable future.

The Separate Financial Statements of Banca Finnat Euramerica S.p.A. at 31 December 2019 were prepared in accordance with the provisions laid down by Circular no. 262 of 22 December 2005 "Banks' financial statements: layouts and preparation" – update 6 of 30 November 2018 – issued by the Bank of Italy.

This latest update absorbed the introduction of the international accounting standard IFRS 16 which replaced, with effect from 1 January 2019, IAS 17 for the recognition of lease transactions.

The main changes and impacts of the application of the new standard – already illustrated in the 2018 Financial Statements – are analysed in a specific paragraph called "Adoption of the new accounting standard IFRS 16" in Section 4 - Other aspects.

Banca Finnat chose to carry out the First Time Adoption (FTA) with the modified retrospective approach (option B) which provides for the option, prescribed by IFRS 16, to recognise the cumulative effect of the adoption of the Standard at the date of first-time adoption and not to restate the comparative figures of the financial statements of first-time adoption of IFRS 16. Therefore, the figures for 2019 are not comparable with those for the same period of the previous year with reference to the valuation of the rights of use and the corresponding lease payable/receivable in that they were determined in accordance with the international accounting standard IAS 17, in force in the reporting period.

The reconciliation of the balance sheet data pursuant to IAS 17 published in the Financial Statements at 31 December 2018 with those determined at 1 January 2019 in application of the provisions of IFRS 16 in terms of the recognition of leases in the Financial Statements of the lessee, is provided in the appropriate paragraph "Adoption of the new accounting standard IFRS 16".

The Separate Financial Statements consist of the Balance Sheet, Income Statement, Statement of Changes in Shareholders' Equity, Statement of Comprehensive Income, Statement of Cash Flows and these Notes to the Financial Statements.
They also comprise the Directors' Report on the Bank's situation, on operations as a whole and in the various sectors in which it has operated as well as on main risks and uncertainties that it faces.
The Separate Financial Statements also contain, as an attachment, the Statement of changes in equity investments.

The Corporate Governance Report is provided in the specific section, drawn up in accordance with Article 123-bis of the Italian Consolidated Financial Law.

The Notes to the Separate Financial Statements provide all information required by law and additional information deemed necessary to give a true and fair view of the Bank's situation. If the information required by the international accounting standards and by the provisions of Bank of Italy Circular Letter no. 262 of 22 December 2005 - 6th revision does not suffice to give a true and fair, reliable, comparable and comprehensible view, the Notes to the Financial Statements provide additional information for said purpose.

The tables of the Balance Sheet, Income Statement and Statement of Comprehensive Income are made up of items, sub-items and by additional information on the items and sub-items. The items, sub-items and related details constitute the financial accounts. All items with nil balances either for the current or for the previous financial year are not shown. Revenues in the Income Statement and Statement of Comprehensive Income are shown without any sign, whilst costs are shown in brackets.
Comparative figures are shown for each account item of the Balance Sheet, Income Statement and Statement of Comprehensive Income.

Consistently with Article 5 of Italian Legislative Decree no. 38 of 28 February 2005, the Separate Financial Statements were prepared using the euro as the presentation currency. The amounts of the statements are expressed in euro, whilst the figures of the Notes to the Financial Statements, unless otherwise specified, are expressed in thousands of euros.

The Separate Financial Statements provide a true and fair view of the financial position, the result for the year and cash flows. The financial statements were also prepared, as specified above, on a going concern basis (IAS 1 paragraph 25), on an accrual basis (IAS 1 paragraphs 27 and 28), in compliance with the obligation to make adjustments to reflect the events subsequent to the reference date of the financial statements (IAS 10). The assets and liabilities, income and expenses have not been offset, except where required or allowed by a standard or interpretation (IAS 1 paragraph 32). The cost of inventory and of the financial instruments was calculated using the weighted average daily cost method (IAS 2 paragraph 25).

The accounting standards adopted for the preparation of these Financial Statements are the same as those used for the preparation of the 2018 Financial Statements, with the exception of the amendments resulting from the application, as of 1 January 2019, of the new international accounting standard IFRS 16 "Leases".

The Separate Financial Statements for Banca Finnat Euramerica S.p.A. were audited by EY S.p.A., to whose Report attached hereto specific reference is made.

As required by IAS 8, the Regulations (for amendments or issues of new standards) endorsed by the European Commission that apply from 1 January 2019 onwards are shown below:

- Regulation no. 1986/2017 – IFRS 16 Leases
- Regulation no. 498/2018 – Amendments to IFRS 9 Financial Instruments – Prepayment Features with Negative Compensation
- Regulation no. 237/2019 – Amendments to IAS 28 Investments in Associates and Joint Ventures
- Regulation no. 402/2019 – Amendments to IAS 19 Employee Benefits
- Regulation no. 412/2019 – Amendments to IAS 12 Income Taxes, IAS 23 Borrowing Costs, IFRS 3 Business Combinations, IFRS 11 Joint Arrangements.

In addition, the European Commission endorsed the following Regulation (through amendments or the promulgation of new standards) that will apply from 1 January 2020 onwards:

- Regulation no. 2075/2019 – Amendments to IAS 8 Accounting policies, changes in accounting estimates and errors, IAS 34 Interim financial reporting, IAS 37 Provisions, contingent liabilities and contingent assets, IAS 38 Intangible assets, IFRS 3 Business combinations, IFRS 6 Exploration for and evaluation of mineral resources, and the interpretations IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22 and SIC 32.

* * *

**Section 3 - Subsequent events**

In the period spanning the end of the 2019 financial year and the date on which these financial statements were prepared, no significant events or factors that could affect the financial position, capital position, or results of operations of the Bank emerged.

It should be noted, however, that the pandemic caused by the new "Coronavirus" (COVID-19) which spread throughout continental China at the start of January 2020 in a period extremely close to the end of the financial year and, subsequently, also in other countries including Italy, caused a slowdown or suspension in economic and commercial activities in a number of sectors. The company considers this to be a non-adjusting event after the reporting period pursuant to IAS 10.

Paragraph 125 of IAS 1 requires entities to provide disclosure relating to the assumptions about the future and the other main causes of uncertainty in the estimates at the close of the year which present a material risk of giving rise to significant adjustments in the carrying amounts of assets and liabilities by the next year. In respect of a fluid, rapidly changing and volatile situation, a quantitative estimate of the potential impact of the Coronavirus on the company's financial position cannot be provided at present, in view of the multitude of determining factors that are still unknown.

This potential impact will therefore be considered in the accounting estimates in 2020, including those relating to all the main events for which the use of subjective evaluations and estimates by the management is most needed, in support of the determination of the carrying amount of assets and liabilities, as described in Section 4 – Other aspects of the Notes to the Financial Statements.

The unexpected development of the external scenario and its possible repercussions outlined previously therefore call for more prudence when making future projections of the income statement and balance sheet results.

However, it should be noted that the Bank has, from the outset, monitored developments in the global situation and then nationally, determined by the spread of the new Coronavirus. In accordance with the provisions of IAS 1 and also following the recommendations of the ESMA of 11 March 2020, the Bank has implemented measures targeted at ensuring business continuity, by establishing the appropriate crisis management committee. The Bank has implemented various initiatives, including the preparation of a technological framework to promote company smart working. By following the recommendations drawn up by the national authorities and institutions, the Bank has quickly enabled a significant percentage of its employees to work from home, achieving the primary objective of protecting the health of its employees and subsequently guaranteeing the continuity of its operations and services offered to customers. Behavioural communications and recommendations have also been circulated to employees, and various health measures have been taken at its offices and private centres.

The 2019 Statutory Financial Statements will be submitted for the approval of the Shareholders' Meeting convened for 29 April 2020.

**Section 4 - Other aspects**

*Risks and uncertainties linked to the use of estimates*

In compliance with the IAS/IFRS standards, the Bank carries out evaluations, estimates and assumptions in support of the application of the accounting standards and for the determination of the amounts of the assets, liabilities, costs and revenues reported in the financial statements, as well as the disclosure relating to contingent assets and liabilities.

The estimates and relevant assumptions are based on previous experience and on other factors considered reasonable in the case in question and were adopted to estimate the carrying amount of the assets and liabilities that cannot be easily inferred from other sources.
In particular, estimate processes were adopted in support of the book value of some of the most significant valuation items recognised in the financial statements at 31 December 2019, as set forth in the accounting standards and the reference regulations described above. These processes are based largely on estimates of future recoverability of the values booked to the financial statements according to the rules dictated by the regulations in force and were carried out on the basis of the going concern assumption, i.e. excluding the assumption of forced settlement of the items subject to valuation.
The processes adopted confirm the book values at 31 December 2019. The parameters and information used to verify the values mentioned earlier are therefore greatly influenced by the factors which could be subject to rapid changes that are currently not foreseeable, so that subsequent effects on future book values cannot be ruled out.
The estimates and assumptions are reviewed regularly. Any changes resulting from these revisions are booked in the period in which the revision is carried out, if the same concerns solely that period. In the event in which the revision concerns both current and future periods, the change is booked in the period in which the revision is carried out in the relative future periods.
The main cases where the use of subjective evaluations by Management are most requested are:

- the quantification of losses due to impairment of receivables and, in general, other financial assets and equity investments;
- the use of valuation models for the recognition of the fair value of the financial instruments not listed in active markets;
- the estimate and the assumptions of the recoverability of deferred tax assets;
- the estimate of the recoverable value of goodwill;
- the estimate of any provisions for risks and charges.

*Exemption from the preparation of the fourth interim financial report for 2019*
With the implementation of the Directive on shareholders' rights (Italian Legislative Decree no. 27 of 27 January 2010), paragraph 1 of Article 154-ter was amended ("Financial Reports") of the Italian Consolidated Financial Law (the "TUF"). This amendment establishes that the annual Financial Report, comprising the draft statutory financial statements, the consolidated financial statements, if prepared, the report on operations and the certification of the appointed administrative bodies and the manager in charge of preparing the accounting documents, must be published within 120 days of the company year end. The obligation to ensure publication within 120 days refers specifically to the "draft financial statements" approved by the administrative body and no longer to the "statutory financial statements" approved by the Shareholders' Meeting. As such, this amendment restores, for listed companies, the option to postpone approval of the financial statements within maximum terms of 180 days as established by Article 2364, paragraph 2 of the Italian Civil Code, which had been abolished by Directive 2004/109/EC (the "Transparency Directive"). The decree also establishes that, as an exception to Article 2429, paragraph 1 of the Italian Civil Code, the draft financial statements must be disclosed by the directors to the Board of Statutory Auditors and to the Independent Auditing Firm at least 15 days prior to publishing the draft.

With reference to companies belonging to the STAR segment, Borsa Italiana has established the publication – in addition to the reports concerning the first and third quarters, as required by paragraph 5 of Article 154-ter – also the interim report on operations with reference to the 4th quarter; it has also allowed to omit drafting said report if publication of the draft financial statements is brought forward to 90 days as from the end of the year of reference. The term of 90 days (previously set to 75 days prior to the amendments introduced with the implementation of the Directive as explained above) was established by Borsa Italiana with its notice no. 14924 of 8 October 2010 concerning the "Amendments made to the Market Regulation". In view of the above, the Bank opted not to publish the fourth interim report on operations, by making the draft Separate and Consolidated Financial Statements at 31 December 2019, complete with the certification by the Manager in charge of preparing the accounting documents, that of the Board of Statutory Auditors and the Auditing Firm, available to shareholders and to the market within the term of 90 days from the end of the financial year.

**Adoption of the new accounting standard IFRS 16**

*Regulatory provisions*

IFRS 16 "Leases" promulgated by the IASB on 13 January 2016 and endorsed by the European Commission with Regulation no. 1986/2017, replaced, starting from 1 January 2019, IAS 17 and the related interpretations (IFRIC 4, SIC 15 and SIC 27).

IFRS 16 defines a lease as a contract the performance of which depends on the use of an identified asset and which gives the right to control the use of that asset for a period of time in exchange for consideration. The new standard applies to all transactions involving a right to use the asset for a certain period of time in exchange for a certain consideration, regardless of the contractual form; therefore, the scope of the new standard also includes rental, hiring, lease or loan agreements.

IFRS 16 introduces, in the financial statements of the lessee, significant changes for the accounting of leases and defines a single accounting model, without distinction between operating lease and finance lease; according to this model, the right to use the asset of the lease agreement is recognised (after VAT) among Balance Sheet Assets and the present value of the payable for lease payments still to be made to the lessor is recognised among Balance Sheet Liabilities.

The income statement – contrary to IAS 17 where lease payments were recorded under "Administrative expenses" – contains instead the recognition of the impairment losses deriving from the amortisation of the right of use calculated according to the duration of the agreement or for the useful life of the asset (recognised among "Operating costs") and the interest expense accrued on the payable (recognised in the "interest margin"). The Statement of Cash Flows is prepared taking into account the provisions of paragraph 44 of IAS 7.

Hence, the effects on the financial statements of the lessee, as a result of the application of IFRS 16 from 1 January 2019, are identifiable in: a) an increase in assets (leased assets); b) an increase in liabilities (payable with respect to the leased assets); c) a reduction in administrative expenses (lease payments) with respect to an increase in interest expense (remuneration of the payable to the lessor) and in amortisation costs (relating to the right of use).

The economic impact of each lease agreement, with reference to the set of financial years involved by the duration of the agreement (determined taking into account also the estimate pertaining to the year

of any options of early withdrawal or of extension), remains unchanged both applying the previous IAS 17 and applying the new IFRS 16, however this impact manifests itself with a different time allocation.
Concerning the financial statements of the lessor, IFRS 16 does not introduce substantial changes with respect to IAS 17: the models envisaged by IAS 17 continue to be applied, differentiated according to whether it is a finance or operating lease; however, a more ample disclosure is required with regard to the definition of leases and new accounting provisions are introduced with regard to sale & lease back and sub-lease agreements.

*Bank choices*

The Bank and the other Group companies have adopted a group policy to regulate the procedures for identifying, measuring and recognising lease agreements. In 2018, an impact assessment activity was also carried out with the purpose of defining the guidelines for the compliance of the accounting policies and of the disclosure model, identifying the impacts and interventions for non-accounting areas in view of the adoption of the new standard. As a result of the impact assessment activity, the Bank identified the lease agreements on the basis of the definition contained in IFRS 16 with respect to the set of agreements extant at the date of analysis, verifying the presence exclusively of operating lease agreements referred to property leases and rentals of motor vehicles and capital goods; the Banca Finnat Group also decided:

- not to apply (IFRS 16.5-8, B3-B8) the provisions contained in IFRS 16 pertaining to the recognition, the initial measurement, the subsequent measurement and the presentation and disclosure in the financial statements to:
  - short-term leases with up to 12 months duration for which no purchase option is provided unless the year of any renewal option is reasonably certain;
  - leases in which each underlying asset has low value, with the term "low value" meaning the amount of 5,000 euros; this amount refers to the value of the individual leased assets that can be purchased new at the commencement date of the agreement;
- not to apply the provisions contained in IFRS 16 to lease agreements of intangible assets (IFRS 16.4) and to lease agreements whose residual duration at the date of first-time adoption is shorter than 12 months (IFRS 16.C10_c);
- to determine the discounting rate, for all agreements stipulated by the company as lessee, using marginal lending rates equal to the interest rate that Banca Finnat should pay for a loan, with similar duration and guarantees, necessary to obtain an asset whose value is similar to the asset consisting of the right to use it in a similar economic environment.

The Bank chose to carry out the First Time Adoption (FTA) with the modified retrospective approach (option B) which provides for the option, prescribed by IFRS 16, to recognise the cumulative effect of the adoption of the Standard at the date of first-time adoption and not to restate the comparative data of the financial statements of first-time adoption of IFRS 16. Therefore, the data for the year 2019 is not comparable with data for the same period of the previous year with reference to the valuation of the rights of use and of the corresponding lease payable.
Upon FTA, the new provisions were applied to the lease agreements identified retroactively by accounting for the cumulative effect of the initial adoption of the Standard at 1 January 2019 in accordance with the paragraphs from C7 to C13 of IFRS 16. The adoption of this solution determined a value of the lease liabilities equal to the present value of the residual payments due for each lease agreement, increased by the present value of the estimated payments at the end of the lease and a value of the lease assets

equal to the lease liabilities (increased or decreased by the amount of the payments advanced/accrued at the date of first-time adoption).

*Impact during FTA*

The impact (before tax effects) of updating the opening financial statements at 1 January 2019 as a result of the adoption of IFRS 16 using the modified retrospective approach (option B) determined, at the Bank level, an increase in the assets as a result of the recognition of the right of use equal to 7,902 thousand euros with an increase in payable to lessors and receivables from sub-lessees. Therefore, no impacts on shareholders' equity have emerged because, having adopted the modified approach (option B), upon first-time adoption the two values, assets and liabilities, coincide.

The final opening balances determined upon FTA are provided in detail – by type of assets acquired under lease:

**Balances at 1 January 2019**

(thousands of euros)

| | Rights of use acquired through leases | Lease payables | Lease receivables (*) |
|---|---|---|---|
| Buildings | 7,567 | 7,646 | 79 |
| Other assets | 335 | 335 | - |
| **Total** | **7,902** | **7,981** | **79** |

(*) Lease receivables refer to a sub-lease of a portion of a property.

The increase in the RWA consequent to the recording of total rights of use entailed, upon FTA, a negative effect of approximately -66 bps on the CET 1.

The different procedures for recognising the expenses connected with lease agreements entailed a negative impact on the income statement of 2019 – with respect to the expenses that would have been incurred if the previous regulatory provisions had remained in force – equal to 96 thousand euros corresponding to 0.3% of administrative expenses, which impact will be progressively reabsorbed, as stated, in the following years until the expiration of the lease agreements.

## A.2 – Information on the main financial statement items

The accounting standards adopted for the preparation of the Financial Statements at 31 December 2019 did not change significantly with respect to those adopted for the preparation of the 2018 Financial Statements as concerns classification, measurement and derecognition criteria, and the methods for recognising costs and revenues, with the exception of the changes that stem from the application, effective from 1 January 2019, of the new accounting standard IFRS 16 - "Leases".

The following accounting policies are updated with regard to the classification, measurement and derecognition phases as well as the methods for recognising costs and revenues, of the main items in the Financial statements.

### 1. - Financial assets designated at fair value through profit or loss (FVTPL)

*Classification criteria*

This category includes financial assets other than those recognised as Financial assets designated at fair value through other comprehensive income and Financial assets designated at amortised cost. In particular, the item includes:

- financial assets held for trading, mainly represented by debt securities, UCIs and equities and the positive value of derivative contracts held for trading (Other/Trading);
- other financial assets mandatorily at fair value, represented by financial assets that do not meet the requirements for measurement at amortised cost ("Hold to Collect") or at fair value through other comprehensive income ("Hold to Collect and Sell"). These are financial assets whose contractual terms do not exclusively envisage capital reimbursements and interest payments on the amount of capital to be repaid (known as "SPPI test" not passed) or that are not held within the framework of a business model whose objective is the possession of assets aimed at collecting contractual cash flows or within the framework of a business model whose objective is achieved both through the collection of contractual cash flows and through the sale of financial assets; capital instruments for which the Bank does not exercise the irrevocable option for the measurement of these instruments at fair value through other comprehensive income are also included in this category;
- financial assets designated at fair value, i.e. financial assets thus defined at the time of initial recognition and where the requirements are met. In relation to this case, an entity may irrevocably designate a financial asset as designated at fair value through profit or loss at the time of recognition if, and only if, by doing so, it eliminates or significantly reduces a valuation inconsistency.

According to the general rules envisaged by IFRS 9 on the reclassification of financial assets (with the exception of equities, for which no reclassification is permitted), reclassifications to other categories of financial assets are not permitted unless the entity modifies its business model for the management of financial assets. In such cases, which are expected to be highly infrequent, financial assets may be reclassified from the category designated at fair value through profit or loss into one of the other two categories envisaged by IFRS 9 (Financial assets designated at amortised cost or Financial assets designated at fair value through other comprehensive income). The transfer value is the fair value at the time of reclassification and the effects of reclassification operate prospectively from the date of reclassification. In this case, the effective interest rate of the reclassified financial asset is determined on the basis of its fair value on the date of reclassification, and that date is considered as the date of initial recognition for the allocation to the various stages of credit risk (stage assignment) for the purposes of determining impairment.

*Recognition criteria*

Financial assets are initially recognised on the settlement date for debt securities and equities, on the disbursement date for loans and on the subscription date for derivative contracts.
Upon initial recognition, financial assets designated at fair value through profit or loss are recognised at fair value, without considering transaction costs or income directly attributable to the instrument itself.



*Measurement criteria*

Subsequent to initial recognition, financial assets designated at fair value through profit or loss are measured at fair value. The effects of the application of this measurement criteria are charged to the Income Statement.
Market prices are used to determine the fair value of financial instruments listed on an active market. In the absence of an active market, commonly adopted estimation methods and valuation models are employed that take into account all risk factors correlated with the instruments and that are based on market data, such as: valuation of listed instruments with similar characteristics, discounted cash flow calculations, option price calculation models, values posted in recent comparable transactions, etc. For equities and derivatives involving equities not listed on an active market, the cost method is used as a fair value estimate only in a residual way and limited to a few circumstances, i.e. in the case of non-applicability of all the measurement methods mentioned above (since the most recent information available to measure fair value is insufficient), or in the presence of a wide range of possible fair value assessments, in which the cost represents the most significant estimate.
For further information on the criteria for determining fair value, please refer to the specific "A.4 - Information on fair value" section.

*Derecognition criteria*

Financial assets are derecognised only if the contractual rights to cash flows deriving from the financial asset expired or if the entity transferred the financial asset and the sale resulted in the substantial transfer of all risks and benefits related to the assets. On the other hand, if a significant portion of risks and benefits related to the financial assets sold has been maintained, these assets will continue to be recognised, even if the legal ownership of the assets has actually been transferred.
If it is not possible to determine the substantial transfer of risks and benefits, financial assets are derecognised when the control thereof is transferred. Otherwise, the fact that even partial control has been retained means that the assets must be carried for an amount proportional to the remaining involvement, which is measured by the exposure to changes in the value of the assets sold and the changes in their cash flows.
Finally, the financial assets sold are derecognised if the contractual rights to receive the relative cash flows are retained, but an obligation is concurrently assumed to pay out to other third parties the above-mentioned flows.

**2 - Financial assets designated at fair value through other comprehensive income (FVOCI)**

*Classification criteria*

This category includes financial assets that meet both of the following conditions:

- the financial asset is held according to a business model whose objective is achieved both through the collection of contractual cash flows and through sale (Hold to Collect and Sell);
- the contractual terms of the financial asset envisage, at certain dates, cash flows represented solely by payments of principal and interest on the amount of principal to be repaid (known as passed "SPPI test").

The item also includes capital instruments, not held for trading, for which the option to be designated at fair value through other comprehensive income was exercised at the time of initial recognition.

In particular, this item includes:

- debt securities that are part of a Hold to Collect and Sell business model and passed the SPPI test;
- equity investments that do not qualify as establishing control or joint control over or association with companies and are not held for trading, for which the option to be designated at fair value through other comprehensive income was exercised;
- loans that are part of a Hold to Collect and Sell business model and passed the SPPI test.

According to the general rules envisaged by IFRS 9 on the reclassification of financial assets (with the exception of equities, for which no reclassification is permitted), reclassifications to other categories of financial assets are not permitted unless the entity modifies its business model for the management of financial assets.

In such cases, which are expected to be highly infrequent, financial assets may be reclassified from the category designated at fair value through other comprehensive income into one of the other two categories envisaged by IFRS 9 (Financial assets designated at amortised cost or Financial assets designated at fair value through profit or loss). The transfer value is the fair value at the time of reclassification and the effects of reclassification operate prospectively from the date of reclassification. In the event of reclassification from this category to the amortised cost category, the cumulative gain (loss) recognised in the valuation reserve is recognised as an adjustment to the fair value of the financial asset at the date of reclassification. Whereas in the event of reclassification in the category of fair value through profit or loss, the cumulative gain (loss) previously recognised in the valuation reserve is reclassified from shareholders' equity to the income statement (in the item "Profit (losses) on trading").

*Recognition criteria*

Financial assets are initially recognised on the settlement date for debt securities and equities, and on the disbursement date for loans. Upon their initial recognition, assets are designated at fair value, which generally corresponds to the price paid. Any transaction costs or income directly attributable to the instrument itself are included in the purchase cost.

*Measurement criteria*

Subsequent to initial recognition, Assets classified at fair value through other comprehensive income, other than equities, are measured at fair value, with impacts deriving from application of amortised cost, the effects of impairment and any exchange rate effect recognised in the Income Statement, whereas other gains or losses arising from a change in fair value are recognised in a specific shareholders' equity reserve until the financial asset is derecognised. Upon disposal, in whole or in part, the cumulative gain or loss in the valuation reserve is reversed to the Income Statement.

The capital instruments chosen for classification in this category are measured at fair value and the amounts recognised with corresponding item in shareholders' equity must not be subsequently transferred to the income statement, even in the event of disposal. The only component relating to the equities in question that is recognised in the income statement is represented by the related dividends.

Fair value is determined on the basis of the criteria already illustrated for Financial assets designated at fair value through profit or loss.

For further information on the criteria for determining fair value, please refer to the "A.4 - Information on fair value" section.

Financial assets designated at fair value through other comprehensive income – both in the form of debt securities and loans – are subject to checking the significant increase in credit risk (impairment) required by IFRS 9, as are Assets at amortised cost, with the consequent recognition in the income statement of an adjustment to cover expected losses. More specifically, on instruments classified in stage 1 (i.e. on financial assets at the time of origination, where performing, and on instruments for which there has been no significant increase in credit risk compared to the initial recognition date), a 12-month expected loss is recorded at the initial recognition date and at each subsequent reporting date. On the other hand, for instruments classified as stage 2 (performing positions for which there has been a significant increase in credit risk compared to the date of initial recognition) and stage 3 (non-performing exposures), an expected loss is recognised over the life of the financial instrument.

Vice versa, equities are not subject to impairment.

*Derecognition criteria*

Financial assets are derecognised only if the contractual rights to the cash flows from the financial asset expired or if the entity transferred the financial asset and the sale resulted in the substantial transfer of all the risks and benefits related to the assets. On the other hand, if a significant portion of risks and benefits related to the financial assets sold has been maintained, these assets will continue to be recognised, even if the legal ownership of the assets has actually been transferred.

If it is not possible to determine the substantial transfer of risks and benefits, financial assets are derecognised when the control thereof is transferred. Otherwise, the fact that even partial control has been retained means that the assets must be carried for an amount proportional to the remaining involvement, which is measured by the exposure to changes in the value of the assets sold and the changes in their cash flows.

Finally, the financial assets sold are derecognised if the contractual rights to receive the relative cash flows are retained, but an obligation is concurrently assumed to pay out to other third parties the above-mentioned flows.

**3 - Financial assets designated at amortised cost**

*Classification criteria*

This category includes financial assets (in particular, loans and debt securities) that meet both of the following conditions:

- the financial asset is held according to a business model whose objective is achieved through the collection of contractual cash flows, and the contractual terms of the financial asset envisage, at certain dates, cash flows represented solely by payments of principal and interest on the amount of principal to be repaid (known as passed "SPPI test"). More specifically, this item includes:

- loans to banks and customers in different categories and debt securities meeting the requirements set out in the previous paragraph.

This category also includes operating loans related to the supply of financial activities and services as established by the Italian Consolidated Law on Banking and the Italian Consolidated Financial Law.
According to the general rules envisaged by IFRS 9 on the reclassification of financial assets, reclassifications to other categories of financial assets are not permitted unless the entity modifies its business model for the management of financial assets. In such cases, which are expected to be highly infrequent, financial assets may be reclassified from the category designated at amortised cost into one of the other two categories envisaged by IFRS 9 (Financial assets designated at fair value through other comprehensive income or Financial assets designated at fair value through profit or loss). The transfer value is the fair value at the time of reclassification and the effects of reclassification operate prospectively from the date of reclassification. Gains and losses resulting from the difference between the amortised cost of the financial asset and its fair value are recognised in the income statement in the event of reclassification as Financial assets designated at fair value through profit or loss and Shareholders' equity, in the specific valuation reserve, in the event of reclassification as Financial assets designated at fair value through other comprehensive income.
Loans to customers also include receivables for lease transactions relating to sub-leases of portions of properties.

*Recognition criteria*

Financial assets are initially recognised on the settlement date for debt securities and on the disbursement date for loans. Upon initial recognition, assets are recorded at fair value, including transaction costs or income directly attributable to the instrument itself.
In particular, with regard to loans, the date of disbursement normally coincides with the date of signing of the agreement. If such a coincidence does not occur, a commitment to disburse funds is recorded at the time of signing the agreement, which ends on the date of disbursement of the loan. The loan is recognised on the basis of its fair value, equal to the amount disbursed, or subscription price, including costs/income directly attributable to the individual loan and determinable from the start of the transaction, even if settled at a later date.
Costs that, despite having the above characteristics, are reimbursed by the debtor counterparty or classified as ordinary internal administrative costs are excluded.

*Measurement criteria*

Following their initial recognition, the financial assets in question are designated at amortised cost, using the effective interest rate method. In these terms, the asset is recognised in the Financial Statements at an amount equal to its initial recognition value, less principal reimbursements, plus or minus the cumulative amortisation (calculated using the effective interest rate method referred to above) of the difference between this initial amount and the amount at maturity (typically attributable to costs/income charged directly to the individual asset). The effective interest rate is determined by calculating the rate that equals the present value of the future cash flows of the asset, for principal and interest, to the amount disbursed including costs/income related to the financial asset itself. This accounting method, which is based on a financial approach, allows the economic effect of costs/income directly attributable to a financial asset to be distributed over its expected residual life.

The amortised cost method is not used for assets – measured at historical cost – whose short duration makes the effect of the application of the discounting logic negligible, for those without a defined maturity or revocable loans.

The measurement criteria are strictly related to the inclusion of the instruments in question in one or the three stages (stages of credit risk) envisaged by IFRS 9, the last of which (stage 3) includes non-performing financial assets and the remaining (stages 1 and 2) performing financial assets.

With reference to the accounting representation of the above valuation effects, impairment losses relating to this type of asset are recognised in the Income Statement:

- upon initial recognition, for an amount equal to the 12-month expected credit loss;
- upon subsequent measurement of the asset, where the credit risk has not significantly increased compared to initial recognition, in relation to changes in the amount of impairment for losses expected in the following 12 months;
- upon subsequent measurement of the asset, where the credit risk significantly increased compared to initial recognition, in relation to the recognition of impairment for expected losses over the life of the asset as provided for in the contract;
- upon subsequent measurement of the asset, where – after a significant increase in credit risk since initial recognition – the "significance" of this increase has since disappeared, in relation to the adjustment of cumulative impairment losses to take account of the change from a full lifetime expected credit loss of the instrument to a 12-month expected credit loss.

If the financial assets in question are performing, they are measured in order to determine the impairment losses to be recorded in the financial statements at the level of the individual credit relation (or security "tranche"), depending on the risk parameters represented by probability of default (PD), loss given default (LGD) and exposure at default (EAD).

If, in addition to a significant increase in credit risk, there is evidence of impairment, the amount of the loss is measured as the difference between the book value of the asset – classified as "impaired", like all other transactions with the same counterparty – and the present value of the expected future cash flows, discounted at the original effective interest rate. The amount of the loss to be recognised in the Income Statement is defined on the basis of an analytical valuation process or determined by homogeneous categories and, therefore, analytically applied to each position and considers, as described in detail in the chapter "Impairment losses of financial assets", forward looking information and possible alternative recovery scenarios.

Non-performing assets include financial instruments that have been granted the status of bad loans, unlikely to pay or past due/overdue by more than ninety days according to the rules of the Bank of Italy, consistent with IAS/IFRS and European Supervisory regulations.

The expected cash flows take into account the expected recovery time and the estimated realisable value of any guarantee.

The original effective interest rate of each asset remains unchanged over time even though the relationship has been restructured resulting in a change in the contractual interest rate and even if the relationship ceases to bear the contractual interest for practical purposes.

If the reasons for impairment no longer apply due to an event occurring after the impairment was recognised, value recoveries are recognised in the Income Statement. The value recovery cannot exceed the amortised cost that the financial instrument would have had in the absence of previous adjustments. Value recoveries related to the passing of time are recognised in net interest income.

In some cases, during the life of the financial assets in question and, in particular, of receivables, the original contractual terms can be amended by the parties to the contract. When, over the life of an instrument, the contractual clauses are amended, it is necessary to check whether the original asset must continue to be recognised in the financial statements or, on the contrary, whether the original instrument must be derecognised from the financial statements.

In general, changes in a financial asset lead to its derecognition and to the recognition of a new asset when they are "substantial". The assessment of whether the change is "substantial" must be subject to qualitative and quantitative considerations. In fact, in some cases it may be clear, without resorting to complex analyses, that the changes introduced substantially modify the characteristics and/or contractual flows of a given asset while, in other cases, further analyses (including quantitative analyses) will have to be carried out in order to appreciate their effects and check the need to derecognise or not the asset and to recognise a new financial instrument.

Therefore, qualitative and quantitative analyses aimed at defining the "substantiality" of the contractual changes made to a financial asset will have to consider:

- the purposes for which the changes were made: for example, renegotiations for commercial reasons and forbearance due to financial difficulties of the counterparty:
  - the first, aimed at "retaining" the customer, involve a debtor who is not in financial difficulty. This case study includes all the renegotiation operations that are aimed at adjusting the cost of the debt and the duration to market conditions;
  - the latter, carried out for "credit risk reasons" (forbearance measures), are attributable to the bank's attempt to maximise the recovery of the cash flows of the original loan. As a rule, the underlying risks and benefits are not substantially transferred after the changes and, consequently, the accounting representation that provides the most relevant information for the reader of the financial statements (except for what will be said below on the subject of objective elements), is that made through "modification accounting" and not through "derecognition" that implies the recognition in the income statement of the difference between the book value and the present value of the modified cash flows discounted at the original interest rate;
- the presence of specific objective elements ("triggers") that affect the characteristics and/or contractual flows of the financial instrument (such as, for example, a change in the currency or a change in the type of risk to which one is exposed, when correlated with equity and commodity parameters), which are deemed to entail derecognition in view of their impact (expected to be significant) on the original contractual flows.

*Derecognition criteria*

Financial assets are derecognised only if the contractual rights to the cash flows from the financial asset expired or if the entity transferred the financial asset and the sale resulted in the substantial transfer of all the risks and benefits related to the assets. On the other hand, if a significant portion of risks and benefits related to the financial assets sold has been maintained, these assets will continue to be recognised, even if the legal ownership of the assets has actually been transferred.

If it is not possible to determine the substantial transfer of risks and benefits, financial assets are derecognised when the control thereof is transferred. Otherwise, the fact that even partial control has been retained means that the assets must be carried for an amount proportional to the remaining involvement, which is measured by the exposure to changes in the value of the assets sold and the changes in their cash flows.

Finally, the financial assets sold are derecognised if the contractual rights to receive the relative cash flows are retained, but an obligation is concurrently assumed to pay out to other third parties the above-mentioned flows.

**4 - Hedging transactions**

*Classification criteria*

Risk hedging transactions are directed at neutralising potential losses, attributable to a determined risk, and recognisable on a determined element or group of elements, if that specific risk should actually manifest itself.

IFRS 9 envisages, at the time of its introduction, the possibility of continuing to apply in full the provisions of the former IAS 39 on hedge accounting (in the carved-out version approved by the European Commission) for each type of hedge (both for specific hedges and for macro hedges).

*Recognition criteria*

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

*Measurement criteria*

Hedging derivatives are measured at fair value. In the case of fair value hedging, the change in fair value of the hedged element is offset with the change in fair value of the hedging instrument. This offset is recognised through the recognition in the income statement – under item 90 "Fair value adjustments in hedge accounting" – of said value changes, referred both to the hedged element (with regard to the changes caused by the underlying risk factor), and to the hedging instrument. Any difference, which represents the partial ineffectiveness of the hedge, consequently constitutes its net economic effect.

The derivative is designated as a hedging derivative if there is a formalised documentation of the relationship between the hedged instrument and the hedging instrument and if it is effective at the time when the hedge starts and, prospectively, throughout the time of its validity.

The effectiveness of the hedge depends on the extent to which the changes in fair value of the hedged instrument are offset by those of the hedging instrument. Therefore, the effectiveness is determined by the comparison between the aforesaid changes, taking into account the intent pursued by the company when the hedge was established.

If the hedge is ineffective, hedge accounting, as set out above, is stopped, the hedging derivative is reclassified among trading instruments and the hedged financial instrument reacquires the measurement criteria that matches its classification in the financial statements.

**5 - Equity investments**

*Classification criteria*

The item "Equity investments" includes investments in subsidiaries, associated companies and jointly controlled companies; as required by IAS 28, this item also includes equity interests classified as joint ventures.

Equity interests in other companies in which the Bank does not exercise control or over which it has no significant influence, either directly or through its subsidiaries, but which are acquired as long-term investments and not held for the purpose of trading, are classified as "Financial assets designated at fair value through other comprehensive income" in accordance with IFRS 9.

*Recognition criteria*

Equity investments are recorded at their settlement date and at purchase – or subscription – cost, including the additional charges.

*Measurement criteria*

Equity investments in subsidiaries are all measured at fair value, while equity investments in associated companies and jointly controlled companies are measured at cost.
The method for determining the fair value is in line with current market practice and, on the basis of the provisions of IFRS 9, it refers to a series of objective parameters.
The model is based on the discounting of cash flows, as they emerge from the updated long-term plan of the subsidiaries. The figure is used (subject to the updating of parameters) in the preparation of financial statements in order to determine any change in fair value, taking into account any further adjustment needed given specific market situations.

*Derecognition criteria*

Equity investments are derecognised when they are transferred, with the substantial transfer of all related risks and benefits, or when the contractual rights to cash flows deriving from them expire.

*Recognition criteria of income components*

- *Equity investments in subsidiaries measured at fair value*

Changes in fair value resulting from the differences between the measurements at the end of the current year and those of the previous years are recorded using the same criteria prescribed for the category "Financial assets designated at fair value through other comprehensive income", in compliance with IAS 9.

- *Equity investments in associated companies and jointly controlled companies measured at cost*

If there is evidence that the value of an equity investment may be impaired, the recoverable amount of said equity investment is estimated considering the present value of future cash flows that the investment could generate, including the final disposal value of the investment.
If the recoverable amount is not temporarily lower than the carrying amount, the difference is recorded in the income statement under item 220 "Profit (loss) from equity investments".
If the reasons for the impairment are removed following an event that occurs after the recognition of the impairment, value recoveries are made through profit and loss under the same item as above in the measure of the previous adjustment.

**6 - Property and equipment**

*Classification criteria*

This item includes the assets for permanent use held to generate income and the property held for investment purposes.

Property and equipment also include advance payments made for the purchase and revamping of assets that are not yet part of the production process and hence not yet subject to depreciation.
As from 1 January 2019, rights of use acquired through leases and relating to the use of a property or equipment (for the lessees) and assets granted under an operating lease (for the lessors) are also included.

*Recognition criteria*

All classes of property, plant and equipment recognised as assets are initially recorded at cost, insofar as it is representative of their fair value. The cost includes the purchase price, non-recoverable purchase taxes and any cost directly descending from the installation of the asset for its intended use, minus any trade discount.
Financial expenses are recorded according to IAS 23 and, therefore, recognised as a cost in the year in which they were incurred.
Overheads and administrative expenses are not included in the initial cost of the assets in question, unless they are directly descended from the purchase of the asset or its installation.
Lease agreements, in accordance with IFRS 16, are accounted for on the basis of the right of use model whereby, at the initial date, the lessee has a financial obligation to make payments due to the lessor to offset his right to use the underlying asset during the lease term. The duration of the lease agreement is determined taking into account the period of time during which the contract is due; the lease agreement is considered to be no longer due when the lessee and the lessor each have the right to terminate the lease without the consent of the other party and are at most exposed to a minimum penalty.
When the asset is made available to the lessee for use (initial recognition date), the right of use is recognised – net of VAT and any sub-leases – as a balancing entry to the payable equal to the present value of the lease payments to be made to the lessor.

*Measurement criteria*

Following their initial recognition, instrumental fixed assets and fixed investments are measured at cost minus the accumulated depreciation and taking into account any impairment losses and/or value recoveries.
This principle has been adopted because it was deemed more appropriate than the revaluation method provided by the reference accounting standard.
Property and equipment are depreciated each year, at rates calculated by reference to the residual possibility of using the assets, their related useful life and realisable value, except for land (incorporated in the asset value) and works of art, insofar as they have an indefinite life. In the case of land whose value is incorporated in the value of the property and equipment, the relevant separation is made only for free-standing buildings. For assets acquired during the year, the depreciation is calculated on a daily basis starting on the date on which the asset was first used.
Property and equipment featuring an unlimited useful life cannot be depreciated.
Subsequent expenses relating to property, plant and equipment, already recorded, are added to the book value of the asset when it is likely that the future economic benefits exceed the previously established ordinary performance of the asset.
At the end of each reporting period, an impairment test is carried out on the assets. More specifically, a comparison is made between the book value of the asset (purchase cost less accumulated depreciation) and its recoverable amount, equal to the greater of the fair value, minus any sales cost, and the related

value of use of the asset, meaning the present value of the future cash flows expected from the asset. Adjustments are recorded in the income statement under item 180 “Net losses/recoveries on property and equipment”. If the reasons that led to the recognition of the loss cease to apply, a value recovery is recorded that may not exceed the value that the asset would have had minus the depreciation calculated in the absence of previous impairment losses.
Property and equipment consisting of rights of use acquired under a lease, recorded in accordance with IFRS 16, are measured using the cost model and depreciated over the lease term and periodically subjected to impairment testing.

*Derecognition criteria*
The book value of property and equipment must be derecognised on its disposal, or when no future economic benefit is expected from its use.
The right of use deriving from lease agreements is eliminated from the Financial Statements at the end of the term of the lease agreement, which may be modified with respect to the initial recognition of the right of use, to take into account the exercise of any early extinction, renewal or purchase options not considered at the time of recognition.

**7 - Intangible assets**
*Classification criteria*
Intangible assets relate to software for multi-year use. The positive difference between the value of the assets and liabilities acquired following a business combination and the related purchase price of the combined business entity is recorded under the intangible assets as goodwill.

*Recognition criteria*
Intangible assets are recorded at their purchase cost. The purchase cost may be adjusted for ancillary charges. The costs incurred for the purchase of intangible assets are recognised only if they are identifiable, their cost can be measured reliably, they can be controlled and they are able to generate future economic benefits. Otherwise, the cost of the intangible asset is recorded in the income statement in the year in which it was incurred.
The Bank, in view of the option envisaged by IFRS 16.4, has decided not to apply the standard to any operating leases on intangible assets other than those that can be acquired under user licence. Therefore, Intangible assets do not include rights of use acquired under operating leases (as lessee) and relating to the use of an intangible asset.

*Measurement and recognition criteria of income statement items*
Following their initial recognition, intangible assets are measured at cost, less the accumulated amortisation and any impairment of losses. The “at cost” measurement method was deemed more appropriate than the “revaluation” method. The cost of intangible assets is amortised, minus the recoverable amount, on the basis of their estimated useful life. For assets acquired during the year, the amortisation is calculated on a daily basis starting on the date on which the asset was first used. In the case of assets transferred and/or disposed of during the year, the amortisation is calculated on a daily basis until the date of transfer and/or disposal.

If the useful life of the fixed asset cannot be established and appears to be indefinite (goodwill), the asset is not amortised, however it is periodically tested for impairment and, in any case, each time objective evidence is found to this effect its initial recognition value may have to be changed. The performance of this test entails the prior allocation of goodwill to a cash-flow-generating unit, whose value can be reliably estimated. Goodwill impairment is calculated as the difference between its book value and the estimated recoverable amount, determined by reference to the cash-flow-generating unit to which the goodwill in question has been allocated. Any impairment calculated as the difference between the book value of the fixed asset and its recoverable amount is recorded in the income statement under item 240 "Goodwill impairment losses". Goodwill impairment may not be reversed in future accounting periods as required by IAS 36.

Regarding intangible assets other than goodwill, if there is evidence of impairment, an estimate is made each year of the recoverable amount of the assets. The amount of the loss, recorded in the income statement, is equal to the difference between the book value of the asset and its recoverable amount. If the recoverable amount of a specific intangible asset cannot be determined, then the asset must be assigned to the smallest independent cash-flow-generating unit (CGU), and it is by reference to the latter that the recoverable value is estimated and compared with the book value, to establish the possible impairment loss.

*Derecognition criteria*

Intangible assets are derecognised when they are sold or when no future economic benefits are expected from their use.

### 9 - Current and deferred tax

Current and deferred income taxes, calculated in accordance with the applicable domestic regulations, is recorded in the Income Statement, except in the case of items directly charged or credited to shareholders' equity. Tax provisions are calculated on a prudential basis and also include the risk provisions set aside in connection with the ongoing disputes.

Since 2004, the Bank and its Italian-based subsidiaries have decided to join the "domestic consolidated tax system", pursuant to Articles 117-129 of the TUIR. The option was renewed in June 2019 for the 2019-2021 period.

By virtue of this option, the Group companies determine their proportion of the taxes payable and the corresponding tax income (taxable income or tax loss) is transferred to the Parent Company, relating to which a single taxable income or loss is reported (resulting from the arithmetical sum of its own and its participating subsidiaries' incomes/losses) and, consequently, a single income tax debit/credit is determined.

Deferred taxation is calculated based on the tax effect of the temporary differences between the book value of the assets and liabilities and their tax value, resulting in future taxable amounts or tax deductions. For this purpose, "temporary taxable differences" means those that, in the future, will determine taxable amounts, while "temporary deductible differences" those that, in the future, will determine deductible amounts. Deferred tax assets are recorded in the financial statements insofar as they are likely to be recovered, based on the capability of the Bank, and of the other Group companies belonging to the "domestic consolidated tax system", to generate taxable income, in the future, on a regular basis.

Deferred taxation is calculated based on the applicable rates, with respect to the temporary taxable differences, with respect to which there is the likelihood of effectively incurring taxes, and the temporary deductible differences, with respect to which there is the reasonable certainty of recovering tax money back.

Deferred tax liabilities are calculated taking into account the rates expected when payment falls due.

If the deferred tax assets and liabilities relate to Income Statement items, the balancing item is represented by income tax.

When deferred tax assets and liabilities concern transactions recorded in shareholders' equity, without affecting the income statement, the directly balancing entry is recorded in shareholders' equity, in the specific reserves where provided (Valuation reserves).

Current tax assets/liabilities related to income tax for the year are recognised net of any tax paid in advance and any withholding tax incurred.

Deferred tax assets and deferred tax liabilities are recorded in the financial statements, respectively under "Tax assets" and "Tax liabilities".

### 10 - Provisions for risks and charges

*Provisions for risks and charges against commitments and guarantees given*

The sub-item of provisions for risks and charges under examination includes the provisions for credit risk recognised against commitments to lend funds and guarantees given that fall within the scope of application of the rules on impairment in accordance with IFRS 9. For these cases, in principle, the same methods of allocation between the three stages of credit risk and calculation of the expected loss shown with reference to financial assets designated at amortised cost or at fair value through other comprehensive income, are adopted.

*Other provisions for risks and charges*

The other provisions for risks and charges include the allocations relating to legal obligations or connected with employment agreements or with disputes, including those of a tax-related nature, originated from a past event for which it is likely that economic resources will be expended to comply with said obligations, provided that a reliable estimate of the related amount can be obtained.

If the time element is significant (expected outlay beyond 12 months), the allocations are discounted to the present with reference to current market rates. The allocation and any subsequent increases in the provisions due to the time factor are recognised in the income statement.

The allocated provisions are subject to periodic reviews and when it becomes unlikely that possible costs may be incurred, the allocations are fully or partly reversed to the benefit of the income statement.

**11 - Financial liabilities designated at amortised cost**

*Classification criteria*

Due to banks, Due to customers and Securities issued include the various forms of interbank and customer funding, repurchase agreements with the obligation to repurchase forward bonds and other funding instruments issued, net of any amounts repurchased.

This item also includes the payables recorded by the company as a lessee under leases.

*Recognition criteria*

The initial recognition of these financial liabilities occurs on the date the contract is signed, which normally coincides with the date of receipt of the sums collected or the date of issue of the debt securities.

Initial recognition is carried out based on the fair value of the liabilities, generally equal to the amount received or the issue price, plus any additional costs/income directly attributable to the individual funding or issue transaction. Internal administrative costs are excluded.

With regard to lease payables, the lessee, on the commencement date of the contract, recognises the payable equal to the present value of the payments due for the entire duration of the contract, discounted using marginal lending rates identified by the Group equal to the interest rate that Banca Finnat should pay for a loan, with similar duration and guarantees, necessary to obtain an asset whose value is equal to the asset consisting of the right of use in a similar economic environment.

*Measurement criteria*

Subsequent to initial recognition, financial liabilities are designated at amortised cost using the effective interest rate method.

Exceptions are short-term liabilities, for which the time factor is negligible, which remain recorded at the value received.

Lease payables are updated, as indicated by IFRS 16, in the presence of contractual changes due to: change in the duration of the lease, change in the guaranteed residual value, change in the exercise of the purchase option, recalculation of fixed or variable payments.

*Derecognition criteria*

Financial liabilities are derecognised when they expire or are extinguished. Derecognition takes place also in the event of the repurchase of bonds previously issued. The difference between the book value of liabilities and the amount paid to purchase them is posted in the Income Statement.

The replacement on the market of treasury shares after they have been repurchased is considered tantamount to a new issue, with the entry of the new placement price.

**12 - Financial liabilities held for trading**

*Classification criteria*

This item includes financial liabilities, regardless of their technical form, classified in the trading portfolio.

In particular, this category of liabilities includes trading derivatives with a negative fair value as well as embedded derivatives with a negative fair value that are present in complex contracts – where the primary contract is a financial liability – but not strictly related to them. Liabilities that originate from uncovered short positions generated by securities trading are also included.

*Recognition criteria*

These liabilities are recognised at the subscription or issue date at a value equal to the fair value of the instrument, without considering any directly attributable transaction cost or income.

*Measurement criteria*

All trading liabilities are measured at fair value with the result of the measurement recognised in the income statement.

*Derecognition criteria*

Financial liabilities held for trading are derecognised from the financial statements when the contractual rights to the corresponding cash flows expire or when the financial liability is sold substantially transferring all related risks and benefits. The resulting difference is recorded in the income statement.

**14 - Foreign-currency transactions**

Foreign-currency transactions are recorded in euro, at their initial recognition, applying the spot exchange rate in force at the date of the transaction.

When preparing the financial statements, items in foreign currencies are recorded as follows:

- in the case of monetary instruments, at the spot exchange rate on the date of preparation of the financial statements, with foreign exchange differences recorded in the income statement under the item "Profit (losses) on trading";
- in the case of non-monetary instruments, they are measured at historical cost, at the exchange rate in force at the time of the original transaction;
- in the case of non-monetary instruments measured at fair value, at the spot exchange rate in force at the time of preparation of the financial statements.

Exchange rate differences relating to non-monetary items are recorded applying the accounting standards used for the profits and losses relating to the original instruments.

**15 - Other information**

*1. Treasury shares*

Treasury shares held are stated in the financial statements at cost, adjusting shareholders' equity by a corresponding amount. No profit or loss is recorded in the income statement in connection with the purchase, sale, issue and derecognition of instruments that represent the Bank's capital. The consideration paid or received is recognised directly in shareholders' equity.

Any marginal cost incurred for the repurchase of treasury shares is recorded as a decrease in shareholders' equity, as long as it is directly related to the capital transaction that otherwise would not have been incurred.

*2. Provisions for termination indemnities*

Provisions for termination indemnities are determined as the Bank's present obligation towards its employees, in terms of the related termination indemnity. The amount of this obligation on the date of the financial statements is estimated using actuarial methods and time-discounted using the "Projected Unit Credit Method" whereby each period of service is viewed as giving rise to an additional unit of benefit entitlement and each unit is measured separately to build up the final obligation. Once the final obligation is obtained, the Bank needs to calculate its present value, even if part of the obligation falls in the twelve-month period after the date of the financial statements. Actuarial profits/losses deriving from defined benefit plans are stated in shareholders' equity under Valuation reserves. All other components of the provisions for termination indemnities accrued during the year are posted in the income statement under item 160. Administrative expenses: a) personnel expenses in "Termination indemnities", for the amounts paid to the INPS Treasury; "payments to external pension funds" for payments made to Supplementary Retirement Plans and "provisions for termination indemnities" for the adjustment of the fund present in the company.

*3. Recognition of revenues and costs*

Revenues

Revenues are gross flows of economic benefits deriving from the carrying on of the normal company business, when such flows determine increases in shareholders' equity other than the increases deriving from the contribution of shareholders. Revenues are recognised on an accrual basis.
In particular, fee and commission income and other income from services are recognised in the financial statements only if all the following criteria are met:

1) identifying the contract with a customer;
2) identifying the performance obligations;
3) determining the transaction price;
4) allocating the transaction price to the performance obligations;
5) recognising revenue when (or as) the entity satisfies a performance obligation.

Revenues configured as variable considerations are recognised in the Income Statement if they can be reliably estimated and only if it is highly probable that this consideration must not be reversed from the Income Statement in future periods in whole or in a significant part.
In the event of a strong prevalence of uncertainty factors related to the nature of the consideration, it will be recognised only when this uncertainty is resolved. Factors that could increase the likelihood and extent of the downward adjustment of revenue include, among other things, the following:

a. the amount of the consideration is very sensitive to factors beyond the control of the entity (e.g.: market volatility);
b. experience with the type of contract is limited;
c. it is the practice to offer a wide range of price concessions or to change the terms and conditions of payment of similar contracts in similar circumstances;
d. the contract has a large number and a wide range of possible amounts of remuneration.

The consideration for the contract, the collection of which must be probable, is allocated to the individual obligations arising from the contract. The allocation must be based on the selling prices that would have been applied in a transaction involving the individual contractual commitment (stand-alone selling price). The best indication of the stand-alone selling price is the price of the good or service that can be observed when the Bank sells the good or service separately in similar circumstances and to similar customers. If the stand-alone selling price is not directly observable, it must be estimated.

In the event that the customer obtains a discount for the purchase of a bundle of goods or services, the discount must be allocated between all the performance obligations provided for in the contract; the discount can only be attributed to one or more obligations if all of the following criteria are met:

a. the entity normally sells separately each distinct good or service;
b. the entity normally also sells separately the bundle(s) of some of the distinct goods or services, giving a discount on the stand-alone selling prices of the goods or services of each bundle, and the discount is substantially the same discount provided for in the contract.

Revenue is recognised over time when the goods or services have been transferred (satisfaction of performance obligations); an asset is transferred when the customer has control of the asset, i.e. when it can use the goods or service directly and obtain all the benefits. Depending on the timing of the satisfaction of the performance obligations, the revenue can be recognised:

- when control is passed at a certain point in time; factors that may indicate the point in time at which control passes include:
  - the entity has a present right to payment for the asset
  - the customer has legal title to the asset
  - the entity has transferred physical possession of the asset
  - the customer has the significant risks and benefits related to the ownership of the asset
  - the customer has accepted the asset;
- or, alternatively, over the time provided for the satisfaction of the performance obligations, if one of the following criteria is met:
  - the customer simultaneously receives and consumes all of the benefits provided by the entity as the entity performs;
  - the entity's performance creates or enhances an asset that the customer controls or from which it can derive all the benefits (potential cash flows);
  - the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

Interests are recognised on an accrual basis that considers the effective yield of the asset.
The positive economic components accrued on financial liabilities are recognised under the item "Interest income and similar income".
Default interests are recorded under the item "Interest income and similar income" when they are actually collected.
Dividends are recorded in the accounts in accordance with the shareholders' right to receive payment.
Revenue is recognised over time when the goods or services have been transferred (satisfaction of performance obligations): an asset is transferred when the customer has control of the asset, i.e. when it can use the goods or service directly and obtain all the benefits.

**The disclosure required by IFRS 15 (Revenue from Contracts with Customers)**
Nature of the services
A description of the main businesses from which the Bank generates its revenue from contracts with customers, distinguished by business area, is provided below.

Private Banking and Banking Services

The main services provided to the private customers of the Bank by the private bankers of the Sales Department include the revenue deriving from agreements for individual portfolio management, trading, trading with consultancy services, placement, and all agreements associated with a current account relationship (cash services, payments, money management, debit cards, credit card loans, home banking, etc.). All performance obligations are defined by formalised agreements. If the agreements include the performance of distinct services, the revenue pertaining thereto is:

- recorded separately on the basis of stand-alone sale prices defined contractually (as in the case of fees for services of individual portfolio management, trading and order execution on financial instruments, placement and of fees for the transmission of documents, reports and communications);
- recorded on the basis of the mandatory service performed if the services cannot be separated within the context of the agreement because one is the input of the other (as in the case of the combination of the consultancy and securities custody services) or because they are interdependent, not separable and not sold individually (as in the case of banking services associated with a current account).

Depending on the way the services are performed, revenue is recorded punctually (e.g. in the case of fees for trading, collection and payment, subscription) or, in case of services performed over time, based on the value that the services completed until the considered date have for the customer, corresponding to the amount provided by the agreement.

Individual portfolio management agreements provide for the debiting (with annual or less than annual periodicity) of variable overperformance amount with respect to reference parameters. The determination of these fees depends on the result achieved at the end of the reference period, which cannot be estimated on the occasion of the quarterly measurements, since it is not highly probable that when, subsequently, the uncertainty associated with the variable consideration is resolved, there will be no significant downwards adjustment of the amount of the recorded cumulated revenue; these fees are affected by external factors with respect to the management activity of the bank (such as market volatility and the performance of the reference parameter).

The revenue accounting procedures adopted before the entry into force of the provisions of IFRS 15 are in line with those described, except that for the types of trading agreements that prescribe free fees for the execution of orders on financial instruments in view of the application of fees for the consultancy and custody services proportionate to the assets under administration; for these agreements, the amount of the fees is allocated, for accounting purposes, among the obligations prescribed by the agreement, attributing to the custody and administration service an amount equal to the stand-alone sale price of the service and to the trading service the residual amount.

Institutional Customers

The main services provided by the Institutional Customers Organisational Unit of the Bank includes: the asset management services performed by appointment by UCIs, the management and trading services directed to corporate customers and to qualified counterparties, the services directed to listed issuers (specialist operator services, qualified operator, analyst coverage, centralised management, etc.).

All performance obligations are defined by formalised agreements. Management and trading services are recognised according to the same rules envisaged for private customers.

Services directed to listed issuers are carried out over time, because customers benefit from the activity carried out continuously and they are consequently recognised based on the value for customers of the services transferred until the date considered on the basis of the amount the Bank is entitled to receive.
Centralised management services can be sold on the basis of individual modules or as packages; in this case, the value of the service provided consists of the single fee envisaged for the different services included in the package and any discount with respect to the acquisition of the individual services is allocated proportionately among the different mandatory services performed. If the agreements include services whose revenue is recognised punctually at the time of execution, the portion referred to these services is recorded at the time of performance or, if the services were not performed within the reference period of the agreement, at its periodic expiration.
The revenue recognition methods that were adopted before the entry into force of the provisions of IFRS 15 are substantially in line with those described above.

Advisory and Corporate Finance

"Consultancy services on financial structure", rendered to corporate customers by the Advisory & Corporate Finance Organisational Unit, to provide assistance to customers in major corporate finance matters (mergers & acquisitions, listings and IPOs, company appraisals, industrial and financial restructuring, project financing, strategic consultancy), are defined by formalised agreements. Depending on the type of assistance provided, the agreement may entail the performance of different activities, which, however, are necessary inputs for the achievement of the objective provided for by the agreement and therefore are inseparable and included in a single mandatory service. This service is considered completed over time regardless of the envisaged invoicing timelines because: the customer benefits from the assistance service rendered by the Bank on a continuous basis; performance of the activity does not present an alternative use for the Bank, being carried out exclusively for the Customer according to his specific characteristics and requirements; any adaptation of the activities performed for another use is subject to practical limitations because the specifications of the activities carried out are unique for that Customer; throughout the duration of the agreement, the Bank is entitled to require payment of the service completed up to the date considered even if the agreement is terminated by the Customer for reasons other than the Bank's failure to perform. However, if the assistance agreement requires releasing the declaration of appropriateness for the purposes of listing, the connected fees are recognised punctually because the Customer receives the benefits deriving from fulfilling the obligation to obtain listing on the market only on the release date.
Any success or performance fees are instead recognised only in case of formalisation of the transactions and when the conditions underlying their ascertainment are met; these are variable fees which the Bank cannot determine in a highly probable manner before the "resolution of the uncertainty" associated with the fees themselves, being conditioned by factors on which the Bank has no control (such as actions performed by third parties: customers, investors, lenders).
The quantitative information is provided:

- in Part B – Information on the balance sheet in section 4 - Financial assets designated at amortised cost, quantitative information is provided about the assets/liabilities from contracts with customers not debited in the current accounts on the basis of a breakdown by type of service
- in Part C – Information on the income statement in section 2 - Fees and commissions, quantitative information is provided about revenue from contracts with customers on the basis of a breakdown by type of service

- in Part L of the Consolidated Financial Statements - Segment Reporting, quantitative information is provided about revenue from contracts with customers distinguished by the business sectors of the Group represented on the basis of a breakdown by type of service and of a breakdown by assessment procedure.

Costs

Costs are recognised when they are incurred in compliance with the criterion of correlation between costs and revenues that derive directly and jointly from the same transactions or events. Costs (including impairment losses) that cannot be related to revenues are immediately recognised in the Income Statement.

Costs directly attributable to financial instruments designated at amortised cost and determinable from the start, regardless of the moment when they are paid, are included in the Income Statement by applying the effective interest rate.

Interests are recognised on an accrual basis that considers the effective yield of the asset.

Negative income components accrued on financial assets are recognised in the item "Interest expense and similar expense", item that also includes interest expense on lease payables (while interest income and similar income include interest from sub-leases).

As from 1 January 2019, rents payable for property leases, company vehicles and other assets falling within the scope of IFRS 16 are not recognised under Administrative expenses (as was the case under the previous IAS 17); against the recognition of the rights of use deriving from lease agreements, impairment losses are recorded due to the depreciation of the right of use calculated on a straight-line basis according to the duration of the contract or the useful life of the right itself, while, against the recognition of the payable for the fees due for the rights of use, accrued interest expense is recorded.

Administrative expenses (Personnel expenses and Other administrative expenses) include short-term lease payments and low-value lease payments as well as variable payments for lease payments not included in the valuation of lease payables and the VAT component, if non-deductible.

"Sundry expenses" also include the depreciation of leasehold improvements acquired through leases classified as "Other assets".

*4. Classification of financial assets*

The classification of financial assets in the three categories envisaged by IFRS 9 depends both on the business model with which the financial instruments are managed (or business model) and on the contractual characteristics of the cash flows of the financial assets (or SPPI Test). The combination of these two elements results in the classification of financial assets as follows:

- Financial assets designated at amortised cost: assets that pass the SPPI test and fall within the Held to Collect (HTC) business model;
- Financial assets designated at fair value through other comprehensive income (FVOCI): assets that pass the SPPI test and fall within the Held to Collect and Sell (HTCS) business model;
- Financial assets designated at fair value through profit or loss (FVTPL): it is a residual category that includes financial instruments that cannot be classified in the previous categories based on the results of the business model test or the test on the characteristics of the contractual flows (SPPI test not passed).

### SPPI test

The Standard requires financial assets to be classified also on the basis of the characteristics of the contractual cash flows. The SPPI test requires the determination of whether the contractual cash flows consist of Solely Payments of Principal and Interest on the principal amount outstanding (IFRS 9 - B4.1.7). Contractual cash flows may be consistent with the definition of a "basic lending arrangement" even if the credit risk will be offset. Moreover, the interest rate can also include an additional fee that takes into account other risks such as liquidity risk or administrative costs. The possibility of obtaining a profit margin is also consistent with the definition of "basic lending arrangement" (IFRS 9 - B4.1.7A).

Contractual features that introduce an exposure to risks or volatility unrelated to the "basic lending arrangement", such as exposure to changes in equity prices or commodity prices, do not meet the definition of Solely Payments of Principal and Interest on the principal amount outstanding.

Therefore, the SPPI test is aimed at identifying all the contractual characteristics that may show payments other than those relating to the principal and interest accrued on the principal amount outstanding.

Only if the test is successful can the instrument be accounted for, depending on the business model identified, at amortised cost or at fair value through OCI.

The test will only be necessary if the adopted business model is "Collect" or "Collect and Sell". Conversely, if the instrument is managed according to the residual business model, the instrument will be accounted for at fair value regardless of the characteristics of the contractual cash flows.

### Business model

The business model represents the way in which the Bank manages its financial assets, i.e. with which it intends to realise the cash flows of debt instruments. It reflects the way in which groups of financial assets are collectively managed to pursue a particular business objective and does not depend on management's intentions with respect to a single instrument but is set at a higher level of aggregation.

The definition of the Group's business model takes into consideration all the useful elements that emerge both from the strategic objectives defined by the Bank's top management and from elements relating to the organisational structure of the structures proposed for the management of assets and the methods for defining the budget and evaluating their performance. The method of management is defined by the top management through the appropriate involvement of the business structures. The business model does not depend on the intentions of the management with respect to a single instrument, but rather refers to the way in which homogeneous portfolios are managed in order to achieve a given objective.

The business model is defined on the basis of several elements, such as (IFRS 9 - B4.1.2B):

- how the performance of the business model and the financial assets held within that business model are assessed and reported to the entity's key executives;
- the risks that affect the performance of the business model and the ways those risks are managed;
- how managers of the business are remunerated – e.g. whether the remuneration is based on the fair value of the assets managed or on the cash flows collected.

The drivers used to assess the performance of the various business models identified and the type of reporting produced are elements to be considered for the correct attribution of the business model. In particular, performance and reporting could be based on information on fair value or interest received, depending on the purpose for which the assets are held.

Adequate monitoring, escalation and reporting are essential to ensure proper management of risks that may affect portfolio performance.

The possible business models set out in the Standard are as follows:

- "Hold to Collect": requires the realisation of contractually envisaged cash flows. This business model is attributable to assets that will presumably be held until their natural maturity (IFRS 9 - B4.1.2C).
- "Collect and Sell": envisages the realisation of cash flows as provided for in the contract or through the sale of the instrument. This business model is attributable to assets that may be held to maturity, but also sold (IFRS 9 - B4.1.4).
- "Sell": this model is directed at realising cash flows by selling the instrument. This business model is attributable to assets managed with the objective of realising cash flows through sale, known as "trading" (IFRS 9 - B4.1.5).

The measurement of the business model to be attributed to the portfolios is carried out on the basis of the scenarios that could reasonably occur (IFRS 9 B4.1.2A), considering all relevant and objective information available at the measurement date.

In the event that the cash flows are realised in a way that is different from initial expectations considered in the definition of the business model, this realisation will not:

- change the classification of the remaining assets held in that business model;
- give rise to a prior-period error in the entity's financial statements.

However, information on how the cash flows of the target portfolio were realised in the past, together with other relevant information, will necessarily have to be taken into account prospectively when classifying the subsequent purchase/recognition of a new asset in the financial statements. The business model must be attributed at the level of the portfolio, sub-portfolio or individual instrument, where these best reflect the way assets are managed (IFRS 9 - B4.1.2).

*5. Manner of determination of the amortised cost*

The amortised cost of a financial asset or a financial liability is in general the amount at which the financial asset or financial liability is measured at initial recognition minus principal reimbursements, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any impairment loss.

The effective interest rate is the rate that equalises the present value of future contractual cash payments or receipts until the expiry or the following recalculation date of the price to the net carrying amount of the financial asset or financial liability. In order to calculate the present value, the effective interest rate is applied to the flow of future receipts or payments estimated during the useful life of the financial asset or liability – or a shorter period in the presence of certain conditions (for example, the review of market rates).

If it is not possible to estimate reliably the cash flows or the expected life, the Bank uses the expected contractual cash flows for all the period of validity of the contract.

Subsequent to initial recognition, the amortised cost allows to allocate revenues and costs deducted from or summed to the instruments during its expected life through amortisation. The method of determination of the amortised cost depends on whether the measured financial assets/liabilities have a fixed or variable rate. For fixed-rate instruments, future cash flows are quantified based on the interest rate known during the life of the loan. For variable-rate financial assets/liabilities, whose variability is not known a priori (because, for example, linked to an index), cash flows are determined by maintaining constant the last variable rate recorded. At each date of review of the rate, the redemption plan and the effective interest rate are recalculated over the entire useful life of the instrument, i.e. until the date of expiry.

Measurement at amortised cost is carried out for financial assets and liabilities designated at amortised cost (due from/to banks and loans/due to customers) and for financial assets designated at fair value through other comprehensive income. For the latter, the amortised cost is calculated for the sole purpose of recognising in the income statement the interests based on the effective interest rate; the difference between the fair value and the amortised cost is recorded in a specific shareholders' equity reserve.



*6. Methods for determining impairment losses*

IFRS 9 envisages a model for determining prospectively impairment losses, which requires the immediate recognition of losses on receivables even if only expected, contrary to IAS 39 that requires for their recognition the examination of past events and current conditions.

At the end of each reporting period, in accordance with IFRS 9, financial assets other than those designated at fair value through profit or loss are measured to determine whether there is any evidence that the book value of the assets may not be fully recoverable. A similar analysis is also carried out for commitments to lend funds and guarantees given that fall within the scope of impairment pursuant to IFRS 9.

In the event that such evidence exists (known as "impairment evidence"), the financial assets in question – consistently, where existing, with all the remaining assets pertaining to the same counterparty – are considered impaired and are included in stage 3. Against these exposures, represented by financial assets classified – in accordance with the provisions of Bank of Italy Circular no. 262/2005 – in the categories of bad loans, unlikely to pay and past due by more than 90 days, impairment losses equal to the full lifetime expected credit loss must be recognised.

For financial assets for which there is no evidence of impairment (performing financial instruments), it is necessary, instead, to check whether there are indicators such that the credit risk of the individual transaction is significantly increased compared to the time of initial recognition. The consequences of this check from the point of view of classification (or, more properly, staging) and measurement, are as follows:

- where such indicators exist, the financial asset is included in stage 2. In this case, the measurement, in accordance with the international accounting standards and even in the absence of an evident impairment, envisages the recognition of impairment losses equal to the full lifetime expected credit loss of the financial instrument. These adjustments are reviewed at the end of each subsequent reporting period both to periodically check their consistency with the constantly updated loss estimates and to take into account – in the event that the indicators of a "significantly increased" credit risk are no longer available – the changed forecast period for calculating the expected loss;
- where such indicators do not exist, the financial asset is included in stage 1. In this case, the measurement, in accordance with the international accounting standards and even in the absence of an evident impairment, envisages the recognition of 12-month expected credit losses for the specific financial instrument. These adjustments are reviewed at each subsequent reporting date both to periodically check their consistency with the constantly updated loss estimates and to take into account – in case of indicators of a "significantly increased" credit risk – the changed forecast period for calculating the expected loss.

With regard to the measurement of financial assets and, in particular, the identification of the "significant increase" in credit risk (a necessary and sufficient condition for the classification of the asset being measured in stage 2), the elements that – pursuant to the standard and its operational breakdown carried out by Banca Finnat Euramerica – constitute the main determinants to be taken into consideration are as follows:

Quantitative criteria

a. if the counterparty's rating deteriorates by at least three classes compared to the value at the date of origin;
b. for exposures backed by collateral, where there is a 50% decrease in the value of the collateral compared with its value at the date of origin;
c. exposures with a past due date of more than 30 days (even partial) recognised at the report date in the monthly survey (or in the previous 5 monthly surveys) regardless of the counterparty and without tolerance thresholds;
d. on-demand loans with both of the following irregular trends:
    1. presence of operating tension: average percentage of use of the credit line granted, calculated over the last 180 days, of more than 80%;
    2. absence of changes in assets in the last 180 days.

Qualitative criteria

a. forborne performing exposures in relation to a financial difficulty of the debtor;
b. exposures with irregular trends monitored by the Credits Committee of the Bank;
c. exposures to counterparties for which prejudicial information has been acquired. This requirement is to be considered valid also for prejudicial information relating to the guarantors.

A financial asset is considered non-performing and allocated to Stage 3 if one or more events that have a negative effect on expected cash flows occurred. In particular, the observable data relating to the following events constitute evidence of impairment of the financial asset:

- significant financial difficulties of the debtor (also based on the financial statement analysis such as, for example, negative changes in the debt ratio and in the capacity to cover financial expenses);
- breach of contractual clauses (such as a default or past-due event of more than 90 days);
- classification in category "D - Defaulted" within the CSE outsourcing rating model;
- a lender having granted a concession to the debtor – for economic or contractual reasons relating to the debtor's financial difficulty – that the lender would not otherwise consider;
- disappearance of an active market for that financial asset because of financial difficulties;
- the purchase or issue of a financial asset at a deep discount that reflects the incurred credit losses;
- the debtor is likely to declare bankruptcy or be subject to another financial reorganisation.

A performing financial asset at the time of initial recognition and for which one or more of the above events occur must be considered non-performing and placed in Stage 3; the allocation in this bucket envisages that:

- the allowance for doubtful receivables is determined as an amount equal to full lifetime expected credit losses of the financial asset;
- interest income is calculated based on the amortised cost i.e. gross book value less the allowance for doubtful receivables;
- the time value is determined, and the expected date of collection is estimated.

For these financial assets, the method for determining the loss is calculated in accordance with IFRS 9 and in line with the provisions of the credit regulations.

Once the allocation of exposures to the various stages of credit risk has been defined, the determination of expected credit losses (ECL) is carried out, at the level of individual transactions or security tranche, starting from the IRB/management approach, based on the parameters of Probability of Default (PD), Loss Given

Default (LGD) and Exposure at Default (EAD), on which appropriate corrective action is taken to ensure compliance with the requirements of IFRS 9.
The determination of the values and calculation methods are detailed in the Group Policy.

*7. Assets/liabilities designated at fair value*

The Group did not use the fair value option referred to in IFRS 9: therefore, the relevant asset and liability items in the balance sheet and income statement are not shown in the financial statements as they are not measured.

### A.3 – Information on transfers between portfolios of financial assets

According to the general rules envisaged by IFRS 9 on the reclassification of financial assets (with the exception of equities, for which no reclassification is permitted), reclassifications to other categories of financial assets are not permitted unless the entity modifies its business model for the management of financial assets. However, such cases are expected to be highly infrequent.

**A.3.1 – A.3.2 – A.3.3** - No transfers were made between portfolios of financial assets during the year due to a change in the business model. It should be noted that, however, as outlined in detail in the Report on Operations under the most significant transactions in the year, the equity interests Aldia S.p.A. and Liphe S.p.A. – previously classified under Financial assets held for trading and Financial assets designated at fair value through other comprehensive income respectively – were included in the item investments in joint ventures.

## A.4 - Information on fair value

### A.4.1 - Levels of fair value 2 and 3: valuation techniques and inputs used

### A.4.2 - Processes and sensitivity of measurements

The techniques, valuation processes of the financial instruments and the methods for determining the fair value used by the Bank are shown below.
The fair value of financial instruments is determined based on the prices acquired by the financial markets, in the case of instruments listed on active markets (**Level 1**), or on internal valuation models, in the case of all other financial instruments.
If the instrument is not listed on an active market, or if there is no regularly functioning market, i.e. the market does not feature a sufficient and ongoing number of transactions, bid-ask spread and a volatility that are not sufficiently curbed, the fair value of the financial instruments is generally determined based on the use of valuation techniques the purpose of which is to establish the price of a hypothetical independent transaction, motivated by normal market consideration, at the date of valuation.

Regarding the valuation techniques, the following are taken into account:

- if available, the prices of recent transactions involving similar instruments, suitably adjusted to reflect the changed market conditions and the technical differences between the valued instrument and the instrument selected as similar in nature (comparable approach);
- valuation models widely used by the financial community, which have proved over the years capable of producing reliable estimates of prices, with respect to the current market conditions (Mark-to-Model).

Financial instruments classified as **Level 1** instruments include:

- stocks and bonds listed on active markets. The principal 'price source' of securities listed on regulated markets is the relevant stock exchange, and generally corresponds to the price published by the regulated market on which the security is negotiated. For financial instruments listed on the Italian Stock Exchange, the value is determined using the posted price;
- UCIs with official prices expressed by an active market; open-ended UCIs (including ETF) for which a price listed on an active market is available at the measurement date;
- foreign exchange spot transactions;
- derivatives for which prices are available on an active market (e.g., futures and options).

Lacking prices on an active market, the fair value of financial instruments is calculated according to the "comparable approach" (**Level 2**), based on the use of valuation models making use of parameters that can be directly observed on the market. In this case, the valuation is not based on the prices of the actual financial instruments being valued, but on prices or credit spreads taken from the official listings of substantially similar instruments, in terms of risk-yield factors, using a certain calculation method (pricing model). This approach translates into the search for transactions on the active markets involving instruments that, in terms of their risk factors, are comparable with the valued instrument.

Following is an overview of the valuation techniques used:

- the use of current market prices of other substantially similar instruments, if they are deemed to be highly comparable (based on the country and sector to which they belong, along with their rating, maturity and degree of seniority of the securities), such as to avoid any substantial alteration of the prices or the use of trading prices – with respect to the same financial instrument – concerning market transactions between independent counterparties;
- the use of prices of similar instruments, in terms of their calibration;
- discounted cash flow models;
- option pricing models.

Financial instruments classified as **Level 2** instruments include:

- UCIs for which prices recorded in an inactive market whose values are deemed to be representative of fair value are available. If these prices are based on the NAV, this value, if available at the measurement date, may be taken into consideration for fair value purposes;
- bonds that are not traded on an active market, but which can be priced based on the prices of comparable securities, as inputs for a valuation model. The fair value of bonds without official prices expressed by an active market is calculated by using an appropriate credit spread, determined based on liquid financial instruments with similar features. Moreover, in the case of market transactions – concerning the same financial instrument – between independent counterparties account will be taken of the known trading price;
- OTC derivatives valued based on observable parameters and market models. Interest rate, exchange, share, inflation and commodity derivatives – if they are not traded on regulated markets – are known as Over the Counter (OTC) instruments, i.e. instruments that are bilaterally negotiated with market counterparties, and their valuation is conducted based on specific pricing models, fed by inputs (such as rate, exchange and volatility curves) observed on the market.

Lastly, the determination of the fair value of certain types of financial instruments is based on valuation models that require the use of parameters that cannot be directly observed on the market and which, therefore, require estimates and assumptions by the valuer (**Level 3**).

Financial instruments classified as **Level 3** instruments include:

- unlisted equities. Equity investments held at cost are also conventionally included among the Level 3 instruments;
- UCIs lacking prices expressed by a market (active and inactive) and similar listed securities. This category includes the open-ended UCIs whose last measured NAV is not reported near the measurement date and the closed-ended UCIs whose fair value is derived exclusively on the basis of the NAV. For these UCIs, the NAV used for measurement must prudentially be rectified to take into account any risk of not being able to carry out a transaction unless it is at prices that are significantly lower than the value of the assets represented by the NAV;
- bonds not listed on active markets, for which there are no comparable instruments, or which require the use of significant assumptions, such as the knowledge of trading prices between independent counterparties;

- OTC derivatives valued using non-market models, or market models based on parameters that cannot be observed on the market.

Level 3 instruments also include financial instruments priced by the Bank based on internal valuation models using inputs that cannot be observed on the market and personal assumptions made by the valuer.

**A.4.3 - Fair value hierarchy**

With the introduction of IFRS 13, the rules for measuring the fair value previously included in different accounting principles were set out in a single document.
The fair value is defined as the price that is received for the sale of an asset or that would be paid for the transfer of a liability in an orderly transaction between market participants at the measurement date.

When measuring the fair value of a financial instrument, IFRS 13 refers to the concept of hierarchy of the measurement criteria used, which was at the time introduced by an amendment to IFRS 7 that required the company to classify the measurements based on a hierarchy of levels that reflects the significance of the inputs used in the measurement of financial instruments.

This classification aims to establish a hierarchy in terms of reliability of fair value depending on the degree of discretion applied by enterprises, giving priority to the use of parameters observable on the market reflecting the assumptions that market participants would use when pricing the asset/liability.

IFRS 13 identifies three different input levels:

- Level 1: inputs represented by (unadjusted) quoted prices in active markets – as defined by IFRS 13 – for assets and liabilities subject to measurement;
- Level 2: inputs other than quoted market prices set forth above, which are observable for the asset or liability, either directly (prices) or indirectly (derived from prices);
- Level 3: inputs that are unobservable inputs for the asset or liability subject to measurement.

The choice between these types is not optional but must be done in a hierarchical order since priority is given to official prices on active markets (level 1); in the absence of such inputs, we use valuation techniques based on parameters that can be observed on the market (level 2); with a lower and more discretionary priority, the fair value of assets and liabilities calculated with valuation techniques based on parameters that cannot be observed on the market (level 3).

The valuation method and as a result transfers among the levels of the fair value hierarchy of a financial instrument are altered only if there are significant changes in the market or subjective conditions of the issuer of the financial instrument.

IFRS 13 contemplates that, as already indicated by IFRS 7, the instruments designated at amortised cost are provided with fair value disclosure.

Within the Bank, the following approaches were identified for calculating the fair value:

- *Assets designated at amortised cost* For financial assets recognised in the financial statements at amortised cost, classified in the accounting category of "Financial assets designated at amortised cost" (due from banks and loans to customers) in particular:
  - for medium/long-term performing loans (mainly mortgages and leases), the fair value is determined on the basis of cash flows, suitably adjusted for expected losses, on the basis of the PD and LGD parameters. These cash flows are discounted on the basis of a market interest rate adjusted to take account of a premium deemed to express risks and uncertainties;
  - for "non-performing" loans (bad loans, unlikely to pay, past due), the fair value is assumed to be equal to the net book value. In this regard, it should be noted that the market for non-performing loans is characterised by a significant illiquidity and a high dispersion of prices according to the specific characteristics of the loans. The absence of observable parameters that could be used as a reference for measuring the fair value of exposures comparable to those being measured could therefore lead to a wide range of possible fair values; for this reason, for the purposes of financial reporting, the fair value of non-performing loans is shown as the book value;
  - for debt securities classified in the "Due from banks or Loans to customers" portfolio or "Securities issued" portfolio, the fair value was determined by using prices obtained on active markets or by using valuation models, as described in the previous paragraph "Fair value levels 2 and 3: valuation techniques and inputs used";
  - the fair value of loans to customers and due from banks with undefined contractual expiry, in that they are on demand, is represented by the nominal value of the receivables net of the risk component represented by the calculated probability of default, in accordance with what was previously defined.

- *Due to banks and customers* They are entered at their nominal value that is usually equal to the amount received initially by the Bank. This value can be reasonably approximated to the fair value in that the Bank can meet its payables thanks to high capital instruments.

- *Securities issued* The item pertains to bonds issued by the Bank and entered at amortised cost. The fair value is calculated by using a model that considers the loan indexation parameter and a target spread.

**A.4.4 - Other information**

The Bank does not use the exception on the compensating valuation of groups of financial assets and liabilities referred to in paragraph 48 of the IFRS 13.

## Quantitative information

### A.4.5 - Fair value hierarchy

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

| Assets/liabilities measured at fair value | 31.12.2019 | | |
|---|---|---|---|
| | L1 | L2 | L3 |
| 1. Financial assets designated at fair value through profit or loss: | 52,555 | 24,724 | 1,345 |
| a) financial assets held for trading | 52,555 | 5,141 | - |
| b) financial assets designated at fair value | - | - | - |
| c) other financial assets mandatorily at fair value | - | 19,583 | 1,345 |
| 2. Financial assets designated at fair value through other comprehensive income | 354,301 | - | 11,097 |
| 3. Hedging derivatives | - | - | - |
| 4. Property and equipment | - | - | - |
| 5. Intangible assets | - | - | - |
| **Total** | **406,856** | **24,724** | **12,442** |
| 1. Financial liabilities held for trading | - | 152 | - |
| 2. Financial liabilities designated at fair value | - | - | - |
| 3. Hedging derivatives | - | - | - |
| **Total** | **-** | **152** | **-** |

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

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

| Assets/liabilities measured at fair value | 31.12.2018 | | |
|---|---|---|---|
| | L1 | L2 | L3 |
| 1. Financial assets designated at fair value through profit or loss: | 30,070 | 27,680 | 1,498 |
| a) financial assets held for trading | 30,070 | 7,330 | 10 |
| b) financial assets designated at fair value | - | - | - |
| c) other financial assets mandatorily at fair value | - | 20,350 | 1,488 |
| 2. Financial assets designated at fair value through other comprehensive income | 288,827 | - | 8,586 |
| 3. Hedging derivatives | - | - | - |
| 4. Property and equipment | - | - | - |
| 5. Intangible assets | - | - | - |
| **Total** | **318,897** | **27,680** | **10,084** |
| 1. Financial liabilities held for trading | 243 | 80 | - |
| 2. Financial liabilities designated at fair value | - | - | - |
| 3. Hedging derivatives | - | - | - |
| **Total** | **243** | **80** | **-** |

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

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

| | Financial assets designated at fair value through profit or loss | | | | Financial assets designated at fair value through other comprehensive income | Hedging derivatives | Property and equipment | Intangible assets |
|---|---|---|---|---|---|---|---|---|
| | Total | Of which: a) Financial assets held for trading | Of which: b) Financial assets designated at fair value | Of which: c) Other financial assets mandatorily at fair value | | | | |
| **1. Initial amount** | **1,498** | **10** | **-** | **1,488** | **8,586** | **-** | **-** | **-** |
| **2. Increases** | **68** | **-** | **-** | **68** | **3,074** | **-** | **-** | **-** |
| 2.1. Purchases | - | - | - | - | 1,354 | - | - | - |
| 2.2. Gains recognised in: | - | - | - | - | 1,720 | - | - | - |
| 2.2.1. Income Statement | - | - | - | - | - | - | - | - |
| - of which capital gains | - | - | - | - | - | - | - | - |
| 2.2.2. Shareholders' equity | | X | X | X | 1,720 | - | - | - |
| 2.3. Transfers from other levels | - | - | - | - | - | - | - | - |
| 2.4. Other increases | 68 | - | - | 68 | - | - | - | - |
| **3. Decreases** | **221** | **10** | **-** | **211** | **563** | **-** | **-** | **-** |
| 3.1. Sales | - | - | - | - | - | - | - | - |
| 3.2. Reimbursements | - | - | - | - | - | - | - | - |
| 3.3. Losses recognised in: | 216 | 5 | - | 211 | 558 | - | - | - |
| 3.3.1. Income Statement | 216 | 5 | - | 211 | - | - | - | - |
| - of which capital losses | 215 | 4 | - | 211 | - | - | - | - |
| 3.3.2. Shareholders' equity | | X | X | X | 558 | - | - | - |
| 3.4. Transfers to other levels | - | - | - | - | - | - | - | - |
| 3.5. Other decreases | 5 | 5 | - | - | 5 | - | - | - |
| **4. Final amount** | **1,345** | **-** | **-** | **1,345** | **11,097** | **-** | **-** | **-** |

Item 2.1. Purchases of Financial assets designated at fair value through other comprehensive income of 1,354 thousand euros relates to the capital payment to the company Real Estate Roma Olgiata S.r.l.

Item 2.2.2. Gains recognised in Shareholders' equity of Financial assets designated at fair value through other comprehensive income amounting to 1,720 thousand euros concerns the valuation of SIA S.p.A. shares for 1,650 thousand euros and CSE shares for 70 thousand euros.

Item 2.4. Other increases relates exclusively to the acceptance of the Carige shares held through the FITD Voluntary Scheme.

Item 3.3.1. Losses recognised in: Income Statement concerns for the Assets mandatorily at fair value the capital loss recorded on the Apple Fund for 173 thousand euros and on the Carige shares held through the FITD Voluntary Scheme for 38 thousand euros.

Item 3.3.2. Losses recognised in: Shareholders' equity concerns the write-down of the Real Estate Roma Olgiata S.r.l. shares for 514 thousand euros and the loss on Calipso S.p.A. shares discharged following the elimination of the share capital for 44 thousand euros.

Item 3.5. Other decreases relates to Aldia S.p.A. and Liphe S.p.A. shares – previously classified as Financial assets held for trading and as Financial assets designated at fair value through other comprehensive income respectively – included in the item equity investments in joint ventures.

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

At the reporting date under review, the item in question has no balances.

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

| Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis | 31.12.2019 | | | |
|---|---|---|---|---|
| | BV | L1 | L2 | L3 |
| 1. Financial assets designated at amortised cost | 1,499,680 | 1,000,760 | - | 521,075 |
| 2. Investment property | - | - | - | - |
| 3. Non-current assets held for sale and discontinued operations | - | - | - | - |
| **Total** | **1,499,680** | **1,000,760** | **-** | **521,075** |
| 1. Financial liabilities designated at amortised cost | 1,815,922 | - | - | 1,815,885 |
| 2. Liabilities associated to discontinued operations | - | - | - | - |
| **Total** | **1,815,922** | **-** | **-** | **1,815,885** |

*Key*:
BV = Book value L1 = Level 1 L2 = Level 2 L3 = Level 3

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

| Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis | 31.12.2018 | | | |
|---|---|---|---|---|
| | BV | L1 | L2 | L3 |
| 1. Financial assets designated at amortised cost | 1,423,634 | 944,580 | - | 497,691 |
| 2. Investment property | - | - | - | - |
| 3. Non-current assets held for sale and discontinued operations | - | - | - | - |
| **Total** | **1,423,634** | **944,580** | **-** | **497,691** |
| 1. Financial liabilities designated at amortised cost | 1,649,542 | - | - | 1,649,401 |
| 2. Liabilities associated to discontinued operations | - | - | - | - |
| **Total** | **1,649,542** | **-** | **-** | **1,649,401** |

*Key*:
BV = Book value L1 = Level 1 L2 = Level 2 L3 = Level 3

The Bank has never carried out fair value measurements on a non-recurring basis for assets and liabilities.

### A.5 - Report on the so-called "day one profit/loss"

The Bank did not record in the financial year under review any positive/negative item arising from the initial fair value measurement of financial instruments.

## Part B – Information on the balance sheet

## 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 | 541 | 498 |
| b) Demand deposits at Central Banks | 155 | 161 |
| **Total** | **696** | **659** |

### Section 2 - Financial assets designated at fair value through profit or loss – Item 20

#### 2.1 Financial assets held for trading: breakdown by product

| Items/Amounts | 31.12.2019 | | | 31.12.2018 | | |
|---|---|---|---|---|---|---|
| | L1 | L2 | L3 | L1 | L2 | L3 |
| **A. Cash assets** | | | | | | |
| 1. Debt securities | 50,470 | - | - | 25,047 | 1,035 | - |
| 1.1 Structured securities | - | - | - | - | - | - |
| 1.2 Other debt securities | 50,470 | - | - | 25,047 | 1,035 | - |
| 2. Equity | 1,372 | - | - | 4,386 | - | 10 |
| 3. UCI units | 619 | 5,060 | - | 183 | 6,260 | - |
| 4. Loans | - | - | - | - | - | - |
| 4.1 Repurchase agreements | - | - | - | - | - | - |
| 4.2 Other | - | - | - | - | - | - |
| **Total A** | **52,461** | **5,060** | **-** | **29,616** | **7,295** | **10** |
| **B. Derivatives** | | | | | | |
| 1. Financial derivatives | 94 | 81 | - | 454 | 35 | - |
| 1.1 held for trading | 94 | 81 | - | 454 | 35 | - |
| 1.2 related to the fair value option | - | - | - | - | - | - |
| 1.3 other | - | - | - | - | - | - |
| 2. Credit derivatives | - | - | - | - | - | - |
| 2.1 held for trading | - | - | - | - | - | - |
| 2.2 related to the fair value option | - | - | - | - | - | - |
| 2.3 other | - | - | - | - | - | - |
| **Total B** | **94** | **81** | **-** | **454** | **35** | **-** |
| **Total (A+B)** | **52,555** | **5,141** | **-** | **30,070** | **7,330** | **10** |

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

The financial assets held for trading amounted to 57,696 thousand euros. The balance at 31 December 2018 amounted to 37,410 thousand euros.

Item "A.1. Debt securities" amounting to 50,470 thousand euros (26,082 thousand euros at 31 December 2018) consists of the following financial instruments present in Level 1: Government bonds of 50,084 thousand euros and bonds of 386 thousand euros.

The item "A.3. UCI units" amounting to 5,679 thousand euros (6,443 thousand euros at 31 December 2018) includes in Level 1: 4AIM SICAF units of 167 thousand euros, Pharus Funds of 420 thousand euros, New Millennium Funds of 28 thousand euros and other funds for 4 thousand euros; in Level 2: New Millennium Fund units of 5,060 thousand euros.



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

| Items/Amounts | Total 31.12.2019 | Total 31.12.2018 |
|---|---|---|
| **A. Cash assets** | | |
| **1. Debt securities** | **50,470** | **26,082** |
| a) Central Banks | - | - |
| b) Public administrations | 50,084 | 10,001 |
| c) Banks | - | 14,539 |
| d) Other financial institutions | - | 1,035 |
| of which: insurance companies | - | - |
| e) Non financial institutions | 386 | 507 |
| **2. Equity** | **1,372** | **4,396** |
| a) Banks | - | - |
| b) Other financial institutions | 320 | 247 |
| of which: insurance companies | 230 | 30 |
| c) Non financial institutions | 1,052 | 4,149 |
| d) Other issuers | - | - |
| **3. UCI units** | **5,679** | **6,443** |
| **4. Loans** | **-** | **-** |
| a) Central Banks | - | - |
| b) Public administrations | - | - |
| c) Banks | - | - |
| d) Other financial institutions | - | - |
| of which: insurance companies | - | - |
| e) Non financial institutions | - | - |
| f) Households | - | - |
| **Total A** | **57,521** | **36,921** |
| **B. Derivatives** | | |
| a) Central counterparties | - | - |
| b) Other | 175 | 489 |
| **Total B** | **175** | **489** |
| **Total (A + B)** | **57,696** | **37,410** |

The item "UCI units" includes: 905 thousand euros of bond funds, 4,771 thousand euros of equity funds and 3 thousand euros of real estate funds.

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

| Items/Amounts | 31.12.2019 | | | 31.12.2018 | | |
|---|---|---|---|---|---|---|
| | L1 | L2 | L3 | L1 | L2 | L3 |
| **1 Debt securities** | **-** | **-** | **-** | **-** | **-** | **-** |
| 1.1 Structured securities | - | - | - | - | - | |
| 1.2 Other debt securities | - | - | - | - | - | - |
| **2. Equity** | **-** | **-** | **30** | **-** | **-** | **-** |
| **3. UCI units** | **-** | **19,583** | **1,315** | **-** | **20,350** | **1,488** |
| **4. Loans** | **-** | **-** | **-** | **-** | **-** | **-** |
| 4.1 Repurchase agreements | - | - | - | - | - | - |
| 4.2 Other | - | - | - | - | - | - |
| **Total** | **-** | **19,583** | **1,345** | **-** | **20,350** | **1,488** |

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

The item Financial assets mandatorily at fair value amounted to 20,928 thousand euros (21,838 thousand euros at 31 December 2018) and includes under equities (level 3) the Carige shares held through the Voluntary Scheme of the FITD for 30 thousand euros, under the UCI units in level 2 the shares of the FIP Fund for 15,957 thousand euros, of the New Millennium funds for 2,736 thousand euros, of the Symphonia Thema fund for 890 thousand euros and in level 3 shares of the Apple Fund for 1,315 thousand euros.

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

| Items/Amounts | 31.12.2019 | 31.12.2018 |
|---|---|---|
| **1. Equity** | **30** | **-** |
| of which: banks | 30 | - |
| of which: other financial institutions | - | - |
| of which: non financial institutions | - | - |
| **2. Debt securities** | **-** | **-** |
| a) Central Banks | - | - |
| b) Public administrations | - | - |
| c) Banks | - | - |
| d) Other financial institutions | - | - |
| of which: insurance companies | - | - |
| e) Non financial institutions | - | - |
| **3. UCI units** | **20,898** | **21,838** |
| **4. Loans** | **-** | **-** |
| a) Central Banks | - | - |
| b) Public administrations | - | - |
| c) Banks | - | - |
| d) Other financial institutions | - | - |
| of which: insurance companies | - | - |
| e) Non financial institutions | - | - |
| f) Households | - | - |
| **Total** | **20,928** | **21,838** |

## Section 3 - Financial assets designated at fair value through other comprehensive income – Item 30

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

| Items/Amounts | 31.12.2019 | | | 31.12.2018 | | |
|---|---|---|---|---|---|---|
| | L1 | L2 | L3 | L1 | L2 | L3 |
| **1. Debt securities** | **353,870** | **-** | **-** | **288,482** | **-** | **-** |
| 1.1 Structured securities | - | - | - | - | - | - |
| 1.2 Other debt securities | 353,870 | - | - | 288,482 | - | - |
| **2. Equity** | **431** | **-** | **11,097** | **345** | **-** | **8,586** |
| **3. Loans** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Total** | **354,301** | **-** | **11,097** | **288,827** | **-** | **8,586** |

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

Financial assets designated at fair value through other comprehensive income totalled 365,398 thousand euros (297,413 thousand euros at 31 December 2018).

Item 1. Debt securities (Level 1) consists mainly of Government bonds. At 31 December 2019, total net losses on credit risk on these securities amounted to 545 thousand euros. The value is recognised in item 110. Valuation reserves (after taxes) instead of as an adjustment to this item.
In the year in question, value recoveries amounting to 157 thousand euros were carried out.
Item 2. Equity securities include the following strategic investments:

- Level 1: Net Insurance S.p.A. (431 thousand euros including the positive valuation reserve equal to 139 thousand euros);
- Level 3: Fideuram Investimenti SGR S.p.A. (1,075 thousand euros), SIA S.p.A. (6,250 thousand euros including the positive valuation reserve equal to 5,130 thousand euros), CSE Consorzio Servizi Bancari S.r.l. (2,507 thousand euros including the positive valuation reserve equal to 3 thousand euros), SIT S.p.A. (15 thousand euros) and Real Estate Roma Olgiata S.r.l. (1,250 thousand euros including the negative valuation reserve equal to 514 thousand euros).

For the inclusion of equity in this portfolio, the irrevocable option was exercised upon initial recognition.

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

| Items/Amounts | 31.12.2019 | 31.12.2018 |
|---|---|---|
| **1. Debt securities** | **353,870** | **288,482** |
| a) Central Banks | - | - |
| b) Public administrations | 314,133 | 251,936 |
| c) Banks | 37,531 | 34,405 |
| d) Other financial institutions | - | - |
| of which: insurance companies | - | - |
| e) Non financial institutions | 2,206 | 2,141 |
| **2. Equity** | **11,528** | **8,931** |
| a) Banks | - | - |
| b) Other issuers: | 11,528 | 8,931 |
| - other financial institutions | 1,506 | 1,420 |
| of which: insurance companies | 431 | 344 |
| - non financial institutions | 10,022 | 7,511 |
| - other | - | - |
| **3. Loans** | **-** | **-** |
| a) Central Banks | - | - |
| b) Public administrations | - | - |
| c) Banks | - | - |
| d) Other financial institutions | - | - |
| of which: insurance companies | - | - |
| e) Non financial institutions | - | - |
| f) Households | - | - |
| **Total** | **365,398** | **297,413** |

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

| | Gross value | | | | Total impairment losses | | | Total partial write-offs (*) |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | of which: instruments with low credit risk | Stage 2 | Stage 3 | Stage 1 | Stage 2 | Stage 3 | |
| Debt securities | 352,327 | - | 2,088 | - | 542 | 3 | - | - |
| Loans | - | - | - | - | - | - | - | - |
| **Total 31.12.2019** | **352,327** | **-** | **2,088** | **-** | **542** | **3** | **-** | **-** |
| **Total 31.12.2018** | **289,301** | **-** | **-** | **-** | **819** | **-** | **-** | **-** |
| of which: acquired or originated impaired financial assets | X | X | - | - | X | - | - | - |

(*) Value to be reported for disclosure purposes.

The gross amount corresponds to the book value solely of Debt securities increased by the total impairment losses.

## Section 4 - Financial assets designated at amortised cost – Item 40

### 4.1 Financial assets designated at amortised cost: breakdown by product of due from banks

| Type of transactions/Amounts | Total 31.12.2019 | | | | | |
|---|---|---|---|---|---|---|
| | Book value | | | Fair value | | |
| | Stage 1 and 2 | Stage 3 | of which: acquired or originated impaired | L1 | L2 | L3 |
| **A. Due from Central Banks** | **-** | **-** | **-** | **-** | **-** | **-** |
| 1. Time deposits | - | - | - | X | X | X |
| 2. Compulsory reserve | - | - | - | X | X | X |
| 3. Repurchase agreements | - | - | - | X | X | X |
| 4. Other | - | - | - | X | X | X |
| **B. Due from banks** | **71,317** | **-** | **-** | **-** | **-** | **71,317** |
| 1. Loans | 71,317 | - | - | - | - | 71,317 |
| 1.1 Current accounts and demand deposits | 47,329 | - | - | X | X | X |
| 1.2 Time deposits | 6,727 | - | - | X | X | X |
| 1.3 Other loans: | 17,261 | - | - | X | X | X |
| - Reverse repurchase agreements | - | - | - | X | X | X |
| - Lease financing | - | - | - | X | X | X |
| - Other | 17,261 | - | - | X | X | X |
| 2. Debt securities | - | - | - | - | - | - |
| 2.1 Structured securities | - | - | - | - | - | - |
| 2.2 Other debt securities | - | - | - | - | - | - |
| **Total** | **71,317** | **-** | **-** | **-** | **-** | **71,317** |

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

The item "Due from banks" totalled 71,317 thousand euros (78,405 thousand euros at 31 December 2018).

Item B.1.2. Time deposits of 6,727 thousand euros refers exclusively to the Compulsory reserve deposited with Depobank S.p.A. (amount after collective write-down). At 31 December 2018, the Compulsory reserve amounted to 7,075 thousand euros.

Item B.1.3 Other loans relates to guarantee margins on derivatives.

At 31 December 2019, total net losses on credit risk with banks amounted to 15 thousand euros. In the year in question, value recoveries amounting to 27 thousand euros were carried out.

| Total 31.12.2018 | | | | | |
|---|---|---|---|---|---|
| Book value | | | Fair value | | |
| Stage 1 and 2 | Stage 3 | of which: acquired or originated impaired | L1 | L2 | L3 |
| **-** | **-** | **-** | **-** | **-** | **-** |
| - | - | - | X | X | X |
| - | - | - | X | X | X |
| - | - | - | X | X | X |
| - | - | - | X | X | X |
| **78,405** | **-** | **-** | **-** | **-** | **78,405** |
| 78,405 | - | - | - | - | 78,405 |
| 56,397 | - | - | X | X | X |
| 7,075 | - | - | X | X | X |
| 14,934 | - | - | X | X | X |
| - | - | - | X | X | X |
| - | - | - | X | X | X |
| 14,934 | - | - | X | X | X |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| **78,405** | **-** | **-** | **-** | **-** | **78,405** |

**4.2 Financial assets designated at amortised cost: breakdown by product of loans to customers**

| Type of transactions/Amounts | Total 31.12.2019 | | | | | |
|---|---|---|---|---|---|---|
| | Book value | | | Fair value | | |
| | Stage 1 and 2 | Stage 3 | of which: acquired or originated impaired | L1 | L2 | L3 |
| **1. Loans** | **419,489** | **15,147** | **-** | **-** | **-** | **449,758** |
| 1.1. Current accounts | 169,237 | 575 | - | X | X | X |
| 1.2 Reverse repurchase agreements | 40,557 | - | - | X | X | X |
| 1.3. Mortgages | 175,869 | 8,838 | - | X | X | X |
| 1.4. Credit card loans, personal loans and transfers of one fifth of salaries | - | - | - | X | X | X |
| 1.5. Lease financing | - | - | - | X | X | X |
| 1.6. Factoring | - | - | - | X | X | X |
| 1.7. Other loans | 33,826 | 5,734 | - | X | X | X |
| **2. Debt securities** | **993,727** | **-** | **-** | **1,000,760** | **-** | **-** |
| 2.1. Structured securities | - | - | - | - | - | - |
| 2.2. Other debt securities | 993,727 | - | - | 1,000,760 | - | - |
| **Total** | **1,413,216** | **15,147** | **-** | **1,000,760** | **-** | **449,758** |

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

Loans to customers totalled 1,428,363 thousand euros (1,345,229 thousand euros at 31 December 2018).

At the reporting date of these financial statements, the items relating to current accounts, mortgages and other loans include **impaired assets** (**Bucket 3**) totalling 36,367 thousand euros (15,147 thousand euros after the write-downs), comprising:

- **bad loans** totalling 25,224 thousand euros (5,707 thousand euros after the write-downs) relating to the following positions:
  - 4,572 thousand euros (973 thousand euros after the write-down) for the residual amount of a mortgage terminated on 8 July 2011. The transaction is secured by a first mortgage on property, the value of which – supported by a special expert appraisal report – covers the entire value of the net exposure. The recoverable amount of the credit is based on the assessed value of the guarantees, taking into account both the time for the collection of credit (in relation to the privileged position of the Bank concerning the real estate collaterals securing the exposure) and the difficulties encountered or which may be encountered in the sale of the properties within the scope of judicial enforcement procedures;
  - 15,244 thousand euros (3,047 thousand euros after the write-down) relating to a receivable for a loan due from the company Bio-On. For the purposes of determining the presumed realisable value of the receivable due from the company Bio-On, the Bank's offices conducted an evaluation of the company's assets based on the public information available starting from the accounting data which are largely recognised in the company's separate and consolidated financial statements, subject to audit in relation to 2018, as well as, to a lesser extent, in the consolidated half-yearly report at 30 June 2019; the Bank also requested a fairness opinion from an independent external

| Total 31.12.2018 | | | | | |
|---|---|---|---|---|---|
| Book value | | | Fair value | | |
| Stage 1 and 2 | Stage 3 | Other | L1 | L2 | L3 |
| **398,846** | **5,787** | **-** | **-** | **-** | **419,286** |
| 187,768 | 1,560 | - | X | X | X |
| - | - | - | X | X | X |
| 178,212 | 2,179 | - | X | X | X |
| - | - | - | X | X | X |
| - | - | - | X | X | X |
| - | - | - | X | X | X |
| 32,866 | 2,048 | - | X | X | X |
| **940,596** | | **-** | **944,580** | **-** | **-** |
| - | - | - | - | - | - |
| 940,596 | - | - | 944,580 | - | - |
| **1,339,442** | **5,787** | **-** | **944,580** | **-** | **419,286** |

expert which certified the correctness of the evaluation methodology adopted and its results. In consideration of the typical uncertainties of the evaluations based on external information which essentially concern the impossibility of carrying out a check on the completeness of the reconstruction of the company's current equity situation, also considering the absence of a total debt statement, the presumed realisable value of the receivable resulting from the evaluation conducted internally and certified by the fairness opinion was, however, prudentially reduced by more than 50% at the time of determination of the value adjustment resolved by the Board of Directors;

- 5,408 thousand euros relating for 1,733 thousand euros to trade receivables (61 thousand euros after the write-down) and for 3,675 thousand euros (1,626 thousand euros after the write-down) and to receivables relating to cash loans.

The line-by-line write-downs carried out therefore totalled 19,517 thousand euros (including 1,672 thousand euros referring to trade receivables), with a total coverage rate of 77%.

- **unlikely to pay** totalling 8,023 thousand euros (6,404 thousand euros after the write-downs) comprising:
  - overdraft facilities amounting to 63 thousand euros (53 thousand euros after the write-down);
  - mortgage positions of 7,832 thousand euros (339 thousand euros of overdue instalments and 7,493 thousand euros of principal about to fall due);
  - trade receivables of 128 thousand euros.

The line-by-line write-downs totalled 1,619 thousand euros (including 102 thousand euros referring to trade receivables).

- **other positions expired or past due** for over 90 days totalling 3,120 thousand euros (3,036 thousand euros after the write-downs).



At 31 December 2019, the Bank has 26 "forborne" exposures of which:
- 8 non-performing positions totalling 24,165 thousand euros (10,322 thousand euros after write-downs), of which 2 positions included among bad loans of 15,385 thousand euros, 3 positions included among unlikely to pay of 7,715 thousand euros and 3 positions included among past due loans of 1,065 thousand euros;
- 18 performing positions totalling 6,927 thousand euros.

At 31 December 2019, the Bank calculated the write-down of the portfolio for performing loans to customers in **Bucket 1** and **Bucket 2** relating to cash loans. This write-down amounted to 2,299 thousand euros, lower than the allocations made for this purpose through 31 December 2018 (equal to 3,499 thousand euros). Starting from the current year, the methodological framework underlying the calculation of impairment losses on loans, adopted starting from last year with the entry into force of IFRS 9, was refined to stabilise the impact of anomalous events in the measurements of the statistical databases used to determine the expected losses. The value recovery highlighted above is partly due to the improvement of the credit rating of existing positions and partly to said refinement.

In 2019, the Bank recorded in the Income Statement 506 thousand euros for portfolio value recoveries on Government bonds; this value recovery was determined by the decrease of the probability of default associated with the Italian public debt, calculated from the consortium impairment model adopted by the Bank, as a result of the reduction of the tensions that had characterised the market of Italian Government bonds in the second half of the previous year.
The Bank also recorded, in the period in question, 12,694 thousand euros for net losses on loans to customers broken down as follows: 1,200 thousand euros for portfolio value recoveries, 241 thousand euros for specific value recoveries, 14,106 thousand euros for specific impairment losses, 42 thousand euros for cancellation losses and 13 thousand euros for recoveries of receivables cancelled in previous financial years.

At 31 December 2019, the allowance for doubtful loans to customers, excluding securities, totalled 23,519 thousand euros of which 21,220 thousand euros on an itemised basis and 2,299 thousand euros for portfolio impairment losses.

Item 1.7. Other loans includes Deposits for margins with Cassa di Compensazione e Garanzia amounting to 30,369 thousand euros (Bucket 1), non-performing financial loans amounting to 5,646 thousand euros (Bucket 3), trade receivables amounting to 3,484 thousand euros (of which Bucket 1 and 2 amounting to 3,397 thousand euros and Bucket 3 amounting to 87 thousand euros) and sub-lease receivables of 59 thousand euros (Bucket 1).

Item 2.2 Other debt securities refers exclusively to Government bonds. The total write-down of the portfolio amounted to 506 thousand euros after utilisation for sale of 464 thousand euros.

A breakdown of "Time distribution of loans to customers by residual duration" can be found under Part E Section 4 – Liquidity risk.

The following table provides the information about contracts with customers required by IFRS 15.

**Assets/liabilities deriving from contracts with customers not debited in the current accounts (IFRS 15)**

| | Closing balances at 31.12.2019 net of impairment losses | Closing balances at 31.12.2018 net of impairment losses |
|---|---|---|
| **Loans to customers for activities of:** | | |
| - advisory and corporate finance | 2,364 | 2,526 |
| - specialist | 969 | 762 |
| - placement | 773 | 711 |
| - delegated management | 365 | 305 |
| - services to listed issuers (SEQ and equity research) | 100 | 99 |
| - other services | 854 | 538 |
| **Total receivables before write-downs** | **5,425** | **4,941** |
| Total line-by-line impairment losses | (1,774) | (1,740) |
| Total collective impairment losses on trade receivables | (167) | (152) |
| **Total receivables after write-downs** | **3,484** | **3,049** |
| **Liabilities deriving from contracts with customers:** | | |
| - deferred income on issued invoices | (214) | (259) |

Receivables for assets deriving from contracts with customers, pursuant to the table above, are included in item 1.7. Other loans. The impairment losses on an itemised basis on said receivables at 31 December 2019 totalled 1,774 thousand euros and concern specialist activities for 82 thousand euros, services to listed issuers for 3 thousand euros and advisory and corporate finance activities for 1,689 thousand euros.

The Assets recognised in view of costs to be recovered are not indicated – as required by IFRS 15 Paragraph 128 – because the amounts are small.

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

| Type of transactions/Amounts | Total 31.12.2019 | | | Total 31.12.2018 | | |
|---|---|---|---|---|---|---|
| | Stage 1 and 2 | Stage 3 | of which: acquired or originated impaired assets | Stage 1 and 2 | Stage 3 | of which: acquired or originated impaired assets |
| **1. Debt securities** | **993,727** | **-** | **-** | **940,596** | **-** | **-** |
| a) Public administrations | 993,727 | - | - | 940,596 | - | - |
| b) Other financial institutions | - | - | - | - | - | - |
| of which: insurance companies | - | - | - | - | - | - |
| c) Non financial institutions | - | - | - | - | - | - |
| **2. Loans to** | **419,489** | **15,147** | **-** | **398,846** | **5,787** | **-** |
| a) Public administrations | - | - | - | - | - | - |
| b) Other financial institutions | 123,408 | 130 | - | 93,064 | 144 | - |
| of which: insurance companies | - | | | - | | |
| c) Non financial institutions | 162,326 | 11,095 | - | 175,267 | 1,590 | - |
| d) Households | 133,755 | 3,922 | - | 130,515 | 4,053 | - |
| **Total** | **1,413,216** | **15,147** | **-** | **1,339,442** | **5,787** | **-** |

### 4.4 Financial assets designated at amortised cost: gross value and total impairment losses

| | Gross value | | | | Total impairment losses | | | Total partial write-offs (*) |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | of which: instruments with low credit risk | Stage 2 | Stage 3 | Stage 1 | Stage 2 | Stage 3 | |
| Debt securities | 994,233 | - | - | - | 506 | - | - | - |
| Loans | 421,833 | - | 71,287 | 36,367 | 920 | 1,394 | 21,220 | - |
| **Total 31.12.2019** | **1,416,066** | **-** | **71,287** | **36,367** | **1,426** | **1,394** | **21,220** | **-** |
| **Total 31.12.2018** | **1,329,789** | **-** | **93,076** | **13,190** | **2,536** | **2,482** | **7,403** | **-** |
| of which: acquired or originated impaired financial assets | X | X | - | - | X | - | - | - |

(*) Value to be reported for disclosure purposes.

## Section 7 - Equity investments – Item 70

### 7.1 Equity investments: information on investment relationships

| Company name | Registered office | Place of business | % share | Voting rights % |
|---|---|---|---|---|
| **A. Exclusively controlled subsidiaries** | | | | |
| 1. Finnat Fiduciaria S.p.A. | Rome | Rome | 100.00 | |
| 2. InvestiRE SGR S.p.A. | Rome | Rome | 50.16 | |
| 3. Finnat Gestioni S.A. | Lugano | Lugano | 70.00 | |
| 4. Natam Management Company S.A. | Luxembourg | Luxembourg | 100.00 | |
| **B. Companies subject to joint control** | | | | |
| 1. Aldia S.p.A. | Bologna | Bologna | 10.00 | |
| 2. Liphe S.p.A. | Bologna | Bologna | 10.00 | |
| **C. Companies subject to significant influence (*)** | | | | |
| 1. Prévira Invest SIM S.p.A. in liquidation | Rome | Rome | 20.00 | |
| 2. Imprebanca S.p.A. | Rome | Rome | 20.00 | |

(*) Associated companies

The share also represents the percentage of voting rights at the shareholders' meetings.

The item at 31 December 2019 amounted to 77,109 thousand euros (72,463 thousand euros at 31 December 2018). With respect to 31 December 2018, the item also includes the companies Aldia S.p.A. and Liphe S.p.A. for a total of 390 thousand euros and 150 thousand euros respectively.

### 7.2 Individually material equity investments: book value, fair value and dividends received

### 7.3 Individually material equity investments: financial information

### 7.4 Individually immaterial equity investments: financial information

As indicated in the 6th update to Circular no. 262 of 22 December 2005, the information about the above items are not provided, inasmuch as the Bank prepares the Consolidated Financial Statements.

### 7.5 Equity investments: annual changes

| | Total 31.12.2019 | Total 31.12.2018 |
|---|---|---|
| **A. Initial amount** | **72,463** | **76,157** |
| **B. Increases** | **7,035** | **1,465** |
| B.1 Purchases | 2,040 | - |
| B.2 Value recoveries | - | - |
| B.3 Revaluations | 4,985 | 1,465 |
| B.4 Other changes | 10 | - |
| **C. Decreases** | **2,389** | **5,159** |
| C.1 Sales | - | - |
| C.2 Impairment losses | 1,558 | 224 |
| C.3 Write-downs | 831 | 4,935 |
| C.4 Other changes | - | - |
| **D. Final amount** | **77,109** | **72,463** |
| **E. Total revaluations** | **51,932** | **47,778** |
| **F. Total impairment losses** | **5,625** | **4,067** |

The item B.1 Purchases concerns the subscription of share capital increases of the joint ventures Aldia S.p.A. (1,295 thousand euros) and Liphe S.p.A. (745 thousand euros). The impairment losses reported in C.2 were made on both equity investments at 31 December 2019.

The item B.3 Revaluations concerns the fair value adjustment of the subsidiaries Finnat Fiduciaria S.p.A. for 2,173 thousand euros and Finnat Gestioni S.A. for 2,812 thousand euros.

Item B.4 Other changes relates to the equity interests Aldia S.p.A. and Liphe S.p.A. – previously classified under Financial assets held for trading and Financial assets designated at fair value through other comprehensive income respectively, for 5 thousand euros each – included in the item equity investments in joint ventures.

Item C.2 Impairment losses refers to the associate Previra for 48 thousand euros and to the joint ventures Aldia S.p.A. for 910 thousand euros and Liphe S.p.A for 600 thousand euros. Impairment losses effected on the two joint ventures, companies today operational, were determined by the uncertainties regarding the actual continuation of sales of products, for which the companies hold a concession, determined by the insolvency proceedings that concerned the company Bio-On. In the evaluation of the two companies, account was also taken of the value attributed to the two equity investments in the fairness opinion drafted by an independent expert which the Bank availed itself of to determine the presumed realisable value of the receivable due from Bio-On.

Item C.3 Write-downs refers to the fair value adjustment of the subsidiaries InvestiRE SGR S.p.A. for 688 thousand euros and Natam S.A. for 143 thousand euros.

Item E. Total revaluations shows the total fair value adjustment of the subsidiaries amounting to 51,932 thousand euros, of which 41,350 thousand euros referred to InvestiRE SGR S.p.A.

Item F. Total impairment losses shows the total impairment applied on the associated companies and joint ventures, amounting to 5,625 thousand euros, of which 3,824 thousand euros relating to Imprebanca S.p.A..

The equity investments in subsidiaries were measured on the basis of the three-year business plan prepared by the subsidiaries, applying the methods used in professional practice.

Changes in the item Equity investments are shown in detail in the Statement of annual changes in equity investments attached to the financial statements.

### Section 8 - Property and equipment – Item 80

**8.1 Property and equipment used in operation: breakdown of assets measured at cost**

| Assets/Amounts | Total 31.12.2019 | Total 31.12.2018 |
|---|---|---|
| **1 Owned assets** | **4,596** | **4,669** |
| a) land | 1,308 | 1,308 |
| b) buildings | 2,178 | 2,324 |
| c) furniture | 683 | 662 |
| d) electronic equipment | 427 | 375 |
| e) other | - | - |
| **2 Rights of use acquired through leases** | **8,974** | **-** |
| a) land | - | - |
| b) buildings | 8,585 | - |
| c) furniture | - | - |
| d) electronic equipment | 37 | - |
| e) other | 352 | - |
| **Total** | **13,570** | **4,669** |
| of which: obtained through enforcement of guarantees received | - | - |

The Bank owns two offices located in Rome - Via Parigi no. 11. In 1974, the property was revalued by 8 thousand euros and further revaluations were made for a total of 1,216 thousand euros in accordance with Italian laws no. 576 of 2 December 1975, no. 72 of 19 March 1983, and no. 413 of 30 December 1991. Moreover, as a result of the absorption of Finnat Real Estate S.r.l. in 2014, the Bank recorded, with continuity of values, the tangible assets including the free-standing building located in Rome, Corso Trieste, 118.

Point 2 of the table above shows the rights of use relating to lease agreements at 31 December 2019, as required by the accounting standard IFRS 16, which came into force on 1 January 2019.

### 8.6 Property and equipment used in operation: annual changes

| | Land | Buildings | Furniture | Electronic equipment | Other | Total |
|---|---|---|---|---|---|---|
| **A. Gross initial carrying amount** | **1,308** | **5,994** | **2,244** | **4,760** | **-** | **14,306** |
| A.1 Total net adjustment | - | 3,670 | 1,582 | 4,385 | - | 9,637 |
| A.2 Net initial carrying amount | 1,308 | 2,324 | 662 | 375 | - | 4,669 |
| **B. Increases** | **-** | **11,032** | **53** | **267** | **476** | **11,828** |
| B.1 Purchases | - | 3,465 | 53 | 210 | 197 | 3,925 |
| B.2 Capitalised improvement costs | - | - | - | - | - | - |
| B.3 Value recoveries | - | - | - | - | - | - |
| B.4 Positive changes in fair value allocated to: | - | - | - | - | - | - |
| a) shareholders' equity | - | - | - | - | - | - |
| b) income statement | - | - | - | - | - | - |
| B.5 Positive foreign exchange differences | - | - | - | - | - | - |
| B.6 Transfers from properties held for investment | - | - | X | X | X | - |
| B.7 Other changes | - | 7,567 | - | 57 | 279 | 7,903 |
| **C. Decreases** | **-** | **2,593** | **32** | **179** | **124** | **2,928** |
| C.1 Sales | - | 593 | - | 16 | - | 609 |
| C.2 Depreciation | - | 2,000 | 32 | 162 | 124 | 2,318 |
| C.3 Net losses on impairment allocated to: | - | - | - | - | - | - |
| a) shareholders' equity | - | - | - | - | - | - |
| b) income statement | - | - | - | - | - | - |
| C.4 Negative changes in fair value allocated to: | - | - | - | - | - | - |
| a) shareholders' equity | - | - | - | - | - | - |
| b) income statement | - | - | - | - | - | - |
| C.5 Negative foreign exchange differences | - | - | - | - | - | - |
| C.6 Transfers to: | - | - | - | - | - | - |
| a) investment property | - | - | X | X | X | - |
| b) non-current assets held for sale and discontinued operations | - | - | - | - | - | - |
| C.7 Other changes | - | - | - | 1 | - | 1 |
| **D. Net final amount** | **1,308** | **10,763** | **683** | **464** | **352** | **13,570** |
| D.1 Total net adjustment | - | 5,670 | 1,614 | 4,546 | 124 | 11,954 |
| **D.2 Final carrying amount** | **1,308** | **16,433** | **2,297** | **5,010** | **476** | **25,524** |
| **E. Valuation at cost** | | | | | | |

The above tangible assets were recognised at cost plus any directly chargeable ancillary expenses. These have been subjected to systematic depreciation on a straight-line basis, determined according to the useful life of the asset in question and the period of effective use.

The depreciation rates applied, on the basis of the useful life of the assets, are as follows: Property 3%, Furniture and Furnishings (with the exclusion of works of art) 12%, Systems 15%-20%, Office machines and Electronic equipment 20%, Vehicles 25%.

Point B.7 Other changes of the table shown above shows the amounts relating to rights of use charged on 1 January 2019 at the moment of first-time adoption of IFRS 16. The changes in the period are reported under purchases, sales and depreciation.

As required by Circular no. 262, the table of changes in tangible assets relating solely to rights of use is reported below.

**IFRS 16 - Property and equipment used in operation: annual changes**

| | Land | Buildings | Furniture | Electronic equipment | Other | Total |
|---|---|---|---|---|---|---|
| **A. Gross initial carrying amount** | **-** | **-** | **-** | **-** | **-** | **-** |
| A.1 Total net adjustment | - | - | - | - | - | - |
| A.2 Net initial carrying amount | - | - | - | - | - | - |
| **B. Increases** | **-** | **11,032** | **-** | **56** | **476** | **11,564** |
| B.1 Purchases | - | 3,465 | - | - | 197 | 3,662 |
| B.2 Capitalised improvement costs | - | - | - | - | - | - |
| B.3 Value recoveries | - | - | - | - | - | - |
| B.4 Positive changes in fair value allocated to: | - | - | - | - | - | - |
| a) shareholders' equity | - | - | - | - | - | - |
| b) income statement | - | - | - | - | - | - |
| B.5 Positive foreign exchange differences | - | - | - | - | - | - |
| B.6 Transfers from properties held for investment | - | - | X | X | X | - |
| B.7 Other changes | - | 7,567 | - | 56 | 279 | 7,902 |
| **C. Decreases** | **-** | **2,448** | **-** | **19** | **124** | **2,591** |
| C.1 Sales | - | 593 | - | - | - | 593 |
| C.2 Depreciation | - | 1,855 | - | 19 | 124 | 1,998 |
| C.3 Net losses on impairment allocated to: | - | - | - | - | - | - |
| a) shareholders' equity | - | - | - | - | - | - |
| b) income statement | - | - | - | - | - | - |
| C.4 Negative changes in fair value allocated to: | - | - | - | - | - | - |
| a) shareholders' equity | - | - | - | - | - | - |
| b) income statement | - | - | - | - | - | - |
| C.5 Negative foreign exchange differences | - | - | - | - | - | - |
| C.6 Transfers to: | - | - | - | - | - | - |
| a) investment property | - | - | X | X | X | - |
| b) non-current assets held for sale and discontinued operations | - | - | - | - | - | - |
| C.7 Other changes | - | - | - | - | - | - |
| **D. Net final amount** | **-** | **8,584** | **-** | **37** | **352** | **8,973** |
| D.1 Total net adjustment | - | 1,855 | - | 19 | 124 | 1,998 |
| **D.2 Final carrying amount** | **-** | **10,439** | **-** | **56** | **476** | **10,971** |
| **E. Valuation at cost** | | | | | | |

## Section 9 - Intangible assets – Item 90

### 9.1 Intangible assets: breakdown by asset

| Assets/Amounts | Total 31.12.2019 | | Total 31.12.2018 | |
|---|---|---|---|---|
| | Definite life | Indefinite life | Definite life | Indefinite life |
| A.1 Goodwill | X | 300 | X | 300 |
| A.2 Other intangible assets | 159 | 48 | 127 | 48 |
| A.2.1 Assets measured at cost: | 159 | 48 | 127 | 48 |
| a) Internally generated intangible assets | - | - | - | - |
| b) Other assets | 159 | 48 | 127 | 48 |
| A.2.2 Assets measured at fair value: | - | - | - | - |
| a) Internally generated intangible assets | - | - | - | - |
| b) Other assets | - | - | - | - |
| **Total** | **159** | **348** | **127** | **348** |

Item A.1 equal to 300 thousand euros regards a part of the goodwill resulting from the merger of Banca Finnat Euramerica S.p.A. into Terme Demaniali di Acqui S.p.A., carried out in 2003. As it regards an intangible asset with indefinite useful life, an impairment test was carried out in accordance with the provisions of IAS 36. This evaluation did not show any loss in value to record in the income statement.

### 9.2 Intangible assets: annual changes

| | Goodwill | Other intangible assets: generated internally | | Other intangible assets: other | | Total |
|---|---|---|---|---|---|---|
| | | DEF | INDEF | DEF | IDEF | |
| **A. Initial amount** | **300** | **-** | **-** | **2,760** | **48** | **3,108** |
| A.1 Total net adjustment | - | - | - | 2,633 | - | 2,633 |
| A.2 Net initial carrying amount | 300 | - | - | 127 | 48 | 475 |
| **B. Increases** | **-** | **-** | **-** | **91** | **-** | **91** |
| B.1 Purchases | - | | | 91 | - | 91 |
| B.2 Increases in internal intangible assets | X | | | - | | - |
| B.3 Value recoveries | X | | | - | | - |
| B.4 Positive changes in fair value | - | - | - | - | - | - |
| - on shareholders' equity | X | | | - | | - |
| - on income statement | X | | | - | | - |
| B.5 Positive foreign exchange rate differences | - | | | - | | - |
| B.6 Other changes | - | | | - | | - |
| **C. Decreases** | **-** | **-** | **-** | **59** | **-** | **59** |
| C.1 Sales | - | | | - | | - |
| C.2 Impairment losses | - | - | - | 59 | - | 59 |
| (-) Amortisation | X | | | 59 | | 59 |
| (-) Write-downs | - | - | - | - | - | - |
| (+) shareholders' equity | X | | | - | | - |
| (+) income statement | | | | - | | - |
| C.3 Negative changes in fair value | - | - | - | - | - | - |
| - on shareholders' equity | X | | | - | | - |
| - on income statement | X | | | - | | - |
| C.4 Transfers to non-current assets being disposed | - | | | - | | - |
| C.5 Negative foreign exchange differences | - | | | - | | - |
| C.6 Other changes | - | | | - | | - |
| **D. Net final amount** | **300** | **-** | **-** | **159** | **48** | **507** |
| D.1 Total net impairment losses | - | - | - | 2,692 | - | 2,692 |
| **E. Final carrying amount** | **300** | **-** | **-** | **2,851** | **48** | **3,199** |
| **F. Valuation at cost** | | | | | | |

*Key*:
DEF: definite life
INDEF: indefinite life

The above intangible assets with definite life refer to software licenses. The useful life of the above intangible assets has been estimated as three years hence the assets have been subjected to amortisation on a straight-line basis with the application of the rate of 33.33%.

### Section 10 - Tax assets and liabilities – Items 100 (assets) and 60 (liabilities)

Current tax assets totalled 3,408 thousand euros (2,227 thousand euros at 31 December 2018) and concerned mainly IRAP receivables of 2,030 thousand euros and IRES receivables from the domestic consolidated tax system of 1,317 thousand euros.

Current tax liabilities amounted to 14 thousand euros (421 thousand euros at 31 December 2018) and are composed exclusively of VAT payables to be paid.

#### 10.1 Deferred tax assets: breakdown

Deferred tax assets accounted for with reference to the deductible temporary differences amounted to 1,995 thousand euros (5,891 thousand euros at 31 December 2018) and refer, for 1,670 thousand euros to taxes recognised through profit or loss and for 325 thousand euros to taxes recognised with a corresponding item in shareholders' equity. The former include the unpaid amount of benefits connected with the deductibility in future years of adjustments on receivables (696 thousand euros) adjustments on securities (273 thousand euros) and the benefit stemming from the tax value of the goodwill that will contribute to the formation of taxable income until 2029 (547 thousand euros). Said tax goodwill – originally totalling 21,440 thousand euros – was recorded in 2003, as a result of the merger of Banca Finnat Euramerica S.p.A. and Finnat Corporate S.p.A. with Terme Demaniali di Acqui S.p.A.
Deferred tax assets as a balancing entry in shareholders' equity relate exclusively to taxes on negative valuation reserves relating to Financial assets designated at fair value through other comprehensive income (228 thousand euros) and the recognition of actuarial losses on the Provisions for termination indemnities (97 thousand euros).

#### 10.2 Deferred tax liabilities: breakdown

Deferred tax liabilities amounted to 1,376 thousand euros (1,175 thousand euros at 31 December 2018) and are recognised through profit or loss for 148 thousand euros and as a balancing entry in shareholders' equity for 1,228 thousand euros. The latter relate to taxes on positive valuation reserves relating to Equity investments in subsidiaries measured at fair value (714 thousand euros) and Financial assets designated at fair value through other comprehensive income (514 thousand euros).

Deferred tax assets and liabilities have been determined applying the IRES rate, any IRES surtax and, where applicable, the IRAP rate in force at the date of preparation of these financial statements.

**10.3 Changes in deferred tax assets (with corresponding item in the income statement)**

| | Total 31.12.2019 | Total 31.12.2018 |
|---|---|---|
| **1. Opening balance** | **1,488** | **1,334** |
| **2. Increases** | **404** | **367** |
| 2.1 Deferred tax assets recognised in the year | 404 | 367 |
| a) relating to previous years | - | - |
| b) due to changes in accounting criteria | - | 365 |
| c) value recoveries | - | - |
| d) other | 404 | 2 |
| 2.2 New taxes or tax rate increases | - | - |
| 2.3 Other increases | - | - |
| **3. Decreases** | **222** | **213** |
| 3.1 Deferred tax assets eliminated in the year | 222 | 213 |
| a) reversals | 222 | 213 |
| b) write-offs | - | - |
| c) changes in accounting criteria | - | - |
| d) other | - | - |
| 3.2 Tax rate reductions | - | - |
| 3.3 Other decreases | - | - |
| a) changes into tax credits pursuant to Law no. 214/2011 | - | - |
| b) other | - | - |
| **4. Closing balance** | **1,670** | **1,488** |

The figures indicated in table 10.3 comprise the amounts shown in table 10.3.bis.

**10.3bis Changes in deferred tax assets per Law no. 214/2011**

| | Total 31.12.2019 | Total 31.12.2018 |
|---|---|---|
| **1. Opening balance** | **1,150** | **1,083** |
| **2. Increases** | **-** | **75** |
| **3. Decreases** | **-** | **8** |
| 3.1 Reversals | - | 8 |
| 3.2 Transformation into tax credits | - | - |
| a) deriving from losses for the year | - | - |
| b) deriving from tax losses | - | - |
| 3.3 Other decreases | - | - |
| **4. Closing balance** | **1,150** | **1,150** |

Article 2 of Italian Law Decree 225/2010 (the "*mille proroghe*" decree) subsequently amended by Article 9 of Italian Law Decree 201/2011 (the "Monti" decree) converted by Italian Law no. 214/2011 introduced the possibility of transforming into tax credits the deferred tax assets recorded in the financial statements and related to the value of the goodwill and to the write-down of receivables pursuant to Article 106, paragraph 3, of the TUIR (Consolidated Income Tax Act) in force through 31 December 2013.

In particular, the transformation into tax credits can be realised upon the occurrence of some cases identified by the regulation itself and more specifically in case of: a) statutory loss; b) tax loss; c) voluntary liquidation; d) subjecting to bankruptcy proceedings. Deferred tax assets calculated pursuant to Italian Law 214/2011, for the recognition in the financial statements, should not be subject to the test in accordance with IAS 12.

### 10.4 Changes in deferred tax liabilities (with corresponding item in the income statement)

| | Total 31.12.2019 | Total 31.12.2018 |
|---|---|---|
| **1. Opening balance** | **135** | **108** |
| **2. Increases** | **13** | **227** |
| 2.1 Deferred tax liabilities recognised in the year | 13 | 227 |
| a) relating to previous years | - | - |
| b) due to changes in accounting criteria | - | 200 |
| c) other | 13 | 27 |
| 2.2 New taxes or tax rate increases | - | - |
| 2.3 Other increases | - | - |
| **3. Decreases** | **-** | **200** |
| 3.1 Deferred tax liabilities eliminated in the year | - | 200 |
| a) reversals | - | 200 |
| b) due to changes in accounting criteria | - | - |
| c) other | - | - |
| 3.2 Tax rate reductions | - | - |
| 3.3 Other decreases | - | - |
| **4. Closing balance** | **148** | **135** |

### 10.5 Changes in deferred taxes assets (with corresponding item in shareholders' equity)

| | Total 31.12.2019 | Total 31.12.2018 |
|---|---|---|
| **1. Opening balance** | **4,403** | **106** |
| **2. Increases** | **50** | **4,303** |
| 2.1 Deferred tax assets recognised in the year | 50 | 4,303 |
| a) relating to previous years | - | |
| b) due to changes in accounting criteria | - | |
| c) other | 50 | 4,303 |
| 2.2 New taxes or tax rate increases | - | - |
| 2.3 Other increases | - | - |
| **3. Decreases** | **4,128** | **6** |
| 3.1 Deferred tax assets eliminated in the year | 4,128 | 6 |
| a) reversals | 4,128 | 6 |
| b) write-offs | - | - |
| c) due to changes in accounting criteria | - | - |
| d) other | - | - |
| 3.2 Tax rate reductions | - | - |
| 3.3 Other decreases | - | - |
| **4. Closing balance** | **325** | **4,403** |

### 10.6 Changes in deferred tax liabilities (with corresponding item in shareholders' equity)

| | Total 31.12.2019 | Total 31.12.2018 |
|---|---|---|
| **1. Opening balance** | **1,040** | **1,540** |
| **2. Increases** | **266** | **490** |
| 2.1 Deferred tax liabilities recognised in the year | 266 | 490 |
| a) relating to previous years | - | - |
| b) due to changes in accounting criteria | - | 118 |
| c) other | 266 | 372 |
| 2.2 New taxes or tax rate increases | - | - |
| 2.3 Other increases | - | - |
| **3. Decreases** | **78** | **990** |
| 3.1 Deferred tax liabilities eliminated in the year | 78 | 990 |
| a) reversals | 78 | 306 |
| b) due to changes in accounting criteria | - | 684 |
| c) other | - | - |
| 3.2 Tax rate reductions | - | - |
| 3.3 Other decreases | - | - |
| **4. Closing balance** | **1,228** | **1,040** |

For further information on changes to deferred tax assets and liabilities, please see: for those recorded in the income statement, Part C - Section 19 Taxes on income from continuing operations, and for those recorded in the shareholders' equity Part D – Statement of comprehensive income.

* * *

With regard to tax disputes, an appeal against an unfavourable decision no. 253/07/10 of the Regional Tax Commission of Lazio is still pending. The dispute pertains to assessment notice no. RCB030302029/2005, whereby the Revenue Agency argued that certain operating costs relating to the year 2002 were not deductible for IRPEG and IRAP purposes (costs for consultancy services and costs pertaining to a lease agreement).
The Supreme Court, with its decision no. 27786/18 handed down on 19 June 2018, quashed the appeal decision, requiring the Regional Tax Commission of Lazio, with a different composition, to examine the merits of the case again. The Bank filed a prompt appeal to resume the proceedings before the Regional Tax Commission of Lazio.

With reference to the dispute concerning the assessment notice no. RCB030302784/2008 – whereby the Revenue Agency argued, in relation to the 2003 tax year, that Article 96-bis of the pro tempore Consolidated Income Tax Act in force (taxation of 5% of the value of dividends) applied to the dividends distributed by the Luxembourg investee New Millennium Advisory S.A. – the Bank applied the easy settlement of tax disputes (Article 6 and Article 7, paragraph 2, letter b) and paragraph 3, of Italian Decree-Law no. 119 of 23 October 2018, converted, with amendments, by Italian Law no. 136 of 17 December 2018), definitively closing the dispute in question by paying 90 per cent of the value of the higher taxes claimed, net of the amount already paid in the course of the proceedings.
In this regard, the Bank paid the amount of 75 thousand euros.

It should also be noted that on 29 May 2018 the Italian Tax Police started a tax audit of Banca Finnat with reference to income taxes for the 2014 tax year (extended in the course of the audit for specific activities from 2013 to 2017 tax years).

The audit was concluded on 26 July 2018 with the notification of the report on findings, which charged, for IRES and IRAP purposes, (i) the non-deductibility of some costs for services, deemed to lack the requirements of inherence and certainty, (ii) the failure to recognise alleged revenue relating to management services not charged to the subsidiary Finnat Gestioni S.A.

In view of all the charges of the report on findings, in the previous year, the Bank allocated 134 thousand euros to the Provision for risks and charges.

Although the Bank considers the above disputes to be unfounded, in 2019, it settled the disputes for the years 2013 to 2016 by means of the Tax assessment settlement pursuant to Article 6, paragraph 2, of Italian Legislative Decree no. 218 of 19 June 1997, paying a total amount of 92 thousand euros. Subsequently, the Bank recovered the allocation to the provision for risks and charges indicated above to the income statement.

**Section 12 - Other assets – Item 120**

**12.1 Other assets: breakdown**

| | Total 31.12.2019 | Total 31.12.2018 |
|---|---:|---:|
| Receivables for guarantee deposits | 330 | 328 |
| Payables to Group companies for tax consolidation | 667 | 330 |
| Due from the Group companies | 5,304 | 4,722 |
| Deposits with Cassa Compensazione e Garanzia | 11,164 | 11,795 |
| Due from counterparties and brokers | - | 111 |
| Tax credits for withholding tax | 6,789 | 7,384 |
| Sundry receivables | 1,421 | 1,645 |
| **Total** | **25,675** | **26,315** |

Receivables from Group companies included 5,131 thousand euros of dividends for the warrants A – resolved by the Shareholders' Meeting of the subsidiary InvestiRE SGR on 27 April 2017 (3,252 thousand euros), on 31 March 2018 (1,349 thousand euros) and on 29 March 2019 (530 thousand euros) – relating to the commissions to be collected on the performance recorded by the subsidiary on the sale of FIP properties. These amounts will be paid for the resolutions of 2017 and 2018 only at the time of the payment of the commissions by the FIP and after approval of the financial statements at 31 December 2019, while the resolution of 2019 only at the time of liquidation of the FIP Fund.

## LIABILITIES

### Section 1 - Financial liabilities designated at amortised cost – Item 10

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

| Type of transactions/Amounts | Total 31.12.2019 | | | | Total 31.12.2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | BV | Fair value | | | BV | Fair value | | |
| | | L1 | L2 | L3 | | L1 | L2 | L3 |
| **1. Due to Central Banks** | **-** | **X** | **X** | **X** | **-** | **X** | **X** | **X** |
| **2. Due to banks** | **369** | **X** | **X** | **X** | **271** | **X** | **X** | **X** |
| 2.1 Current accounts and demand deposits | 369 | X | X | X | 271 | X | X | X |
| 2.2 Time deposits | - | X | X | X | - | X | X | X |
| 2.3 Loans | - | X | X | X | - | X | X | X |
| 2.3.1 Repurchase agreements | - | X | X | X | - | X | X | X |
| 2.3.2 Other | - | X | X | X | - | X | X | X |
| 2.4 Debts for commitments to repurchase own equity instruments | - | X | X | X | - | X | X | X |
| 2.5 Lease payables | - | X | X | X | - | X | X | X |
| 2.6 Other payables | - | X | X | X | - | X | X | X |
| **Total** | **369** | **-** | **-** | **369** | **271** | **-** | **-** | **271** |

*Key:*
BV = Book value
L1 = Level 1 L2 = Level 2 L3 = Level 3

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

| Type of transactions/Amounts | Total 31.12.2019 | | | | Total 31.12.2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | BV | Fair value | | | BV | Fair value | | |
| | | L1 | L2 | L3 | | L1 | L2 | L3 |
| 1. Current accounts and demand deposits | 583,870 | X | X | X | 472,030 | X | X | X |
| 2. Time deposits | 197,033 | X | X | X | 189,025 | X | X | X |
| 3. Loans | 985,179 | X | X | X | 938,918 | X | X | X |
| 3.1 Repurchase agreements | 985,179 | X | X | X | 938,918 | X | X | X |
| 3.2 Other | - | X | X | X | - | X | X | X |
| 4. Debts for commitments to repurchase own equity instruments | - | X | X | X | - | X | X | X |
| 5. Lease payables | 9,176 | X | X | X | - | X | X | X |
| 6. Other payables | 15,383 | X | X | X | 21,048 | X | X | X |
| **Total** | **1,790,641** | **-** | **-** | **1,790,641** | **1,621,021** | **-** | **-** | **1,621,021** |

*Key:*
BV = Book value
L1 = Level 1 L2 = Level 2 L3 = Level 3

Item 3.1 Repurchase agreements concerns exclusively the transactions carried out with Cassa di Compensazione e Garanzia.

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

| Type of securities/Amount | Total 31.12.2019 | | | | Total 31.12.2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | BV | Fair value | | | BV | Fair value | | |
| | | L1 | L2 | L3 | | L1 | L2 | L3 |
| A. Securities | 24,913 | - | - | 24,876 | 28,250 | - | - | 28,109 |
| 1. bonds | 24,913 | - | - | 24,876 | 28,250 | - | - | 28,109 |
| 1.1 structured | - | - | - | - | - | - | - | - |
| 1.2 other | 24,913 | - | - | 24,876 | 28,250 | - | - | 28,109 |
| 2. other securities | - | - | - | - | - | - | - | - |
| 2.1 structured | - | - | - | - | - | - | - | - |
| 2.2 other | - | - | - | - | - | - | - | - |
| **Total** | **24,913** | **-** | **-** | **24,876** | **28,250** | **-** | **-** | **28,109** |

*Key*:
BV = Book value
L1 = Level 1; L2 = Level 2; L3 = Level 3

The item represents the bonds issued by the Bank, including the accrued coupon. The amount is shown net of the securities held for trading present in its portfolio, with a nominal amount of 5,087 thousand euros.

### 1.6 Lease payables

The information pursuant to IFRS 16, paragraph 58, is reported below.

| Type | Maturities | | | | | |
|---|---|---|---|---|---|---|
| | up to 1 month | from over 1 month to 3 months | from over 3 months to 1 year | from over 1 year to 5 years | more than 5 years | Total 31.12.2019 |
| Buildings | 475 | 51 | 1,315 | 4,400 | 2,543 | 8,784 |
| Electronic equipment | - | 3 | 16 | 19 | - | 38 |
| Other | 13 | 22 | 97 | 199 | 23 | 354 |
| **Total** | **488** | **76** | **1,428** | **4,618** | **2,566** | **9,176** |

As regards the information pursuant to IFRS 16, paragraph 53, letter g), total cash outflows for leases in 2019 came to 1,903 thousand euros.

## Section 2 - Financial liabilities held for trading – Item 20

### 2.1 Financial liabilities held for trading: breakdown by product

| Type of transactions/Amounts | 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** | **-** | **-** | **-** | **-** | **-** | **68** | **243** | **-** | **-** | **243** |
| 1. Due to banks | - | - | - | - | - | - | - | - | - | - |
| 2. Due to customers | - | - | - | - | - | 68 | 243 | - | - | 243 |
| 3. Debt securities | - | - | - | - | - | - | - | - | - | - |
| 3.1 Bonds | - | - | - | - | - | - | - | - | - | - |
| 3.1.1 Structured | - | - | - | - | X | - | - | - | - | X |
| 3.1.2 Other bonds | - | - | - | - | X | - | - | - | - | X |
| 3.2 Other securities | - | - | - | - | - | - | - | - | - | - |
| 3.2.1 Structured | - | - | - | - | X | - | - | - | - | X |
| 3.2.2 Other | - | - | - | - | X | - | - | - | - | X |
| **Total A** | **-** | **-** | **-** | **-** | **-** | **68** | **243** | **-** | **-** | **243** |
| **B. Derivatives** | **-** | **-** | **152** | **-** | **-** | **-** | **-** | **80** | **-** | **-** |
| 1. Financial derivatives | - | - | 152 | - | - | - | - | 80 | - | - |
| 1.1 Held for trading | X | - | 152 | - | X | X | - | 80 | - | X |
| 1.2 Related to the fair value option | X | - | - | - | X | X | - | - | - | X |
| 1.3 Other | X | - | - | - | X | X | - | - | - | X |
| 2. Credit derivatives | - | - | - | - | - | - | - | - | - | - |
| 2.1 Held for trading | X | - | - | - | X | X | - | - | - | X |
| 2.2 Related to the fair value option | X | - | - | - | X | X | - | - | - | X |
| 2.3 Other | X | - | - | - | X | X | - | - | - | X |
| **Total B** | **X** | **-** | **152** | **-** | **X** | **X** | **-** | **80** | **-** | **X** |
| **Total (A + B)** | **X** | **-** | **152** | **-** | **X** | **X** | **243** | **80** | **-** | **X** |

*Key*:
NV = face or notional value
L1 = Level 1; L2 = Level 2; L3 = Level 3
Fair value* = fair value calculated excluding the changes in value due to the change in the credit rating of the issuer with respect to the issue date.

Item "B. Derivatives" includes the negative measurement of currency forwards.

## Section 6 - Tax liabilities – Item 60

See Section 10 of the assets.

## Section 8 - Other liabilities – Item 80

### 8.1 Other liabilities: breakdown

| | Total 31.12.2019 | Total 31.12.2018 |
|---|---|---|
| Social security and insurance contributions to be paid | 945 | 1,150 |
| Payables to personnel employed and contractors | 1,105 | 1,853 |
| Emoluments to be paid to the Directors | 18 | 6 |
| Emoluments to be paid to the Board of Statutory Auditors | 127 | 125 |
| Due to suppliers | 667 | 628 |
| Payables to group companies for tax consolidation | 12 | - |
| Payables to group companies | 115 | 107 |
| Shareholders for dividends to be paid | 1,996 | 1,949 |
| Payables to brokers and institutional counterparties | 1,590 | 2,857 |
| Tax payables for withholding tax | 1,647 | 1,106 |
| Other payables | 1,193 | 1,713 |
| **Total** | **9,415** | **11,494** |

## Section 9 - Provisions for termination indemnities – Item 90

### 9.1 Provisions for termination indemnities: annual changes

| | | Total 31.12.2019 | Total 31.12.2018 |
|---|---|---|---|
| **A.** | **Initial amount** | **2,014** | **2,157** |
| **B.** | **Increases** | **927** | **854** |
| | B.1 Allocation for the year | 927 | 854 |
| | B.2 Other changes | - | - |
| **C.** | **Decreases** | **958** | **997** |
| | C.1 Severance indemnities paid out | 287 | 343 |
| | C.2 Other changes | 671 | 654 |
| **D.** | **Final amount** | **1,983** | **2,014** |

Item B.1 Allocation for the year includes the actuarial loss of 74 thousand euros recognised among valuation reserves – net of the tax effect – in accordance with IAS 19. In 2018, an actuarial loss of 40 thousand euros was recorded.

Item C.2 Other changes includes payments made to supplementary Social Security Institutes and the INPS Treasury – net of disbursements carried out – as established by Italian Law no. 296/2006.

The actuarial assumptions used to calculate the liabilities at the balance sheet date are set out below:

*Demographic assumption*

As regards the demography data used, life expectancy was assessed using the RG48 demographic table on population activity ratios – "*Tavola di permanenza nella posizione di attivo*" – (processed by the General Accounting Office, by reference to the 1948 generation), "selected, projected and subdivided by gender", supplemented by internal statistics concerning the probability of staff leaving employment.

*Economic-financial assumptions*

Technical evaluations were made on the basis of the following assumptions:

- technical discount rate between 0% and 0.5458%, determined on the basis of the rate curve built in view of the effective yield rate of the bonds in euro of leading companies rated AA or higher;
- annual inflation rate 1.00%.

The provisions for termination indemnities at 31 December 2019, calculated in accordance with the provisions of Article no. 2120 of the Italian Civil Code amounted to 1,768 thousand euros.

## Section 10 - Provisions for risks and charges – Item 100

### 10.1 Provisions for risks and charges: breakdown

| Items/Amounts | Total 31.12.2019 | Total 31.12.2018 |
|---|---|---|
| 1. Provisions for credit risk related to commitments and financial guarantees given | 102 | 101 |
| 2. Provisions on other commitments and other guarantees given | - | - |
| 3. Company pension funds | - | - |
| 4. Other provisions for risks and charges | - | 682 |
| 4.1 Legal and tax disputes | - | - |
| 4.2 Personnel expenses | - | - |
| 4.3 Other | - | 682 |
| **Total** | **102** | **783** |

Item 1. Provisions for credit risk related to commitments and financial guarantees concern the collective impairment losses recorded up until 31 December 2019 totalling 89 thousand euros and an individual adjustment carried out in the year on an impaired guarantee for 13 thousand euros.
Collective recoveries on commitments in the year came to 17 thousand euros and collective impairment losses on financial guarantees stood at 5 thousand euros.

The item Other provisions for risks and charges was eliminated during the year as a result of the uses of the provisions in previous years: 134 thousand euros for the closure of the Report on Findings of the Italian Tax Police (please refer to the comments in Section 11 - Tax assets and tax liabilities); 100 thousand euros for the settlement of the fees to be paid to an employee in the sales area as a result of the cost incurred during the year for 147 thousand euros recorded under personnel expenses; 448 thousand euros for the use of the residual amount of the allocation set aside due to the fact the compensation obligations no longer applied owing to lower fees collected by a real estate fund.

It should be noted that the compensation claim was closed successfully in 2019 with a settlement agreement, for an amount of 156 thousand euros, proposed in 2018 by a natural person customer. As a result of this settlement, the Bank recorded an amount of 3 thousand euros under losses from the cancellation of receivables; in the previous year, no provision was set aside as the conditions were not satisfied.

With reference to the events that concerned Bio-On S.p.A. and the associated top management representatives, it should be noted that the Bank received some letters from investors holding shares in the company, none of whom are bank customers, also through trade associations, in which compensation was requested for the damage suffered by said parties. The arguments contained in said letters are generic and vague both in subjective terms, and with reference to the conduct attributable to the Bank, the facts disputed and the alleged damage suffered; therefore, at the current state of play, no legal risk can be identified.

### 10.2 Provisions for risks and charges: annual changes

| | Provisions on other commitments and other guarantees given | Pension funds | Other provisions for risks and charges | Total |
|---|---|---|---|---|
| **A. Initial amount** | **101** | **-** | **682** | **783** |
| **B. Increases** | **18** | **-** | **-** | **18** |
| B.1 Allocation for the year | 18 | - | - | 18 |
| B.2 Changes due to the passing of time | - | - | - | - |
| B.3 Changes due to discount rate variations | - | - | - | - |
| B.4 Other changes | - | - | - | - |
| **C. Decreases** | **17** | **-** | **682** | **699** |
| C.1 Use in the year | 17 | - | 682 | 699 |
| C.2 Changes due to discount rate variations | - | - | - | - |
| C.3 Other changes | - | - | - | - |
| **D. Final amount** | **102** | **-** | **-** | **102** |

For comments on the changes, refer to the notes at the bottom of table 10.1 Provisions for risks and charges: breakdown.

### 10.3 Provisions for credit risk related to commitments and financial guarantees given

| | Provisions for credit risk related to commitments and financial guarantees given | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| Commitments to lend funds | 4 | - | - | 4 |
| Financial guarantees given | 79 | 6 | 13 | 98 |
| **Total** | **83** | **6** | **13** | **102** |

### 10.6 Provisions for risks and charges - Other provisions

The provision for risks and charges - Other provisions was eliminated during the year. At 31 December 2019, it amounted to 682 thousand euros. For details, refer to the notes at the bottom of table 10.1 Provisions for risks and charges: breakdown.

**Section 12 - Shareholders' equity – Items 110, 130, 140, 150, 160, 170 and 180**

**12.1 "Share capital" and "Treasury shares": breakdown**

At 31 December 2019, the share capital paid up by the Bank was 72,576,000 euros, divided into 362,880,000 ordinary shares with a face value of euro 0.20 each.

At 31 December 2019, the treasury shares numbered 28,810,640. These shares totalling 14,059 thousand euros, equal to 7.9% of the share capital, in application of IAS 32, were used to adjust the shareholders' equity. In the year in question, the Bank did not buy or sell any treasury shares.

**12.2 Share capital - Number of shares: annual changes**

| Items/Types | Ordinary | Other |
|---|---|---|
| **A. Number of shares at the beginning of the year** | | |
| – fully paid-in | 362,880,000 | - |
| – not fully paid-in | - | - |
| A.1 Treasury shares (-) | (28,810,640) | - |
| **A.2 Shares outstanding: initial amount** | **334,069,360** | |
| **B. Increases** | **-** | **-** |
| B.1 New issues | | |
| – against payment: | | |
| - business combinations | - | - |
| - conversion of bonds | - | - |
| - exercise of warrants | - | - |
| - other | - | - |
| – for free: | | |
| - in favour of employees | - | - |
| - in favour of directors | - | - |
| - other | - | - |
| B.2 Sale of treasury shares | - | - |
| B.3 Other changes | - | - |
| **C. Decreases** | **-** | **-** |
| C.1 Derecognition | - | - |
| C.2 Purchase of treasury shares | - | - |
| C.3 Disposal of companies | - | - |
| C.4 Other changes | - | - |
| **D. Shares outstanding: final amount** | **334,069,360** | **-** |
| D.1 Treasury shares (+) | 28,810,640 | - |
| D.2 Number of shares at the end of the year | 362,880,000 | - |
| – fully paid-in | 362,880,000 | - |
| – not fully paid-in | - | - |

**12.3 Share capital: additional information**

During the year, the Bank's share capital was not subject to change.

### 12.4 Retained earnings: other information

The "Reserves" item amounts to 121,280 thousand euros (118,855 thousand euros at 31 December 2018) and is broken down as follows:

- *retained earnings*: 117,039 thousand euros consisting of the legal reserve of 11,486 thousand euros, extraordinary reserve of 84,553 thousand euros, the dividend adjustment reserve of 6,725 thousand euros, restated IAS 19 retained earnings reserve of 179 thousand euros, the reserve for merger surplus of 525 thousand euros, the reserve for treasury shares purchased of 14,059 thousand euros and the negative reserve from restated IFRS 9 of -488 thousand euros;
- *other reserves*: 4,241 thousand euros consisting of the reserve for the realised gain on treasury shares of 4,277 thousand euros and net losses on sale of shares present in the portfolio Financial assets designated at fair value through other comprehensive income of 36 thousand euros.

### 12.6 Other information

The table below shows the information required by Article 2427, paragraph 7-bis of the Italian Civil Code.

| Type/Description | Amount at 31.12.2019 | Possibility of use | Share available | Summary of utilisation during the last three years | | | |
|---|---|---|---|---|---|---|---|
| | | | | for loss coverage | for other reasons | | |
| | | | | | 2016 | 2017 | 2018 |
| **Share capital** | **72,576** | | **-** | | | | |
| **Reserves:** | **121,280** | | **95,735** | | | | |
| Legal reserve | 11,486 | B | - | | | | |
| Extraordinary reserve | 84,553 | A B C | 84,553 | | | | |
| Dividend adjustment reserve | 6,725 | A B C | 6,725 | | | | |
| Profit brought forward from restated IAS 19 | 179 | A B C | 179 | | | | |
| Accumulated losses from restated IFRS 9 | (488) | | (488) | | | | |
| Gains on the sale of HTCS shares | (36) | A B C | (36) | | | | |
| Gains on the sale of treasury shares | 4,277 | A B C | 4,277 | | | | |
| Reserve for treasury shares purchased | 14,059 | | - | | | | |
| Reserve for merger surplus | 525 | A B C | 525 | | | | |
| **Valuation reserves:** | **57,122** | | **1,364** | | | | |
| Special revaluation regulations | 1,364 | A B | 1,364 | | | | |
| Valuation reserve | 55,758 | B | - | | | | |
| **Treasury shares** | **(14,059)** | | **-** | | | | |
| **TOTAL** | **236,919** | | **97,099** | **-** | | | |
| Non-distributable share | - | | 1,364 | | | | |
| Remaining distributable share | - | | **95,735** | | | | |

*Key*:
A for share capital increase - B for loss coverage - C for distribution to shareholders

### Other information

#### 1. Commitments and financial guarantees given (other than those designated at fair value)

| | Nominal value over commitments and financial guarantees given | | | Total 31.12.2019 | Total 31.12.2018 |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | | |
| **1. Commitments to lend funds** | **24,848** | **103** | **-** | **24,951** | **25,387** |
| a) Central Banks | - | - | - | - | - |
| b) Public administrations | - | - | - | - | - |
| c) Banks | - | - | - | - | - |
| d) Other financial institutions | 17,410 | - | - | 17,410 | 15,647 |
| e) Non financial institutions | 835 | 88 | - | 923 | 7,257 |
| f) Households | 6,603 | 15 | - | 6,618 | 2,483 |
| **2. Financial guarantees given** | **23,207** | **1,160** | **299** | **24,666** | **19,596** |
| a) Central Banks | - | - | - | - | - |
| b) Public administrations | - | - | - | - | - |
| c) Banks | 591 | - | - | 591 | 545 |
| d) Other financial institutions | 9,182 | - | - | 9,182 | 5,218 |
| e) Non financial institutions | 10,664 | 1,160 | 299 | 12,123 | 12,691 |
| f) Households | 2,770 | - | - | 2,770 | 1,142 |

The above table shows the irrevocable commitments to lend funds and the financial guarantees given. Both items are subject to the write-down rules established by IFRS 9.

Financial guarantees given c) Banks shows the commitment towards the Interbank Fund for the Protection of Deposits, amounting to 568 thousand euros.

#### 2. Other commitments and other guarantees given

| | Nominal value | |
|---|---|---|
| | Total 31.12.2019 | Total 31.12.2018 |
| **1. Other guarantees given** | | |
| of which: impaired | | |
| a) Central Banks | - | - |
| b) Public administrations | - | - |
| c) Banks | - | - |
| d) Other financial institutions | - | - |
| e) Non financial institutions | - | |
| f) Households | - | - |
| **2. Other commitments** | **185,201** | **147,826** |
| of which: impaired | - | 1 |
| a) Central Banks | - | - |
| b) Public administrations | - | - |
| c) Banks | 63 | 163 |
| d) Other financial institutions | 21,690 | 20,411 |
| e) Non financial institutions | 113,229 | 94,305 |
| f) Households | 50,219 | 32,946 |

The above table shows the irrevocable commitments to lend funds and the other commitments for transactions to be settled that are not subject to IFRS 9 write-down rules.

### 3. Assets pledged as collateral of liabilities and commitments

| Portfolios | Amount 31.12.2019 | Amount 31.12.2018 |
|---|---|---|
| 1. Financial assets designated at fair value through profit or loss | - | - |
| 2. Financial assets designated at fair value through other comprehensive income | - | - |
| 3. Financial assets designated at amortised cost | 993,727 | 940,596 |
| 4. Property and equipment | - | - |
| of which: property and equipment constituting inventory | - | - |



### 4. Management and dealing on behalf of third parties

| Type of service | Amount |
|---|---|
| **1. Trading on behalf of customers** | |
| a) purchases | 2,870,491 |
| 1. settled | 2,869,042 |
| 2. to be settled | 1,449 |
| b) sales | 2,712,981 |
| 1. settled | 2,712,228 |
| 2. to be settled | 753 |
| **2. Individual portfolio management** | **730,380** |
| **3. Custody and administration of securities** | |
| a) third-party securities held in deposit: related to depositary bank activities (excluding portfolio management) | - |
| 1. securities issued by the bank preparing the Financial Statements | - |
| 2. other securities | - |
| b) third-party securities on deposit (excluding portfolio management): other | 2,883,734 |
| 1. securities issued by the bank preparing the Financial Statements | 81,125 |
| 2. other securities | 2,802,609 |
| c) third-party securities lodged with third parties | 2,868,272 |
| d) own securities lodged with third parties | 1,529,884 |
| **4. Other transactions** | **-** |

## Part C – Information on the Income Statement

### Section 1 - Interest – Items 10 and 20

#### 1.1 Interest income and similar income: breakdown

| Items/Categories | Debt securities | Loans | Other transactions | Total FY 2019 | Total FY 2018 |
|---|---|---|---|---|---|
| **1. Financial assets designated at fair value through profit or loss:** | **555** | **-** | **-** | **555** | **333** |
| 1.1. Financial assets held for trading | 555 | - | - | 555 | 333 |
| 1.2 Financial assets designated at fair value | - | - | - | - | - |
| 1.3 Other financial assets mandatorily at fair value | - | - | - | - | |
| **2. Financial assets designated at fair value through other comprehensive income** | **1,551** | **-** | **X** | **1,551** | **1,139** |
| **3. Financial assets designated at amortised cost:** | **5,942** | **8,102** | **-** | **14,044** | **9,149** |
| 3.1 Due from banks | - | 159 | X | 159 | 160 |
| 3.2 Loans to customers | 5,942 | 7,943 | X | 13,885 | 8,989 |
| **4. Hedging derivatives** | **X** | **X** | **-** | **-** | **-** |
| **5. Other assets** | **X** | **X** | **-** | **-** | **-** |
| **6. Financial liabilities** | **X** | **X** | **X** | **2,563** | **3,414** |
| **Total** | **8,048** | **8,102** | **-** | **18,713** | **14,035** |
| of which: interest income on impaired financial assets | - | 882 | - | 882 | 221 |
| of which: interest income on finance leases | - | - | - | - | - |

#### 1.3 Interest expense and similar expense: breakdown

| Items/Categories | Payables | Securities | Other transactions | Total FY 2019 | Total FY 2018 |
|---|---|---|---|---|---|
| 1. Financial liabilities designated at amortised cost | 1,655 | 12 | - | 1,667 | 845 |
| 1.1 due to Central Banks | - | X | X | - | - |
| 1.2 due to banks | 1 | X | X | 1 | 2 |
| 1.3 due to customers | 1,654 | X | X | 1,654 | 835 |
| 1.4 securities issued | X | 12 | X | 12 | 8 |
| 2. Financial liabilities held for trading | - | - | - | - | - |
| 3. Financial liabilities designated at fair value | - | - | - | - | - |
| 4. Other liabilities and funds | X | X | - | - | - |
| 5. Hedging derivatives | X | X | - | - | - |
| 6. Financial assets | X | X | X | 669 | 737 |
| **Total** | **1,655** | **12** | **-** | **2,336** | **1,582** |
| of which: interest expense related to lease payables | 117 | - | - | 117 | - |

Interest margin totals 16,378 thousand euros, versus 12,453 thousand euros in the previous financial year.

## Section 2 - Fees and commissions – Items 40 and 50

### 2.1 Fees and commissions income: breakdown

| Type of service/Amounts | Total FY 2019 | Total FY 2018 |
|---|---|---|
| a) guarantees given | 272 | 177 |
| b) credit derivatives | - | - |
| c) administration, brokerage and consultancy services: | 20,090 | 19,494 |
| 1. trading in financial instruments | 5,102 | 4,672 |
| 2. currency dealing | - | - |
| 3. individual portfolio management | 5,914 | 5,332 |
| 4. custody and administration of securities | 508 | 465 |
| 5. depositary bank | - | - |
| 6. placement of securities | 3,935 | 4,832 |
| 7. reception and transmission of orders | - | - |
| 8. consultancy services | 2,189 | 2,505 |
| 8.1. on investments | 737 | 595 |
| 8.2. on financial structure | 1,452 | 1,910 |
| 9. distribution of third-party services | 2,442 | 1,688 |
| 9.1. portfolio management | 523 | 553 |
| 9.1.1. individual | - | - |
| 9.1.2. collective | 523 | 553 |
| 9.2. insurance products | 1,919 | 1,135 |
| 9.3. other products | - | - |
| d) collection and payment services | 452 | 394 |
| e) servicing related to securitisations | - | - |
| f) factoring services | - | - |
| g) tax collection services | - | - |
| h) multilateral trading systems management | - | - |
| i) management of current accounts | 389 | 355 |
| j) other services | 1,530 | 1,127 |
| **Total** | **22,733** | **21,547** |

The item 9.1.2 Distribution of third-party services - collective comprises 388 thousand euros (392 thousand euros at 31 December 2018) of the commissions pertaining to the activity as the main distributor of the products of the subsidiary Natam.

The following table provides the information about contracts with customers required by IFRS 15.

**Revenue from contracts with customers (IFRS 15)**

| | FY 2019 Revenue | Revenue recognised in 2019 included in the opening balance of the liabilities deriving from contracts at the start of the year | FY 2018 Revenue | Revenue recognised in 2018 included in the opening balance of the liabilities deriving from contracts at the start of the year |
|---|---|---|---|---|
| **Breakdown by type of service** | | | | |
| - consultancy services | 2,189 | 109 | 2,505 | 69 |
| - specialist | 1,488 | - | 1,306 | - |
| - trading | 3,614 | - | 3,366 | - |
| - placement | 3,935 | - | 4,832 | - |
| - individual management | 4,631 | - | 4,083 | - |
| - collective management | | | | |
| - delegated management | 1,284 | - | 1,250 | - |
| - services to listed issuers (SEQ and equity research) | 506 | 126 | 267 | 62 |
| - distribution of insurance products | 1,919 | - | 1,135 | - |
| - distribution of third-party services | 523 | - | 553 | - |
| - other services | 2,644 | 24 | 2,250 | - |
| **Total fee and commission income** | **22,733** | **259** | **21,547** | **131** |
| Line-by-line impairment losses for the period on trade receivables | (35) | | (217) | |
| Collective impairment losses for the period on trade receivables | (167) | | (50) | |
| Losses for derecognition of receivables | (11) | | (12) | |
| **Total impairment losses and losses on trade receivables** | **(213)** | | **(279)** | |

As required by IFRS 15, the following information is provided:

- the variable fees accounted for during the year came to 524 thousand euros and they concern, for 260 thousand euros (8 thousand euros at 31 December 2018) performance fees on management, for 54 thousand euros for performance fees on delegated management (zero at 31 December 2018) and for 210 thousand euros (70 thousand euros at 31 December 2018) success fees on corporate finance advisory services. On the whole, variable fees were classified in 2019 totalling 282 thousand euros and, in 2020, for 127 thousand euros;
- at the closing date of the year, there were no unrecognised fees and commissions on contracts above one year.

### 2.2 Fee and commission income: distribution channels of products and services

| Channels/Amounts | Total FY 2019 | Total FY 2018 |
|---|---|---|
| **a) own branches:** | **8,356** | **7,020** |
| 1. portfolio management | 5,914 | 5,332 |
| 2. placement of securities | - | - |
| 3. third-party products and services | 2,442 | 1,688 |
| **b) other outlets:** | **-** | **-** |
| 1. portfolio management | - | - |
| 2. placement of securities | - | - |
| 3. third-party products and services | - | - |
| **c) other distribution channels:** | **3,935** | **4,832** |
| 1. portfolio management | - | - |
| 2. placement of securities | 3,935 | 4,832 |
| 3. third-party products and services | - | - |

### 2.3 Fee and commission expense: breakdown

| Services/Amounts | Total FY 2019 | Total FY 2018 |
|---|---|---|
| a) guarantees received | - | - |
| b) credit derivatives | - | - |
| c) management and brokerage services: | 948 | 1.129 |
| 1. trading in financial instruments | 523 | 644 |
| 2. currency dealing | - | - |
| 3. portfolio management: | 93 | 92 |
| 3.1 own portfolio | 45 | 36 |
| 3.2 third-party portfolio | 48 | 56 |
| 4. custody and administration of securities | 317 | 272 |
| 5. placement of financial instruments | 15 | 121 |
| 6. "door-to-door" sale of financial instruments, products and services | - | - |
| d) collection and payment services | 296 | 243 |
| e) other services | 201 | 189 |
| **Total** | **1,445** | **1,561** |

Net fees and commissions amount to 21,289 thousand euros versus 19,987 thousand euros in the previous financial year.

## Section 3 - Dividend and similar income – Item 70

### 3.1 Dividend and similar income: breakdown

| Items/Income | Total FY 2019 | | Total FY 2018 | |
|---|---|---|---|---|
| | Dividends | Similar income | Dividends | Similar income |
| A. Financial assets held for trading | 10 | - | 5 | 1 |
| B. Other financial assets mandatorily at fair value | - | 2,438 | - | 1,752 |
| C. Financial assets designated at fair value through other comprehensive income | 566 | - | 592 | - |
| D. Equity investments | 3,890 | - | 4,834 | - |
| **Total** | **4,466** | **2,438** | **5,431** | **1,753** |

## Section 4 - Profits (losses) on trading – Item 80

### 4.1 Profits (losses) on trading: breakdown

| Transactions/Income items | Gains (A) | Profits from trading activities (B) | Losses (C) | Losses from trading activities (D) | Net income [(A+B) - (C+D)] |
|---|---|---|---|---|---|
| **1. Financial assets held for trading** | **286** | **442** | **1,317** | **1,619** | **(2,208)** |
| 1.1 Debt securities | - | 58 | 317 | 72 | **(331)** |
| 1.2 Equity | 53 | 306 | 965 | 1,527 | **(2,133)** |
| 1.3 UCI units | 233 | 78 | 35 | 20 | **256** |
| 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: foreign exchange differences** | **X** | **X** | **X** | **X** | **361** |
| **4. Derivatives** | **25** | **600** | **13** | **431** | **110** |
| 4.1 Financial derivatives: | 25 | 600 | 13 | 431 | **110** |
| - On debt securities and interest rates | - | - | - | - | **-** |
| - On equity and stock indexes | 25 | 600 | 13 | 431 | **181** |
| - On currencies and gold | X | X | X | X | **(71)** |
| - Other | - | - | - | - | **-** |
| 4.2 Credit derivatives | - | - | - | - | **-** |
| of which: natural hedges related to the fair value option | X | X | X | X | **-** |
| **Total** | **311** | **1,042** | **1,330** | **2,050** | **(1,737)** |

Profits (losses) on trading features a negative balance of 1,737 thousand euros, compared to 170 thousand euros in 2018, and may be broken down as follows:

- negative difference between unrealised capital gains and losses, in connection with the fair value measurement of the trading portfolio, totalling 1,019 thousand euros (in 2018, there was a negative balance of 660 thousand euros);
- negative balance between realised profits and losses related to trading on securities and derivatives of 1,008 thousand euros (in 2018, a positive balance of 171 thousand euros);
- negative difference of 71 thousand euros between unrealised capital gains and losses in connection with the fair value measurement of currency forwards (in 2018, a negative difference of 38 thousand euros and also included the valuation of Amortising Interest Rate Swap);
- positive balance of 361 thousand euros between realised foreign exchange gains and losses (in 2018, a positive balance of 319 thousand euros).

## Section 6 - Profits (losses) on disposal/repurchase – Item 100

### 6.1 Profits (losses) on disposal/repurchase: breakdown

| Items/Income items | Total FY 2019 | | | Total FY 2018 | | |
|---|---|---|---|---|---|---|
| | Profit | Losses | Net income | Profit | Losses | Net income |
| **A. Financial assets** | | | | | | |
| 1. Financial assets designated at amortised cost | 464 | - | 464 | 377 | - | 377 |
| 1.1 Due from banks | - | - | - | - | - | - |
| 1.2 Loans to customers | 464 | - | 464 | 377 | - | 377 |
| 2. Financial assets designated at fair value through other comprehensive income | 242 | - | 242 | 921 | - | 921 |
| 2.1 Debt securities | 242 | - | 242 | 921 | - | 921 |
| 2.2 Loans | - | - | - | - | - | - |
| **Total assets (A)** | **706** | **-** | **706** | **1,298** | **-** | **1,298** |
| **B. Financial liabilities designated at amortised cost** | | | | | | |
| 1. Due to banks | - | - | - | - | - | - |
| 2. Due to customers | - | - | - | - | - | - |
| 3. Securities issued | - | - | - | - | - | - |
| **Total liabilities (B)** | **-** | **-** | **-** | **-** | **-** | **-** |

Item 1.2 Loans to customers and item 2.1 Debt securities both refer to the net income achieved by the Bank following the sale of Debt securities.

## Section 7 - Profits (losses) on other financial assets and liabilities designated at fair value through profit or loss – Item 110

### 7.2 Net change in value of other financial assets and liabilities designated at fair value through profit or loss: breakdown of other financial assets mandatorily at fair value

| Transactions/Income items | Gains (A) | Profits from disposal (B) | Losses (C) | Losses from disposal (D) | Net income [(A+B)-(C+D)] |
|---|---|---|---|---|---|
| **1. Financial assets** | **93** | **-** | **1,322** | **-** | **(1,229)** |
| 1.1 Debt securities | - | - | - | - | - |
| 1.2 Equity | - | - | 39 | - | (39) |
| 1.3 UCI units | 93 | - | 1,283 | - | (1,190) |
| 1.4 Loans | - | - | - | - | - |
| **2. Financial assets in foreign currencies: foreign exchange differences** | **X** | **X** | **X** | **X** | **-** |
| **Total** | **93** | **-** | **1,322** | **-** | **(1,229)** |

Item 1.2 Equity relates to the Carige shares held through the Voluntary Scheme of the FITD. Item 1.3 UCI units Losses (C) refers almost exclusively to the FIP Fund for 1,109 thousand euros and to the Apple Fund for 173 thousand euros.
At 31 December 2018, the item had a negative balance of 404 thousand euros.

### Section 8 - Net losses/recoveries on credit risk – Item 130

#### 8.1 Net losses on credit risk relating to financial assets designated at amortised cost: breakdown

| Transactions/Income items | Impairment losses (1) | | | Value recoveries (2) | | Total FY 2019 | Total FY 2018 |
|---|---|---|---|---|---|---|---|
| | Stage 1 and 2 | Stage 3 | | Stage 1 and 2 | Stage 3 | (1) - (2) | |
| | | Write-off | Other | | | | |
| **A. Due from banks** | **-** | **-** | **-** | **27** | **-** | **(27)** | **(28)** |
| - Loans | - | - | - | 27 | - | (27) | (28) |
| - Debt securities | - | - | - | - | - | - | - |
| of which: acquired or originated impaired loans | - | - | - | - | - | - | - |
| **B. Loans to customers** | **-** | **42** | **14,107** | **1,707** | **254** | **12,188** | **3,436** |
| - Loans | - | 42 | 14,107 | 1,201 | 254 | 12,694 | 2,150 |
| - Debt securities | - | - | - | 506 | - | (506) | 1,286 |
| of which: acquired or originated impaired loans | - | - | - | - | - | - | - |
| **Total** | **-** | **42** | **14,107** | **1,734** | **254** | **12,161** | **3,408** |

Please refer to the comments provided in the asset items Financial assets designated at amortised cost: breakdown by product of due from banks and loans to customers (asset tables of the Notes to the Financial Statements 4.1 and 4.2).

#### 8.2 Net losses on credit risk relating to financial assets designated at fair value through other comprehensive income: breakdown

| Transactions/Income items | Impairment losses (1) | | | Value recoveries (2) | | Total FY 2019 | Total FY 2018 |
|---|---|---|---|---|---|---|---|
| | Stage 1 and 2 | Stage 3 | | Stage 1 and 2 | Stage 3 | (1) - (2) | |
| | | Write-off | Other | | | | |
| A. Debt securities | - | - | - | 157 | - | (157) | 732 |
| B. Loans | - | - | - | - | - | - | - |
| - to customers | - | - | - | - | - | - | - |
| - to banks | - | - | - | - | - | - | - |
| of which: acquired or originated impaired financial assets | - | - | - | - | - | - | - |
| **Total** | **-** | **-** | **-** | **157** | **-** | **(157)** | **732** |

### Section 9 - Gains/losses from contractual changes without derecognition – Item 140

At 31 December 2019, the item had a positive balance of 7 thousand euros.

## Section 10 - Administrative expenses – Item 160

### 10.1 Personnel expenses: breakdown

| Type of expenses/Amounts | Total FY 2019 | Total FY 2018 |
|---|---|---|
| 1) Personnel employed | 18,070 | 18,172 |
| a) wages and salaries | 13,314 | 13,290 |
| b) social security charges | 3,432 | 3,407 |
| c) termination indemnities | 606 | 584 |
| d) supplementary benefits | - | - |
| e) provisions for termination indemnities | 8 | 15 |
| f) provisions for post employment benefits: | - | - |
| - defined contribution plans | - | - |
| - defined benefit plans | - | - |
| g) payments to external pension funds: | 256 | 230 |
| - defined contribution plans | 256 | 230 |
| - defined benefit plans | - | - |
| h) costs from share based payments | - | - |
| i) other benefits in favour of employees | 454 | 646 |
| 2) Other non-retired personnel | 349 | 232 |
| 3) Directors and statutory auditors | 771 | 750 |
| 4) Early retirement costs | | - |
| 5) Expenses recovered for employees seconded with other companies | - | - |
| 6) Expense reimbursements for third party employees seconded with the company | - | - |
| **Total** | **19,190** | **19,154** |

Personnel expenses rose by 36 thousand euros.

Item 1) e) does not include the actuarial loss referred to IAS provisions for termination indemnities of 74 thousand euros (actuarial loss of 40 thousand euros in 2018), recognised – net of the tax effect – among Valuation reserves.

Item 1) i) other benefits in favour of employees decreased essentially due to the introduction of IFRS 16; for comments refer to subsequent point 10.4 Other benefits in favour of employees.

### 10.2 Average number of employees by category

| | Total FY 2019 | Total FY 2018 |
|---|---|---|
| **Personnel employed** | **184** | **179** |
| (a) senior managers | 29 | 28 |
| (b) executives | 87 | 84 |
| (c) rest of personnel employed | 68 | 67 |
| **Other personnel** | **12** | **11** |

### 10.4 Other benefits in favour of employees

Benefits in favour of employees amount to 454 thousand euros (versus 646 thousand euros last year) and concern luncheon vouchers, collective health care policies, professional training, cars and other benefits.

Following the introduction of IFRS 16, lease payments relating to benefits assigned to employees (company car and employee accommodation) are no longer recognised under this item, but instead the amortisation charges of the right of use relating to existing contracts amounting to 156 thousand euros and for interest expense on the related debt amounting to 2 thousand euros are recognised.

### 10.5 Other administrative expenses: breakdown

| Type of expense/Amounts | Total FY 2019 | Total FY 2018 |
|---|---|---|
| Rentals and condominium fees | 292 | 1,994 |
| Membership fees | 176 | 158 |
| EDP materials | 26 | 15 |
| Stationery and printing supplies | 39 | 46 |
| Consultancy and outsourced professional services | 1,528 | 1,388 |
| Outsourcing services | 2,046 | 1,861 |
| Auditing company fees | 184 | 208 |
| Maintenance | 142 | 147 |
| Utilities and connections | 1,478 | 1,460 |
| Postal, transport and shipment fees | 28 | 44 |
| Insurance companies | 58 | 60 |
| Advertising, publications and sponsorship | 190 | 90 |
| Office cleaning | 189 | 175 |
| Books, newspapers and magazines | 44 | 43 |
| Entertainment expenses | 460 | 513 |
| Travel expenses and mileage based reimbursements | 157 | 166 |
| Other duties and taxes | 4,568 | 4,537 |
| Security charges | 209 | 210 |
| Contributions to National Resolution Fund | 923 | 909 |
| Other | 357 | 363 |
| **Total** | **13,094** | **14,387** |

The other administrative expenses fell by 1,293 thousand euros compared to 2018.
This decrease is almost entirely due to the different accounting of the lease payments relating to rentals.

Following the introduction of IFRS 16, lease payments relating to other administrative expenses are no longer recognised under this item, but instead the amortisation charges of the right of use relating to existing contracts amounting to 1,841 thousand euros and for interest expense on the related debt amounting to 115 thousand euros are recognised.

The other administrative expenses include recoveries from customers of some costs allocated under Other operating income/expenses.

* * *

The different procedures for recognising the expenses connected with lease agreements entailed a negative overall impact on the income statement of 2019 - with respect to the expenses that would have been incurred if the previous regulatory provisions had remained in force - equal to 96 thousand euros corresponding to 0.3% of item 190. Administrative expenses, which impact will be progressively reabsorbed in the following years until the expiry of the lease agreements.



### Auditing company fees

In accordance with the requirements of art. 149-duodecies of Consob Resolution no. 15915 of 3 May 2007, we list the fees paid for 2019 for the various services provided to Banca Finnat Euramerica S.p.A. by the auditing firm.

| | Party who provided the service | Payment due in 2019 (in thousands of euros) |
|---|---|---|
| Auditing services | EY S.p.A. | 132 |
| Declaration of compliance services | EY S.p.A. | 4 |
| Other services | Ernst & Young Financial-Business Advisors S.p.A. | 20 |
| **Total** | | **156** |

The audit includes the auditing of financial statements, the consolidated financial statements, the consolidated half-yearly report as well as the accounting auditing.

The declaration of compliance services refer to the controls carried out on the Unico tax return form, IRAP, CNM (domestic consolidation), ordinary 770 and single certification form.

Payments for the audit do not include VAT, expense reimbursements and supervisory contribution. The total expense amounts to 184 thousand euros.

The other services refer to resolution plan advisory activities and do not include VAT.

## Section 11 - Net provisions for risks and charges – Item 170

### 11.1 Net provisions for credit risk relating to commitments to lend funds and financial guarantees given: breakdown

| | Value recoveries | Impairment losses | Total FY 2019 |
|---|---|---|---|
| Commitments to lend funds | 17 | - | 17 |
| Financial guarantees given | - | 17 | (17) |
| **Total** | **17** | **17** | **-** |

At 31 December 2018, this item showed net impairment losses of 14 thousand euros.

### 11.3 Net allocations to other provisions for risks and charges: breakdown

| | Total FY 2019 | Total FY 2018 |
|---|---|---|
| Allocations | - | (134) |
| Utilisation | 682 | - |
| **Total** | **682** | **(134)** |

Both items of Section 11 are commented in Section 10 - "Provisions for risks and charges - Item 100" of the liabilities in the Balance Sheet.

## Section 12 - Net losses/recoveries on property and equipment – Item 180

### 12.1 Net losses on property and equipment: breakdown

| Assets/Income items | Depreciation (a) | Net losses on impairment (b) | Value recoveries (c) | Net income (a+b–c) |
|---|---|---|---|---|
| A. Property and equipment | 2,318 | - | - | 2,318 |
| 1. Used in operations | 2,318 | - | - | 2,318 |
| - Owned | 321 | - | - | 321 |
| - Rights of use acquired through leases | 1,997 | - | - | 1,997 |
| 2. Investment property | X | - | - | - |
| - Owned | - | - | - | - |
| - Rights of use acquired through leases | - | - | - | - |
| 3. Inventory | - | - | - | - |
| **Total** | **2,318** | **-** | **-** | **2,318** |

The item Rights of use acquired through leases refers to depreciation relating to employee benefits of 156 thousand euros and other administrative expenses of 1,841 thousand euros. At 31 December 2018, depreciation stood at 336 thousand euros.



### Section 13 - Net losses/recoveries on intangible assets – Item 190

#### 13.1 Net losses on intangible assets: breakdown

| Assets/Income items | Amortisation (a) | Net losses on impairment (b) | Value recoveries (c) | Net income (a + b – c) |
|---|---|---|---|---|
| A. Intangible assets | 59 | - | - | 59 |
| A.1 Owned assets | 59 | - | - | 59 |
| - Internally generated by the company | - | - | - | - |
| - Other | 59 | - | - | 59 |
| A.2 Rights of use acquired through leases | - | - | - | - |
| **Total** | **59** | **-** | **-** | **59** |

At 31 December 2018, amortisation stood at 27 thousand euros.

### Section 14 - Other operating income/expenses – Item 200

#### 14.1 Other operating expense: breakdown

| | Total FY 2019 | Total FY 2018 |
|---|---|---|
| Amounts reimbursed to customers | 8 | 5 |
| Amortisation for improvements to third party assets | 37 | 34 |
| Other expense | 45 | 11 |
| **Total** | **90** | **50** |

#### 14.2 Other operating income: breakdown

| | Total FY 2019 | Total FY 2018 |
|---|---|---|
| Rental income | 150 | 132 |
| Recovery of stamp duty | 4,138 | 4,030 |
| Recovery of substitute tax | 134 | 169 |
| Recovery of other expenses | 294 | 458 |
| Dividend and prescription waiver | 241 | 214 |
| Other income | 146 | 170 |
| **Total** | **5,103** | **5,173** |

Other operating income and expenses show a positive balance of 5,013 thousand euros versus 5,123 thousand euros at 31 December 2018.
The item comprises the recoveries of costs from customers amounting to 4,566 thousand euros (4,657 thousand euros at 31 December 2018).

## Section 15 - Profit (loss) from equity investments – Item 220

### 15.1 Profit (loss) from equity investments: breakdown

| Income items/Amounts | Total FY 2019 | Total FY 2018 |
|---|---|---|
| A. Income | - | - |
| 1. Revaluations | | |
| 2. Profit from disposals | - | - |
| 3. Value recoveries | | |
| 4. Other income | - | - |
| B. Expense | 1,558 | 224 |
| 1. Write-downs | - | - |
| 2. Net losses on impairment | 1,558 | 224 |
| 3. Losses from disposals | - | - |
| 4. Other expense | - | - |
| **Net income** | **(1,558)** | **(224)** |

The item B.2 Net losses on impairment refers to the impairment charged on the associate Previra Invest S.p.A. in liquidation of 48 thousand euros, and on the joint ventures Aldia for 910 thousand euros and Liphe for 600 thousand euros.

Last year, the impairment exclusively concerned Imprebanca S.p.A.

### Section 19 - Taxes on income from continuing operations – Item 270

#### 19.1 Taxes on income from continuing operations: breakdown

| Income items/Amounts | | Total FY 2019 | Total FY 2018 |
|---|---|---|---|
| 1. | Current taxes (-) | 1,006 | (861) |
| 2. | Changes in current taxes compared with previous years (+/-) | (186) | (58) |
| 3. | Reduction in current taxes (+) | - | - |
| 3.bis | Reduction in current taxes for tax receivables per Italian Law no. 214/2011 (+) | - | - |
| 4. | Change in deferred tax assets (+/-) | 182 | (211) |
| 5. | Change in deferred tax liabilities (+/-) | (13) | 173 |
| **6.** | **Income taxes for the year (-) (-1+/-2+3+3bis+/-4+/-5)** | **989** | **(957)** |

Current taxes relate to IRES from tax consolidation (positive for 1,026 thousand euros), and IRAP (20 thousand euros).

The change in deferred tax assets and liabilities is equal to the difference between those calculated on an accrual basis in the current year and those accounted for in previous periods and cancelled during the year. The change in deferred tax assets and deferred tax liabilities came to 169 thousand euros.

#### 19.2 Reconciliation of theoretical tax charge to total income tax expense for the year

| | FY 2019 | | |
|---|---|---|---|
| | IRES | IRAP | Total |
| Pre-tax profit (loss) | (211) | (211) | |
| Applicable tax rate | 24.00 | 5.57 | 29.57 |
| **THEORETICAL TAX CHARGE** | **51** | **11** | **62** |
| 3.5% IRES surtax for credit and financial institutions | 7 | | 7 |
| **THEORETICAL GLOBAL TAX CHARGE** | **58** | **11** | **69** |
| Effect of income that is exempt or taxed with concessional rates | 1,465 | 1,668 | 3,133 |
| Effect of charges that are fully or partially non-deductible | (302) | (229) | (531) |
| Effect of income/charges that are not included in the IRAP taxable income | | (1,495) | (1,495) |
| Changes in current taxes compared with previous years | (138) | (49) | (187) |
| **CURRENT TAX CHARGE** | **1,083** | **(94)** | **989** |

## Section 22 - Earnings per share

### 22.1 Average number of ordinary shares with diluted capital

The basic and diluted earnings (loss) per share are given below, in accordance with IAS 33.

The basic earnings (loss) per share are calculated by dividing the net income (in euro) of the holders of the Bank's ordinary shares (the numerator) by the weighted average of the ordinary shares outstanding during the period (the denominator).

For the purpose of calculating the basic earnings (loss) per share, the weighted average of the ordinary shares outstanding during the period is calculated based on the ordinary shares outstanding at the beginning of the period, adjusted by the amount of ordinary shares purchased or issued or sold during the period multiplied by the number of days that the shares were outstanding, in proportion to the total days in the period. Shares outstanding do not include treasury shares.

The diluted earnings (loss) per share is calculated by adjusting the earnings (loss) of ordinary shareholders, and likewise the weighted average of the shares outstanding, to take account of any impact by circumstances with diluted effects.

The following table shows the basic earnings (loss) per share.

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Profit (loss) for the year (in euro) | 777,688 | 6,097,641 |
| Weighted average of ordinary shares | 334,069,360 | 334,069,360 |
| Basic earnings (loss) per share | 0.002328 | 0.018253 |

The following table shows the diluted earnings (loss) per share.

| | 31.12.2019 | 31.12.2018 |
|---|---|---|
| Adjusted profit (loss) for the year (in euro) | 777,688 | 6,097,641 |
| Weighted average of ordinary shares for diluted capital | 334,069,360 | 334,069,360 |
| Diluted earnings (loss) per share | 0.002328 | 0.018253 |

Since the Bank has no transactions under way that might determine changes to the number of shares outstanding and the earnings (loss) of ordinary shareholders, the diluted earnings (loss) per share coincides with the basic earnings per share and it is unnecessary to perform the reconciliation provided for by paragraph 70 of IAS 33.

### 22.2 Other information

At the end of the reporting period, no financial instruments that could lead to the dilution of the basic earnings (loss) per share had been issued.

## Part D – Statement of comprehensive income

### Analytical statement of comprehensive income

| | Items | 31.12.2019 | 31.12.2018 |
|---|---|---|---|
| **10.** | **Profit (loss) for the year** | **778** | **6,098** |
| | **Other comprehensive income that may not be reclassified to the income statement** | **5,240** | **(397)** |
| **20.** | Equity designated at fair value through other comprehensive income: | 5,446 | (187) |
| | a) changes in fair value | 5,446 | (187) |
| | b) transfers to other shareholders' equity components | - | - |
| **30.** | Financial liabilities designated at fair value through profit or loss (changes of own credit rating): | - | - |
| | a) changes in fair value | - | - |
| | b) transfers to other shareholders' equity components | - | - |
| **40.** | Hedges of equity designated at fair value through other comprehensive income: | - | - |
| | a) changes in fair value (hedged instrument) | - | - |
| | b) changes in fair value (hedging instrument) | - | - |
| **50.** | Property and equipment | - | - |
| **60.** | Intangible assets | - | - |
| **70.** | Defined benefit plans | (73) | (40) |
| **80.** | Non-current assets held for sale and discontinued operations | - | - |
| **90.** | Share of valuation reserves connected with investments carried at equity | - | - |
| **100.** | Income taxes relating to other comprehensive income that may not be reclassified to the income statement | (133) | (170) |
| | **Other comprehensive income that may be reclassified to the income statement** | **8,112** | **(8,177)** |
| **110.** | Foreign investment hedge: | - | - |
| | a) changes in fair value | - | - |
| | b) reclassification to the income statement | - | - |
| | c) other changes | - | - |
| **120.** | Foreign exchange differences: | - | - |
| | a) changes in value | - | - |
| | b) reclassification to the income statement | - | - |
| | c) other changes | - | - |
| **130.** | Cash flow hedge: | - | - |
| | a) changes in fair value | - | - |
| | b) reclassification to the income statement | - | - |
| | c) other changes | - | - |
| | of which: result of net positions | - | - |
| **140.** | Hedging instruments (non-designated elements): | - | - |
| | a) changes in value | - | - |
| | b) reclassification to the income statement | - | - |
| | c) other changes | - | - |
| **150.** | Financial assets (other than equity) designated at fair value through other comprehensive income: | 12,246 | (12,577) |
| | a) changes in fair value | 11,368 | (13,020) |
| | b) reclassification to the income statement | 878 | 443 |
| | - losses on credit risk | (157) | 732 |
| | - profits/losses from disposal | 1,035 | (289) |
| | c) other changes | - | - |

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| | | |
|---|---|---|
| **160.** Non-current assets held for sale and discontinued operations: | - | - |
| a) changes in fair value | - | |
| b) reclassification to the income statement | - | - |
| c) other changes | - | - |
| **170.** Share of valuation reserves connected with investments carried at equity: | - | - |
| a) changes in fair value | - | - |
| b) reclassification to the income statement | - | - |
| - losses on impairment | - | - |
| - profits/losses from disposal | - | - |
| c) other changes | - | - |
| **180.** Income taxes relating to other comprehensive income that may be reclassified to the income statement | 4,134 | (4,400) |
| **190. Total other comprehensive income** | **13,352** | **(8,574)** |
| **200. Comprehensive income (item 10+190)** | **14,130** | **(2,476)** |

Item 20. includes the negative change in the fair value of the equity investments in subsidiaries for a total gross amount of 4,154 thousand euros.

The positive change in Item 20. Equity designated at fair value through other comprehensive income, of 5,446 thousand euros, is attributed as follows:

(+) 4,154 thousand euros to changes in the fair value (before taxes) of the equity investments in subsidiaries: InvestiRE SGR S.p.A. - 688 thousand euros, Finnat Fiduciaria S.p.A. + 2,173 thousand euros, Finnat Gestioni S.A. for -143 thousand euros and Natam Management Company S.A. for +2,812 thousand euros;

(+) 1,292 thousand euros to changes in fair value (before taxes) of the other equities (of which SIA S.p.A. +1,650 thousand euros, CSE S.r.l. +70 thousand euros, Net Insurance +86 thousand euros and Real Estate Roma Olgiata S.r.l. for -514 thousand euros).

The positive change in item 150. Financial assets (other than equity) designated at fair value through other comprehensive income (before taxes) of 11,368 thousand euros is mainly due to the Government bonds.

At the end of the year, the valuation reserves (after taxes) are as follows:

| | | |
|---|---|---|
| **Equity investments in companies measured at fair value** | | |
| InvestiRE SGR S.p.A. | 40,782 | euros |
| Finnat Fiduciaria S.p.A. | 3,666 | euros |
| Natam Management Company S.A. | 1,304 | euros |
| Finnat Gestioni S.A. | 5,466 | euros |
| **Total A)** | **51,218** | euros |
| **Financial assets designated at fair value through other comprehensive income** | | |
| SIA S.p.A. shares | 4,774 | euros |
| CSE S.r.l. shares | 3 | euros |
| Net Insurance S.p.A. shares | 129 | euros |
| Real Estate Roma Olgiata S.r.l. | -486 | euros |
| Debt securities | 373 | euros |
| **Total B)** | **4,793** | **euros** |
| **Defined benefit plans C)** | **-253** | **euros** |
| **Total (A+B+C)** | **55,758** | **euros** |

Valuation reserves amount to 57,122 thousand euros and comprise, in addition to what is detailed above, also the valuation reserves per Law no. 576/75, Law no. 72/83 and Law no. 413/91, totalling 1,364 thousand euros.

## Part E – Information on risks and related hedging policies

### Foreword

The Bank carries out their activities according to criteria of prudence and reduced exposure to risks, applying the principle of sound and prudent management.

The Bank defined the risk appetite by incorporating in the Risk Appetite Framework, the risk objectives and respective limits, within which the Bodies implement the strategic guidelines based on the mission and the growth objectives assigned. The thresholds determined are calibrated so as to recognise and take action on any gradual deterioration in the risk and solidity profile of the Group. The pillar I "mandatory" limits, on the ratios between the regulatory risk measures and own funds, are defined consistently with the Supervisory provisions. By contrast, the management limits refer to the system of risk limits that the Bank has introduced and developed over time and which it has governed in the respective internal regulations.

In the Risk Appetite Framework (RAF) document, the Bank defined the risk appetite, the tolerance thresholds and the limits that can be assumed, in accordance with the Recovery Plan and the Planning and Budget process. More specifically, a system of limits was rolled out as a management tool aimed at governing the assumption of risks and overseeing the return to normal conditions if the threshold values are exceeded. The tolerance perimeter was also defined within the RAF, deriving from the evaluations conducted under stress conditions, as well as the operating methods of monitoring and the protocols which can be activated in the event the trend in the risk profile involves a situation whereby the level corresponding to the maximum deviation permitted by the Risk Appetite Framework is exceeded.

A significant role is also played by the ICAAP/ILAAP report for the purposes of management and monitoring of risks, drafted on an annual basis by the Banca Finnat Group in compliance with the guidelines of the European Banking Authority and the provisions of the Bank of Italy.
The preparation of the ICAAP/ILAAP report, regulated by internal procedures and carried out by the Group's corporate bodies and appointed structures, is the last stage in the much broader and ongoing self-assessment process regarding capital adequacy and its compliance with the RAF, the Group's operational features and the environment in which it operates.
Based on the Supervisory provisions, the Bank also carefully monitors its liquidity risk, according to the method formalised in the appropriate documents approved by the Board of Directors, and periodically performs stress tests on the credit, market, concentration and interest rate risk. The Board of Directors evaluated the results of the analysis.

In compliance with Directive 2014/59/EU - Bank Recovery and Resolution Directive (BRRD), transposed by the Italian Parliament with Legislative Decrees 180 and 181/2015, the Bank prepared and sent the Group Recovery Plan to the Supervisory Authorities in April 2019 after approval by the Board of Directors of the Bank. The document was prepared in compliance with the implementing provisions contained in Title IV, Paragraph 01-I of the Italian Consolidated Law on Banking and with Title IV, Paragraph I-bis of the Italian Consolidated Financial Law (Law pertaining to restructuring plans).

## Section 1 - Credit risk

### Qualitative information

*1. General aspects*

The Bank defined the credit risk as the risk to incur losses due to the unexpected worsening of the creditworthiness of a customer, also following contractual default. The credit risk can be broken down into:

- default risk: risk that the borrowing counterparty is unable to meet its own obligations;
- spread/migration risk: risk of change in the counterparty's credit rating that determines an effect on the market value of the credit position;
- recovery risk: risk that the recovery actually achieved at the end of the liquidation of a counterparty's assets become insolvent is lower than what was originally estimated by the bank.

The credit risk of the Bank is continuously monitored by the Risk Control Function of the Parent Company, by the Credits Department, by the Credits Committee and by the other assigned functions.

For the quantification of the current internal capital on credit risk, the standardised methodology for determining the prudential capital requirements per Regulation EC 575/2013 is used.

*2. Credit risk management policies*

2.1 Organisational aspects

The Bank's strategy, which has always been directed at optimising customer relationship, is oriented to perform high value added financial services to high standing customers, with the goal of securing their loyalty.

With this view, the Bank intends to offer to customers or potential customers, in addition to services of primary interest, such as those relating to private banking, to investment banking, fiduciary and financial consultancy, also credit facilities to build long-term relationships. For the performance of assets entailing the assumption of credit risk, the Bank has adopted a dedicated Credit Regulation, formalising the processes and the criteria to be applied to the issue of new loans or in the concession of credit facilities consistently with the credit policies and corporate strategic guidelines.

The credits issued by the Bank can be mainly classified in the following categories:

- loans to customers and to banks (typically irrevocable credit line on demand and at maturity and mortgages requiring fixed or otherwise determinable payments);
- trade receivables;
- repurchase agreements.

After their initial recognition, receivables are designated at their amortised cost, which is equal to the initial recognition value reduced/increased by capital repayments, by any impairment losses/value recoveries and by the amortisation calculated with the effective interest rate method.

In order to mitigate credit risk and avoid situations that would imply losses and write-downs on the loan portfolio, the Bank carries out credit activities that privilege receivables "guaranteed" by collateral securities or those guaranteed by liens on securities, asset management and property mortgages. Well-known customers are occasionally granted credit lines based on the creditworthiness of the customer in question.

Moreover, the company structure and organisation – which are characterised by the reduced size and accurate formalisation of credit line/loan disbursement procedures – enable to offer customers primary services, granted with rapid appraisal processes.

The operating strategy adopted by the Bank and outlined above ensured that:

- transactions carried out have low-risk exposures;
- the amount of bad loans (net of value adjustments made) are contained to a percentage of roughly 1% of total loans to customers included in table A.1.1 Breakdown of credit exposures by portfolio classification and credit quality shown in the next few pages;
- lending activities provide positive image and prestige feedback for the Bank, with a positive impact on "traditional" activities.

2.2 Management, measurement and control systems

The valuation of credit risk and creditworthiness of customers is carried out by delegated bodies, which operate by means of proper proxies. The delegated bodies receive all information necessary to evaluate the creditworthiness of the customers, so that they can readily express their opinion on credit line transactions.

The Bank's credit process is illustrated below.

**Evaluation of the creditworthiness of credit line applicants**

Creditworthiness evaluation, which is performed according to a specific procedure, is mainly aimed at verifying that credit line applicants have the ability to reimburse as well as verifying the compatibility of the individual credit line applications and the company's strategies with regard to the chosen size and breakdown of the credit portfolio.

The company functions that are involved in the creditworthiness assessment procedure act as follows:

- they accept the loan application of customers;
- they gather the documents required to examine the asset, financial and economic situation of the loan applicant and any guarantor to start filling in all the credit line forms;
- they analyse the qualitative information concerning the new customers and update the information of former customers whose creditworthiness has already been assessed;
- they verify the reliability of the data included in the document and in the information required;
- they formulate, by reference to the files set up, a creditworthiness score of the loan applicant;
- they examine all the various relationships that the Bank has in place with the same loan applicant, both credit and debit ones, and compare loans granted with guarantees offered and guarantees received with proposed guarantors;
- they prepare a summary of the assessments based on the creditworthiness of the customer and formulate an opinion with regard to the amount of the loan that could be granted, the technical use of the loan by the customer, and specify the guarantees to be received based on both qualitative and quantitative information.

The Bank also carries out a qualitative assessment of the credit exposures on the basis of a managerial internal rating system offered by the outsourcer CSE that allows to classify customers, dividing them into risk classes to which correspond different probabilities of default.
For the assessment of the creditworthiness and the connected division into rating classes, the main areas of investigation cover the analysis of the data listed below:

- internal performance data;
- system performance data (report from central credit register);
- financial statement information (central financial statement archives);
- socio-demographic information;
- variables are estimated individually on the areas of investigation and subsequently integrated in the final model, separately for individuals and enterprises.

**Credit granting**

Credit granting is performed by the Deliberative Body, taking all the reasons supporting the definition of the amount that could be granted and the guarantees requested into due consideration, based on the risk inherent in the transaction.

Once the loan proposal has been positively resolved upon:

- the guarantees are obtained and the loan granting process takes place;
- the credit line/loan is granted;
- the transaction is implemented in the IT system so that it can be regularly verified: instalments due, review of the interest rate, if contractually provided for, and/or of the associated guarantees.

**Management of anomalous loans**

The management of anomalous loans is carried out through a careful and periodic analysis of expired positions by the company functions responsible, the Credits Committee and with the supervision of the General Management. In particular, the General Management of the Bank and the functions concerned receive, at a predetermined frequency, appropriate reports containing the trend of non-performing loans, broken down by customer with or without loans.

"Non-performing" loans, net of write-downs, amounted in total to 15,147 thousand euros, of which 5,707 thousand euros were bad loans, 6,404 thousand euros were unlikely to pay and 3,036 thousand euros were past due exposures.

To this end, it should be stressed that non-performing loans after impairment losses at the end of 2019 accounted for roughly 1% of the total amount of the item loans to customers detailed in table A.1.1 Breakdown of credit exposures by portfolio classification and credit quality below.

**Carrying out stress tests**

The Bank performs stress tests every six months on credit risk in order to quantify the absorption of capital and to determine the related capital ratios. The methodologies adopted for conducting the stress test on the credit and counterparty risk assumes two different stress scenarios occurring at the same time and due to an increase in bad loans and non-performing loans and a reduction in the value of the collateral securities held.

### 2.3 Methods for measuring expected losses

The criteria and rationale used for the purposes of determining expected losses are described in the ECL Policy of the Bank, whose scope of application consists of financial and trade receivables, as well as owned financial instruments, to verify and assess their creditworthiness.
The amount of expected losses depends on the extent of the impairment of the credit quality with respect to the initial recognition and takes into account the guarantees held to mitigate the credit risk.

Consistently with the provisions of IFRS 9, the Bank has adopted the following approach for calculating impairment:

- 12-months expected credit losses (stage 1): if, at the reporting date, the credit risk of a financial instrument is not significantly increased with respect to the date of "first recognition", the Bank measures the losses for this financial instrument as the amount equal to the losses expected in the following 12 months;
- Lifetime expected credit losses (stage 2): at each reporting date, the Bank measures the losses for a financial instrument as the amount equal to lifetime expected losses if the credit risk of this instrument increased significantly with respect to the date of first recognition.

Concerning the staging rules and the criteria for the recognition of credits in the respective "buckets", reference is made to the Staging Allocation Policy approved by the Board of Directors.

In accordance with the provisions of IFRS 9, the model entails the calculation of a provision at each cash flow date of the loan to carry out a "multi-period" final totalisation. In case of loans at maturity, a calculation is made at each future instalment, while for on-demand loans a single calculation is made relating to the cash flow at the maturity date.

For each period, the calculation is as follows:

- ECL(t) = EAD(t) × LGD(t) × PD marginal(t) * DF(t)
- ECL(t) = contribution to the provision of period t (from initial date of validity to date of maturity). The first period (first instalment for items at maturity or all those on demand) always starts from the date of calculation of the provisions
- t = cash flow maturity date
- EAD(t) = exposure at date t; amortised cost for loans at maturity, balance for loans on demand
- LGD(t) = lgd at time t obtained with IFRS 9 logic
- PD marginal(t) = PD cumulated(t) - PD cumulated (t-1) derived from the PD lifetime curves for the segment and the class associated with the counterparty
- DF(t) = discount at time t calculated at IRR (internal rate of return) on a 360 basis

The expected credit loss of the financial instruments represented by securities is drawn up by a leading specialised external company and provided, for each financial instrument, through management applications. The information flow has quarterly periodicity and the organisational units apply the rules prescribed in the Staging Allocation Policy for classification in the correct reference bucket. Default probability measures are extracted from quoted credit spreads and thus have an information content able to summarise the expectation of occurrence of future events incorporated by the market (forward looking measures). The probability of default and the LGD are estimated for each individual issuer and associated with the respective issues, providing a differentiation by level of subordination (senior and subordinate issues).

The default probability term structure for each issuer is estimated starting from the information and from the credit spreads quoted daily on the financial markets (i.e. CDS spread and prices of bonds). Specific credit spread of individual issuers are preferentially used; in this context, a credit spread is considered specific when it can be directly referred to the "risk group" to which the measured issuer belongs. If, for a given issuer, equally significant specific credit spreads are available on multiple markets, the market used preferentially is that of the CDS.

The individual issuers are mapped to the comparable issuer or to the reference cluster on the basis of the following axes of analysis:

- industrial sector
- geographic area of interest
- rating (ECAI)
- analysis of the fundamental financial statement data.

For financial instruments, the loss given default is assumed to be constant throughout the time horizon of the financial asset analysed and it is a function of two factors:

- ranking of the instrument;
- classification of the country of the issuer entity.

For countries considered to be developed, the LGD is set to 0.6 for senior issues and 0.8 for subordinate issues. For covered issues, the value changes with changes in the rating attributed to the individual security in question. Otherwise for emerging countries for equal subordination the level of the LGD is higher, as senior issues shall be subject to an LGD of 0.75 and subordinate issues to an LGD of 1.

**Scenarios**

The impairment model adopted by the Bank, in observance of the provisions of IFRS 9, envisages the use of "forward looking scenarios" which are identified in the form of a "Baseline scenario", "Up scenario" and "Down scenario", with a probability of occurrence associated to each one. In compliance with the principle of proportionality, also dictated by the low volumes of credit exposures, the Bank adopted models and scenarios drawn up by a leading specialised external provider approved by the Board of Directors.

The scenarios contain forecasts on macroeconomic variables with a three-year time horizon and are updated annually at the time of drafting of the statutory financial statements; the probability of occurrence of the scenarios is provided by the external provider and is set at 90% for the "Baseline scenario" and 5% for the "Up scenario" and the "Down scenario".

The main macroeconomic variables used by the model provided for the 2020-2022 scenarios are reported below:

| Main regressors used by the model (Macroeconomic variables) | Down scenario (average in 2020-2022 three-year period) | Baseline scenario (average in 2020-2022 three-year period) | Up scenario (average in 2020-2022 three-year period) |
|---|---|---|---|
| Interest rate on 10-year Btp (%) | 1.4 | 0.66 | 0 |
| Interest rate on 10-year bund (%) | -0.8 | -0.43 | -0.08 |
| Interest rate on 3-month euro-currency - euro (%) | -0.57 | -0.38 | -0.2 |
| Price index of Italian residential properties (base 2015=100) | 95.15 | 100.72 | 107.55 |
| Unemployment rate (%) | 12.77 | 9.65 | 7.38 |
| Gross domestic product (% changes, constant prices 2010) | -1.70% | 0.90% | 3.40% |
| Gross domestic product (% changes, current prices) | -0.40% | 2.30% | 5.00% |
| Default rate | 0.03 | 0.02 | 0.02 |

The Bank conducted a sensitivity analysis on the provision for the purposes of IFRS 9 (loans to customers and due from banks in stage 1 and stage 2) in the assumption of the adoption of a Down scenario with a probability of 100% on the curves used to calculate impairment at 31 December 2019. The analyses show that an increase in the provision would be recorded amounting to roughly 250 thousand euros, an amount that, in percentage terms, accounts for 10% of the total generic impairment losses on loans to customers and due from banks in stage 1 and stage 2.

## 2.4 Credit risk mitigation techniques

Credit risk mitigation techniques are an instrument to reduce or transfer part of the credit risk on the exposures originated and to reduce the loss that would be incurred in case of counterparty default (Loss given default).

Credit risk mitigation is carried out by privileging mainly transactions guaranteed by collateral securities. Credit lines and disbursements are granted, by the corporate bodies, only after a careful analysis of the creditworthiness and the validity and consistency of the guarantees given. Guarantees shall be explicit and not subject to conditions, as prescribed by the Supervisory Instructions.

The collateral most used by the Bank consists of mortgages on residential and non residential properties, lines on financial instruments and on liquidity. With the objective of identifying and preventing the deterioration of the value of the guarantees held, on the collateral, the estimated or appraised value of the asset (net of any encumbrances) or the market value, in the case of listed securities, is monitored. For property assets pledged as collateral, and subject to value oscillations, a "deviation" is applied on the value as such subjected to periodic revisions and otherwise every time there are sensitive contractions on their price. In relation to mortgages, the value of properties is periodically revised. For this purpose, the Bank relies on third parties with proven experience on the basis of the provisions of Article 120-duodecies of the Consolidated Law on Banking plus those provisions provided by Bank of Italy.

In case of personal guarantees received, the guarantor shall take on the juridically binding commitment to meet the obligations relating to one or more credit issues pertaining to a determined party. With reference to "comfort letters", the only ones to be considered are those that are not declarative of the equity investment relationship of the parent company, but for which the guarantee function is pre-eminent, because the commitment made can actually represent a surety obligation, with accessory character with respect to the main one of the subsidiary.

*3. Non-performing credit exposures*

3.1 Management strategies and policies

The classification of impaired financial assets in the different default categories takes place in compliance with the instructions issued by the Supervisory Authority according to the indications of Bank of Italy Circular 272 of 2008 (as updated). Receivables classified as bad loans are subjected to an itemised assessment by the Credits Committee, by the Credits Department and by the Risk Management Function which analyse the position and the Guarantees held in order to estimate their estimated realisable value. The analysis carried out follows criteria clearly defined in the company Policies. Within this context, the recovery times are also established, so-called "Time value" on bad loans. UTP and Past due loans, in accordance with IFRS 9, are subjected to a process of valorisation of the provision that incorporates the forward looking valuation.

In consideration of the small number of positions classified as past-due or UTP, and with the goal of making a valuation that is as refined as possible, the Bank also carries out itemised assessments of past-due and UTP loans using the same logic prescribed for loans classified as bad loans, when peculiarities are identified that make itemised valuation more reliable than statistical valuation.
The monitoring of receivables to customers carried out by the Risk Control Organisation Unit, which, with the support of automated IT instruments, prepares on an established basis appropriate reports for the Senior Management. Subsequent measurement and classification of non-performing loans are carried out by special committees set up within the Bank, which assess each time single credit exposures, the customers' creditworthiness, guarantees and all other relevant factors that may affect the assessment of credit exposures.

With reference to bad loans, management is carried out by the Legal Department for the management of collection activities.

3.2 Write-off

A write-off is an event that gives rise to derecognition when there no longer are any reasonable expectations to recover the financial asset. It can take place before legal actions to recover the financial asset have been exhausted and it does not necessarily entail the waiver of the bank's legal right to recover the receivable.

The write-off can involve the entire amount of a financial asset or a portion thereof corresponds:

- to the reversal of total impairment losses, as a corresponding item of the gross value of the financial asset, and
- for the part exceeding the amount of the total impairment losses, to the impairment of the financial asset recognised directly in the income statement.

Any amounts recovered from collection after write-off are recognised in the income statement among value recoveries.

The term "Total write-offs" means the cumulated amounts of the partial and total write-offs on financial assets.

During the financial year ended 31 December 2019, the amount of written-off position is negligible.

3.3 Acquired or originated impaired financial assets

These are the exposures that meet the definition of acquired or originated impaired financial asset per Appendix A of IFRS 9. They include, among others, the impaired credit exposures acquired within sale transactions (individual or portfolio) and business combinations.

At 31 December 2019, the Bank does not hold any financial assets belonging to this category.

*4. Financial assets subject to renegotiation and forborne exposures*

"Forborne exposures" are those deriving from concessions made in the presence of both of the following conditions:

- the borrower is (or is about to become) incapable of fulfilling the terms of the agreement as a result of financial hardship;
- the lender makes a favourable concession to the borrower because of the hardship pointed out.

The classification as forborne is assigned at the level of individual credit facility upon occurrence of specific conditions of difficulty of the borrower to fulfil his commitments, associated with an activity of the Bank directed at overcoming these difficulties (forbearance measures).

Forborne exposures can be both in each of the categories of non-performing loans and among performing loans, in relation to the state of risk of the exposure at the time of the granting.

With reference to the two main directives, dictated by the EBA first and foremost, by Circular 272 and expressed and clarified with the Report of the Consultation prepared by Bank of Italy, the Bank sets the following lines for:

- identification of forbearance measures;
- management and monitoring of the receivables subjected to these measures.

In general, the following forbearance measures are identified:

a) maturity date extension;
b) reduction of the interest rate applied;
c) transformation of the credit facility from maturity to revocation;
d) change to instalment periodicity;
e) change to type of amortisation.



According to the internal Policies, this does not include the forbearance measures applied by the Bank to borrowers that do not have financial hardship conditions considering:

- either earning capacity;
- or the credit reserve with the banking system and their ability to obtain loans from it.

The attribution of the forborne qualification rests with the body that decides to apply the forbearance measure. The management of forborne loans takes place through the IT procedure and monitoring entails, among other activities, a quarterly information report to the Credits Committee in addition to the intervention of the head of the Risk Control in Credits Committee every time a currently or previously forborne position is analysed.

At 31 December 2019, there were 26 "forborne" exposures of which:

- 8 non-performing positions totalling 24,165 thousand euros (of which 2 positions included among bad loans of 15,385 thousand euros, 3 positions included among unlikely to pay of 7,715 thousand euros and 3 positions included among past due loans of 1,065 thousand euros);
- 18 performing positions, amounting to 6,927 thousand euros.

* * *

## Quantitative information

### Credit quality

### A.1 Non-performing and performing exposures: balances, impairment losses, changes, breakdown by type

**A.1.1 Breakdown of credit exposures by portfolio classification and credit quality (book values)**

| Portfolio/Quality | Bad loans | Unlikely to pay | Non-performing past due exposures | Performing past due exposures | Other performing exposures | Total |
|---|---|---|---|---|---|---|
| 1. Financial assets designated at amortised cost | 5,707 | 6,404 | 3,036 | 54,879 | 1,429,654 | 1,499,680 |
| 2. Financial assets designated at fair value through other comprehensive income | - | - | - | - | 353,870 | 353,870 |
| 3. Financial assets designated at fair value | - | - | - | - | - | - |
| 4. Other financial assets mandatorily at fair value | - | - | - | - | - | - |
| 5. Financial assets under disposal | - | - | - | - | - | - |
| **Total 2019** | **5,707** | **6,404** | **3,036** | **54,879** | **1,783,524** | **1,853,550** |
| **Total 2018** | **2,027** | **1,602** | **2,158** | **13,157** | **1,693,172** | **1,712,116** |

### A.1.2 Breakdown of credit exposures by portfolio classification and credit quality (gross and net values)

| Portfolio/Quality | Non-performing | | | Total partial write-offs* | Performing | | | Total (net exposure) |
|---|---|---|---|---|---|---|---|---|
| | Gross exposure | Total impairment losses | Net exposure | | Gross exposure | Total impairment losses | Net exposure | |
| 1. Financial assets designated at amortised cost | 36,367 | 21,220 | 15,147 | - | 1,487,353 | 2,820 | 1,484,533 | 1,499,680 |
| 2. Financial assets designated at fair value through other comprehensive income | - | - | - | - | 354,415 | 545 | 353,870 | 353,870 |
| 3. Financial assets designated at fair value | - | - | - | - | X | X | - | - |
| 4. Other financial assets mandatorily at fair value | - | - | - | - | X | X | - | - |
| 5. Financial assets under disposal | - | - | - | - | - | - | - | - |
| **Total 2019** | **36,367** | **21,220** | **15,147** | **-** | **1,841,768** | **3,365** | **1,838,403** | **1,853,550** |
| **Total 2018** | **13,189** | **7,402** | **5,787** | **-** | **1,712,166** | **5,837** | **1,706,329** | **1,712,116** |

| Portfolio/Quality | Assets of evidently low credit quality | | Other assets |
|---|---|---|---|
| | Cumulated losses | Net exposure | Net exposure |
| 1. Financial assets held for trading | - | 1 | 50,644 |
| 2. Hedging derivatives | - | - | - |
| **Total 2019** | **-** | **1** | **50,644** |
| **Total 2018** | **-** | **-** | **26,571** |

* Value to be reported for disclosure purposes

### A.1.3 Breakdown of credit exposures by maturity brackets (book values)

| Portfolio/Risk stages | Stage 1 | | | Stage 2 | | | Stage 3 | | |
|---|---|---|---|---|---|---|---|---|---|
| | From 1 day to 30 days | From over 30 days to 90 days | More than 90 days | Up to 30 days | From over 30 days to 90 days | More than 90 days | Up to 30 days | From over 30 days to 90 days | More than 90 days |
| 1. Financial assets designated at amortised cost | 13,533 | 292 | - | 37,883 | 2,341 | 830 | - | 627 | 14,520 |
| 2. Financial assets designated at fair value through other comprehensive income | - | - | - | - | - | - | - | - | - |
| **TOTAL 2019** | **13,533** | **292** | **-** | **37,883** | **2,341** | **830** | **-** | **627** | **14,520** |
| **TOTAL 2018** | **2,022** | **1** | **-** | **6,784** | **2,202** | **2,149** | **-** | **-** | **5,675** |

**A.1.4 Financial assets, commitments to lend funds and financial guarantees given: changes in total impairment losses and total allocations**

| Reasons/Risk stages | Total impairment losses | | | | | |
|---|---|---|---|---|---|---|
| | Assets in stage 1 | | | | Assets in stage 2 | |
| | Financial assets designated at amortised cost | Financial assets designated at fair value through other comprehensive income | of which: individual write-downs | of which: collective write-downs | Financial assets designated at amortised cost | Financial assets designated at fair value through other comprehensive income |
| **Total opening adjustments** | **2,534** | **820** | **3,354** | | **2,483** | **-** |
| Increases from financial assets acquired or originated | 1,241 | 59 | 1,300 | - | 1,393 | 3 |
| Derecognitions other than write-offs | (1,508) | (117) | (1,625) | - | (1,823) | - |
| Net losses/recoveries on credit risk | (845) | (216) | (1,061) | - | (656) | - |
| Contractual changes without derecognition | - | - | - | - | - | - |
| Changes in estimation methodology | - | - | - | - | - | - |
| Write-offs not recognised directly in the income statement | - | - | - | - | - | - |
| Other changes | - | (3) | (3) | - | - | - |
| **Total closing adjustments** | **1,422** | **543** | **1,965** | **-** | **1,397** | **3** |
| Recoveries from collection on financial assets written off | - | - | - | - | - | - |
| Write-offs recognised directly in the income statement | 17 | - | 17 | - | - | - |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Assets in stage 3 | | | | Of which: acquired or originated impaired financial assets | Total allocations on commitments to lend funds and financial guarantees given | | | Total |
| of which: individual write-downs | of which: collective write-downs | Financial assets designated at amortised cost | Financial assets designated at fair value through other comprehensive income | of which: individual write-downs | of which: collective write-downs | | Stage 1 | Stage 2 | Stage 3 | |
| **2,483** | | **7,402** | **-** | **7,402** | **-** | **-** | **87** | **14** | **-** | **13,340** |
| 1,396 | - | 28 | - | 28 | - | - | 82 | 7 | - | 2,813 |
| (1,823) | - | (178) | - | (178) | - | - | (51) | (14) | - | (3,691) |
| (656) | - | 1,781 | - | 1,781 | - | - | (36) | - | 13 | 41 |
| - | - | 12,197 | - | 12,197 | - | - | - | - | - | 12,197 |
| - | - | - | - | - | - | - | - | - | - | - |
| - | - | (23) | - | (23) | - | - | - | - | - | (23) |
| - | - | - | - | - | - | - | - | - | - | (3) |
| **1,400** | **-** | **21,207** | **-** | **21,207** | **-** | **-** | **82** | **7** | **13** | **24,674** |
| - | - | 13 | - | 13 | - | - | - | - | - | 13 |
| - | - | 2 | - | 2 | - | - | - | - | - | 19 |

### A.1.5 Financial assets, commitments to lend funds and financial guarantees given: transfers between the different credit risk stages (gross and nominal values)

| Types of exposures/Risk stages | Gross values/nominal value | | | | | |
|---|---|---|---|---|---|---|
| | Transfers between stage 1 and stage 2 | | Transfers between stage 2 and stage 3 | | Transfers between stage 1 and stage 3 | |
| | From stage 1 to stage 2 | From stage 2 to stage 1 | From stage 2 to stage 3 | From stage 3 to stage 2 | From stage 1 to stage 3 | From stage 3 to stage 1 |
| 1. Financial assets designated at amortised cost | 16,131 | 7,320 | 9,479 | 21 | 15,255 | 113 |
| 2. Financial assets designated at fair value through other comprehensive income | 2,085 | - | - | - | - | - |
| 3. Commitments to lend funds and financial guarantees given | 1 | 19 | - | - | 299 | - |
| **TOTAL 2019** | **18,217** | **7,339** | **9,479** | **21** | **15,554** | **113** |
| **TOTAL 2018** | **33,105** | **2,351** | **1,177** | **123** | **217** | **300** |

### A.1.6 On-balance sheet and off-balance sheet credit exposures to banks: gross and net amounts

| Type of exposures/Amounts | Gross exposure | | Total impairment losses and total allocations | Net exposure | Total partial write-offs* |
|---|---|---|---|---|---|
| | Non-performing | Performing | | | |
| **A. ON-BALANCE SHEET CREDIT EXPOSURES** | | | | | |
| a) Bad loans | - | X | - | - | - |
| - of which: forborne exposures | - | X | - | - | - |
| b) Unlikely to pay | - | X | - | - | - |
| - of which: forborne exposures | - | X | - | - | - |
| c) Non-performing 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 | 109,229 | 381 | 108,848 | - |
| - of which: forborne exposures | X | - | - | - | - |
| **TOTAL A** | **-** | **109,229** | **381** | **108,848** | **-** |
| **B. OFF-BALANCE SHEET CREDIT EXPOSURES** | | | | | |
| a) Non-performing | - | X | - | - | - |
| b) Performing | X | 689 | - | 689 | - |
| **TOTAL B** | **-** | **689** | **-** | **689** | **-** |
| **TOTAL A+B** | **-** | **109,918** | **381** | **109,537** | **-** |

* Value to be reported for disclosure purposes.

### A.1.7 On-balance sheet and off-balance sheet credit exposures to customers: gross and net amounts

| Type of exposures/Amounts | Gross exposure | | Total impairment losses and total allocations | Net exposure | Total partial write-offs* |
|---|---|---|---|---|---|
| | Non-performing | Performing | | | |
| **A. ON-BALANCE SHEET CREDIT EXPOSURES** | | | | | |
| a) Bad loans | 25,224 | X | 19,517 | 5,707 | - |
| - of which: forborne exposures | 15,385 | X | 12,338 | 3,047 | - |
| b) Unlikely to pay | 8,023 | X | 1,619 | 6,404 | - |
| - of which: forborne exposures | 7,715 | X | 1,505 | 6,210 | - |
| c) Non-performing past due exposures | 3,120 | X | 84 | 3,036 | - |
| - of which: forborne exposures | 1,065 | X | - | 1,065 | - |
| d) Performing past due exposures | X | 56,203 | 1,323 | 54,880 | - |
| - of which: forborne exposures | X | 3,738 | 295 | 3,443 | - |
| e) Other performing exposures | X | 1,726,807 | 1,662 | 1,725,145 | - |
| - of which: forborne exposures | X | 3,189 | 96 | 3,093 | - |
| **TOTAL A** | **36,367** | **1,783,010** | **24,205** | **1,795,172** | **-** |
| **B. OFF-BALANCE SHEET CREDIT EXPOSURES** | | | | | |
| a) Non-performing | 299 | X | 13 | 286 | - |
| b) Performing | X | 233,917 | 89 | 233,828 | - |
| **TOTAL B** | **299** | **233,917** | **102** | **234,114** | **-** |
| **TOTAL A+B** | **36,666** | **2,016,927** | **24,307** | **2,029,286** | **-** |

* Value to be reported for disclosure purposes.

### A.1.9 On-balance sheet credit exposures to customers: changes in gross non-performing exposures

| Reason/Category | Bad loans | Unlikely to pay | Non-performing past due exposures |
|---|---|---|---|
| **A. Gross opening exposure** | **8,717** | **2,088** | **2,385** |
| - of which: exposures sold and not derecognised | | | |
| **B. Increases** | **16,940** | **7,751** | **2,244** |
| B.1 inflows from performing exposures | 15,272 | 6,982 | 2,088 |
| B.2 inflows from acquired or originated impaired financial assets | - | - | - |
| B.3 transfers from other categories of non-performing exposures | 1,577 | 547 | - |
| B.4 contractual changes without derecognition | - | - | - |
| B.5 other increases | 91 | 222 | 156 |
| **C. Decreases** | **433** | **1,816** | **1,509** |
| C.1 outflows to performing exposures | - | - | 1 |
| C.2 write-offs | - | 22 | 1 |
| C.3 collection | 433 | 140 | 960 |
| C.4 gains from disposals | - | - | - |
| C.5 losses from disposals | - | - | - |
| C.6 transfers to other categories of non-performing exposures | - | 1,577 | 547 |
| C.7 contractual changes without derecognition | - | - | - |
| C.8 other decreases | - | 77 | - |
| **D. Gross closing exposure** | **25,224** | **8,023** | **3,120** |
| - of which: exposures sold and not derecognised | | | |

### A.1.9bis On-balance sheet credit exposures to customers: changes in gross forborne exposures by credit quality

| Reasons/Quality | Forborne exposures: non-performing | Forborne exposures: performing |
|---|---|---|
| **A. Gross opening exposure** | **909** | **11,749** |
| - of which: exposures sold and not derecognised | | |
| **B. Increases** | **24,063** | **1,667** |
| B.1 inflows from non forborne performing exposures | 18,430 | 1,444 |
| B.2 inflows from forborne performing exposures | 4,915 | X |
| B.3 inflows from forborne non-performing exposures | X | 75 |
| B.4 other increases | 718 | 148 |
| **C. Decreases** | **807** | **6,489** |
| C.1 outflows to non forborne performing exposures | X | - |
| C.2 outflows to forborne performing exposures | 75 | X |
| C.3 outflows to forborne non-performing exposures | X | 4,915 |
| C.4 write-off | - | - |
| C.5 collections | 185 | 1,574 |
| C.6 gains from disposals | - | - |
| C.7 losses from disposals | - | - |
| C.8 other decreases | 547 | - |
| **D. Gross closing exposure** | **24,165** | **6,927** |
| - of which: exposures sold and not derecognised | | |

### A.1.11 Non-performing on-balance sheet credit exposures to customers: changes in total impairment losses

| Reason/Category | Bad loans | | Unlikely to pay | | Non-performing past due exposures | |
|---|---|---|---|---|---|---|
| | Total | of which: forborne exposures | Total | of which: forborne exposures | Total | of which: forborne exposures |
| **A. Total opening adjustments** | **6,690** | **141** | **486** | **49** | **226** | **11** |
| - of which: exposures sold and not derecognised | | | | | | |
| **B. Increases** | **12,889** | **12,197** | **1,510** | **1,492** | **22** | **-** |
| B.1 impairment losses from acquired or originated impaired financial assets | - | X | - | X | - | X |
| B.2 other impairment losses | 12,586 | 12,197 | 1,499 | 1,481 | 22 | - |
| B.3 losses from disposals | - | - | - | - | - | - |
| B.4 transfers from other categories of non-performing exposures | 303 | - | 11 | 11 | - | - |
| B.5 contractual changes without derecognition | | X | | X | | X |
| B.6 other increases | - | - | - | - | - | - |
| **C. Decreases** | **62** | **-** | **377** | **36** | **164** | **11** |
| C.1 valuation value recoveries | 49 | - | 3 | 36 | 24 | 11 |
| C.2 cash value recoveries | 13 | - | 49 | - | 128 | - |
| C.3 profit from disposals | - | - | - | - | - | - |
| C.4 write-offs | - | - | 22 | - | 1 | - |
| C.5 transfers to other categories of non-performing exposures | - | - | 303 | - | 11 | - |
| C.6 contractual changes without derecognition | | X | | X | | X |
| C.7 other decreases | - | - | - | - | - | - |
| **D. Total closing adjustments** | **19,517** | **12,338** | **1,619** | **1,505** | **84** | **-** |
| - of which: exposures sold and not derecognised | | | | | | |

### A.2 Classification of financial assets, of commitments to lend funds and of financial guarantees given in exposures according to external and internal rating classes

#### A.2.1 Breakdown of credit exposures, of commitments to lend funds and of financial guarantees given: by external rating classes (gross values)

| Exposures | | |
|---|---|---|
| | class 1 | class 2 |
| **A. Financial assets designated at amortised cost** | **-** | **-** |
| - Stage 1 | - | - |
| - Stage 2 | - | - |
| - Stage 3 | - | - |
| **B. Financial assets designated at fair value through other comprehensive income** | **5,033** | **-** |
| - Stage 1 | 5,033 | - |
| - Stage 2 | - | - |
| - Stage 3 | - | - |
| **C. Financial assets under disposal** | **-** | **-** |
| - Stage 1 | - | - |
| - Stage 2 | - | - |
| - Stage 3 | - | - |
| **Total (A+B+C)** | **5,033** | **-** |
| of which: acquired or originated impaired financial assets | - | - |
| **D. Commitments to lend funds and financial guarantees given** | **-** | **-** |
| - Stage 1 | - | - |
| - Stage 2 | - | - |
| - Stage 3 | - | - |
| **Total D** | **-** | **-** |
| **Total (A + B + C + D)** | **5,033** | **-** |

#### A.2.2 Breakdown of credit exposures, of commitments to lend funds and of financial guarantees given: by internal rating classes (gross values)

The table is not filled in, because the Bank does not use internal ratings.

| External rating classes | | | | Without rating | Total |
|---|---|---|---|---|---|
| class 3 | class 4 | class 5 | classe6 | | |
| **1,014,598** | **-** | **-** | **-** | **509,122** | **1,523,720** |
| 1,014,598 | - | - | - | 401,468 | 1,416,066 |
| - | - | - | - | 71,287 | 71,287 |
| - | - | - | - | 36,367 | 36,367 |
| **335,968** | **2,210** | **-** | **-** | **11,204** | **354,415** |
| 335,968 | 122 | - | - | 11,204 | 352,327 |
| - | 2,088 | - | - | - | 2,088 |
| - | - | - | - | - | - |
| **-** | **-** | **-** | **-** | **-** | **-** |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| **1,350,566** | **2,210** | **-** | **-** | **520,326** | **1,878,135** |
| - | - | - | - | - | |
| **-** | **-** | **-** | **-** | **49,617** | **49,617** |
| - | - | - | - | 48,055 | 48,055 |
| - | - | - | - | 1,263 | 1,263 |
| - | - | - | - | 299 | 299 |
| **-** | **-** | **-** | **-** | **49,617** | **49,617** |
| **1,350,566** | **2,210** | **-** | **-** | **569,943** | **1,927,752** |

## A.3. Distribution of guaranteed credit exposures by type of guarantee

### A.3.2 Secured on-balance sheet and off-balance sheet credit exposures to customers

| | Gross exposure | Net exposure | Collateral (1) | | | |
|---|---|---|---|---|---|---|
| | | | Real estate - mortgages | Real estate - finance leases | Securities | Other collateral |
| **1. Guaranteed on-balance sheet credit exposures:** | 384,948 | 364,680 | 155,285 | - | 107,881 | 88,342 |
| 1.1 fully guaranteed | 356,181 | 348,144 | 152,806 | - | 104,132 | 85,980 |
| - of which non-performing | 17,143 | 10,743 | 10,723 | - | - | - |
| 1.2 partly guaranteed | 28,767 | 16,536 | 2,479 | - | 3,749 | 2,362 |
| - of which non-performing | 16,304 | 4,107 | - | - | 65 | 1,000 |
| **2. Guaranteed off-balance sheet credit exposures:** | 73,383 | 73,343 | 5,470 | - | 20,225 | 28,925 |
| 2.1 fully guaranteed | 54,286 | 54,247 | 5,470 | - | 19,551 | 26,759 |
| - of which non-performing | 299 | 286 | - | - | - | 286 |
| 2.2 partly guaranteed | 19,097 | 19,096 | - | - | 674 | 2,166 |
| - of which non-performing | - | - | - | - | - | - |

| | Personal guarantees (2) | | | | | | | | | Total (1)+(2) |
|---|---|---|---|---|---|---|---|---|---|---|
| | Credit derivatives | | | | | Unsecured loans | | | | |
| | CLN | Other derivatives | | | | Public administrations | Banks | Other financial institutions | Other entities | |
| | | Central counterparties | Banks | Other financial institutions | Other entities | | | | | |
| | - | - | - | - | - | - | 1,697 | - | 3,529 | 356,734 |
| | - | - | - | - | - | - | 1,697 | - | 3,529 | 348,144 |
| | - | - | - | - | - | - | - | - | 21 | 10,744 |
| | - | - | - | - | - | - | - | - | - | 8,590 |
| | - | - | - | - | - | - | - | - | - | 1,065 |
| | - | - | - | - | - | - | 3 | 500 | 1,197 | 56,320 |
| | - | - | - | - | - | - | - | - | 1,168 | 52,948 |
| | - | - | - | - | - | - | - | - | - | 286 |
| | - | - | - | - | - | - | 3 | 500 | 29 | 3,372 |
| | - | - | - | - | - | - | - | - | - | - |

## B. Distribution and concentration of credit exposures

### B.1 Segment distribution of on-balance sheet and off-balance sheet credit exposures to customers

| Exposures/Counterparties | Public administrations | | Financial institutions | |
|---|---|---|---|---|
| | Net exposure | Total impairment losses | Net exposure | Total impairment losses |
| **A. On-balance sheet credit exposures** | | | | |
| A.1 Bad loans | - | - | - | - |
| - of which: forborne exposures | - | - | - | - |
| A.2 Unlikely to pay | - | - | - | - |
| - of which: forborne exposures | - | - | - | - |
| A.3 Non-performing past due exposures | - | - | 131 | 4 |
| - of which: forborne exposures | - | - | - | - |
| A.4 Performing exposures | 1,357,944 | 683 | 123,407 | 183 |
| - of which: forborne exposures | - | - | 80 | 3 |
| **Total (A)** | **1,357,944** | **-** | **123,538** | **4** |
| **B. Off-balance sheet credit exposures** | | | | |
| B.1 Non-performing exposures | - | - | - | - |
| B.2 Performing exposures | - | - | 48,204 | 54 |
| **Total (B)** | **-** | **-** | **48,204** | **54** |
| **Total (A+B) 31.12.2019** | **1,357,944** | **-** | **171,742** | **58** |
| **Total (A+B) 31.12.2018** | **1,202,896** | **1,916** | **135,369** | **322** |

| Financial institutions (of which: insurance companies) | | Non financial institutions | | Households | |
|---|---|---|---|---|---|
| Net exposure | Total impairment losses | Net exposure | Total impairment losses | Net exposure | Total impairment losses |
| | | | | | |
| - | - | 4,330 | 18,456 | 1,377 | 1,061 |
| - | - | 3,047 | 12,197 | - | 141 |
| - | - | 5,622 | 1,583 | 782 | 36 |
| - | - | 5,595 | 1,481 | 615 | 24 |
| - | - | 1,144 | 61 | 1,761 | 19 |
| - | - | - | - | 1,065 | - |
| - | - | 164,918 | 1,895 | 133,756 | 224 |
| - | - | 3,635 | 377 | 2,821 | 11 |
| **-** | **-** | **176,014** | **20,100** | **137,676** | **1,116** |
| | | | | | |
| - | - | 286 | 13 | - | - |
| 13 | - | 126,018 | 33 | 59,606 | 1 |
| **13** | **-** | **126,304** | **46** | **59,606** | **1** |
| **13** | **-** | **302,318** | **20,146** | **197,282** | **1,117** |
| **-** | **-** | **293,749** | **9,272** | **171,137** | **1,422** |

### B.2 Geographical distribution of on-balance sheet and off-balance sheet credit exposures to customers

| Exposures/Geographic area | Italy | | Other European Countries | |
|---|---|---|---|---|
| | Net exposure | Total impairment losses | Net exposure | Total impairment losses |
| **A. On-balance sheet credit exposures** | | | | |
| A.1 Bad loans | 5,707 | 19,518 | - | - |
| A.2 Unlikely to pay | 6,404 | 1,620 | - | - |
| A.3 Non-performing past due exposures | 3,032 | 82 | 3 | 1 |
| A.4 Performing exposures | 1,768,430 | 2,982 | 11,585 | 3 |
| **Total (A)** | **1,783,573** | **24,202** | **11,588** | **4** |
| **B. Off-balance sheet credit exposures** | | | | |
| B.1 Non-performing exposures | 286 | 13 | - | - |
| B.2 Performing exposures | 232,923 | 89 | 693 | - |
| **Total (B)** | **233,209** | **102** | **693** | **-** |
| **Total (A+B) 2019** | **2,016,782** | **24,304** | **12,281** | **4** |
| **Total (A+B) 2018** | **1,789,975** | **12,908** | **12,956** | **3** |

| America | | Asia | | Rest of world | |
|---|---|---|---|---|---|
| Net exposure | Total impairment losses | Net exposure | Total impairment losses | Net exposure | Total impairment losses |
| | | | | | |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| 10 | - | - | - | - | - |
| **10** | **-** | **-** | **-** | **-** | **-** |
| | | | | | |
| - | - | - | - | - | - |
| 212 | - | - | - | - | - |
| **212** | **-** | **-** | **-** | **-** | **-** |
| **222** | **-** | **-** | **-** | **-** | **-** |
| **220** | **21** | | | | |

## B.3 Geographical distribution of on-balance sheet and off-balance sheet credit exposures to banks

| Exposures/Geographic area | Italy | | Other European Countries | |
|---|---|---|---|---|
| | Net exposure | Total impairment losses | Net exposure | Total impairment losses |
| **A. On-balance sheet credit exposures** | | | | |
| A.1 Bad loans | - | - | - | - |
| A.2 Unlikely to pay | - | - | - | - |
| A.3 Non-performing past due exposures | - | - | - | - |
| A.4 Performing exposures | 99,933 | 353 | 8,915 | 28 |
| **Total (A)** | **99,933** | **353** | **8,915** | **28** |
| **B. Off-balance sheet credit exposures** | **-** | | **-** | **-** |
| B.1 Non-performing exposures | - | - | - | - |
| B.2 Performing exposures | 689 | - | - | - |
| **Total (B)** | **689** | **-** | **-** | **-** |
| **Total (A+B) 2019** | **100,622** | **353** | **8,915** | **28** |
| **Total (A+B) 2018** | **119,305** | **366** | **8,619** | **42** |

| America | | Asia | | Rest of world | |
|---|---|---|---|---|---|
| Net exposure | Total impairment losses | Net exposure | Total impairment losses | Net exposure | Total impairment losses |
| | | | | | |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |
| - | - | - | - | - | - |

**B.4 Large exposures**

a) Amount (book value) 2,739,178 thousand euros
b) Amount (weighted value) 60,466 thousand euros
c) Number 8

The provisions contained in Regulation (EU) no. 575/2013 establish that a large exposure is the exposure of an entity towards a customer or a group of connected customers whose value is equal to or greater than 10% of the entity's admissible capital.

The same provisions that the amount of the exposure of an entity towards an individual customer or a group of connected customers may not exceed 25% of the entity's admissible capital. Obviously, the amount of 25% takes into account credit risk attenuation techniques, the type of guarantee acquired and the debtor counterparty.

With the objective of containing Large exposures within the limits set by the regulatory provisions, the corporate control functions carry out ex ante controls on new disbursements and periodically verify the Bank's overall exposure to customers or groups of connected customers that fall into the category of large exposures. The internal policies also provide for the preparation of adequate reports for the corporate bodies.

**C. Securitisation**

The Bank has not carried out any securitisation transaction. At the reporting date, no such transactions, issued by the Bank, were in place.

## E. Disposal of companies

## A. Financial assets sold and not derecognised in full

### Qualitative information

Financial assets sold and not derecognised in full refer to Government bonds used in repos carried out exclusively with Cassa di Compensazione e Garanzia.

### Quantitative information

### E.1 Financial assets sold recognised in full and associated financial liabilities: book values

| | Financial assets sold recognised in full | | | | Associated financial liabilities | | |
|---|---|---|---|---|---|---|---|
| | Book value | of which: subject of securitisations | of which: subject of sale agreements with repurchase pact | of which non-performing | Book value | of which: subject of securitisations | of which: subject of sale agreements with repurchase pact |
| **A. Financial assets held for trading** | **-** | **-** | **-** | **X** | **-** | **-** | **-** |
| 1. Debt securities | - | - | - | X | - | - | - |
| 2. Equity | - | - | - | X | - | - | - |
| 3. Loans | - | - | - | X | - | - | - |
| 4. Derivatives | - | - | - | X | - | - | - |
| **B. Other financial assets mandatorily at fair value** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| 1. Debt securities | - | - | - | - | - | - | - |
| 2. Equity | - | - | - | X | - | - | - |
| 3. Loans | - | - | - | - | - | - | - |
| **C. Financial assets designated at fair value** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| 1. Debt securities | - | - | - | - | - | - | - |
| 2. Loans | - | - | - | - | - | - | - |
| **D. Financial assets designated at fair value through other comprehensive income** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| 1. Debt securities | - | - | - | - | - | - | - |
| 2. Equity | - | - | - | X | - | - | - |
| 3. Loans | - | - | - | - | - | - | - |
| **E. Financial assets designated at amortised cost** | **994,234** | **-** | **-** | **-** | **985,179** | **-** | **-** |
| 1. Debt securities | 994,234 | - | - | - | 985,179 | - | - |
| 2. Loans | - | - | - | - | - | - | - |
| **Total 31.12.2019** | **994,234** | **-** | **-** | **-** | **985,179** | **-** | **-** |
| **Total 31.12.2018** | **942,073** | **-** | **-** | **-** | **938,918** | **-** | **-** |

**F. Credit risk measurement models**

In order to assess the Credit Risk, the Bank uses a standardised method for the quantification of (current and perspective) internal capital in compliance with the guidelines set out in the budgeting and multi-year planning process.

In compliance with the supervisory provisions, the method adopted by the Bank to quantify internal capital enables to use collateral (pledge and mortgage) and personal guarantees as a form of credit risk mitigation. The Bank prefers the acquisition of collateral characterised by high liquidity (listed financial instruments) and low-price volatility (Sovereign debt securities).

With a view to verifying the suitability of the internal capital, also in the event of adverse outlooks linked to the negative trend of loans, the Bank carries out stress testing during ICAAP/ILAAP reporting on the credit risk. For the performance of these tests, reference is made to macroeconomic and idiosyncratic events which include the increase in default positions, reduction in value of the guarantees and the increase in the Probability of Default.

## Section 2 - Market risks

### 2.1 Interest rate risk and price risk – Regulatory trading portfolio

### Qualitative information

#### A. General aspects

The Bank defined the market risk as the risk of an unfavourable change in the value of a position in financial instruments – included in the trading portfolio for regulatory purposes – due to the adverse performance of interest, exchange and inflation rates, volatility, share prices, credit spreads, price of goods (generic risk) and creditworthiness of the issuer (specific risk).

#### B. Management processes and measurement methods for the interest rate risk and the price risk

Interest rate risk

The "trading portfolio" – as defined in the supervisory regulations – includes all financial instruments subject to capital requirements for market risks.

The trading portfolio includes:

- debt securities;
- shares;
- UCI units;
- derivatives held for trading.

Most of the debt securities in the portfolio at 31 December 2019 consist of Government bonds whose overall duration is short. Share investments mainly refer to securities listed on the Italian Stock Exchange, with high liquidity. The portfolio instruments are denominated in euro.

The Managing Director and the General Management of the Bank provide strategic guidelines on market risk acceptance with regard to the purchase and dealing in trading securities.

With regard to the interest rate risk, the Bank monitors the changes in market rates and prepares a proper report that is sent to the Management.

Price risk

Price risk is the risk of capital losses on listed financial assets or assets that are similar to listed instruments due to fluctuations in the price of securities or to factors attributable to the peculiar situation of the issuer. The Bank adopted special internal regulations that govern and limit the risk assumption with regard to some types of financial instruments and allow the continuous monitoring of the main risk indicators (VAR – Expected Shortfall – Volatility etc.)

In addition, limits were identified and prescribed in stress conditions, considering simultaneous shocks on the credit risk – spread increases and stock price contraction.

The method adopted to calculate VAR is historical; the Bank uses a holding period of 2 years, a confidence interval of 99% and a daily time horizon for the quantification of the expected risk.

The trading portfolio is mainly represented by Government debt securities. As a result, price risk is associated with the specific situation of the issuer.
With regard to the equity portfolio, it should be underlined that it almost exclusively includes listed shares with a high degree of liquidity.

Lastly, with reference to market risk management, it should be specified that transactions with similar characteristics in terms complexity, type of issuer or risk are screened by the Managing Director and by the General Management, which performs a specific evaluation also with regard to the risk profiles associated with them.

**Quantitative information**

**1. Regulatory trading portfolio: distribution of cash financial assets and liabilities and financial derivatives by residual duration (repricing date)**
(Currency: euro)

| 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 | More than 10 years | Undated |
|---|---|---|---|---|---|---|---|---|
| **1. Cash assets** | **-** | **-** | **-** | **50,081** | **388** | **1** | **-** | **-** |
| 1.1 Debt securities | - | - | - | 50,081 | 388 | 1 | - | - |
| - with the option of early redemption | - | - | - | - | - | - | - | - |
| - other | - | - | - | 50,081 | 388 | 1 | - | - |
| 1.2 Other assets | - | - | - | - | - | - | - | - |
| **2. Cash liabilities** | | | | | | | | |
| 2.1 Repos | - | - | - | - | - | - | - | - |
| 2.2 Other liabilities | - | - | - | - | - | - | - | - |
| **3. Financial derivatives** | **-** | **7,915** | **-** | **-** | **-** | **-** | **-** | **-** |
| 3.1 With underlying security | - | - | - | - | - | - | - | - |
| - Options | - | - | - | - | - | - | - | - |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |
| - Other derivatives | - | - | - | - | - | - | - | - |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |
| 3.2 Without underlying security | - | 7,915 | - | - | - | - | - | - |
| - Options | - | - | - | - | - | - | - | - |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |
| - Other derivatives | - | 7,915 | - | - | - | - | - | - |
| + Long positions | - | 3,680 | - | - | - | - | - | - |
| + Short positions | - | 4,235 | - | - | - | - | - | - |

**1. Regulatory trading portfolio: distribution of cash financial assets and liabilities and financial derivatives by residual duration (repricing date)**

(Currency: other currencies)

| 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 | More than 10 years | Undated |
|---|---|---|---|---|---|---|---|---|
| **1. Cash assets** | - | - | - | - | - | - | - | - |
| 1.1 Debt securities | - | - | - | - | - | - | - | - |
| - with the option of early redemption | - | - | - | - | - | - | - | - |
| - other | - | - | - | - | - | - | - | - |
| 1.2 Other assets | - | - | - | - | - | - | - | - |
| **2. Cash liabilities** | | | | | | | | |
| 2.1 Repos | - | - | - | - | - | - | - | - |
| 2.2 Other liabilities | - | - | - | - | - | - | - | - |
| **3. Financial derivatives** | - | **7,915** | - | - | - | - | - | - |
| 3.1 With underlying security | - | - | - | - | - | - | - | - |
| - Options | - | - | - | - | - | - | - | - |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |
| - Other derivatives | - | - | - | - | - | - | - | - |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |
| 3.2 Without underlying security | - | 7,915 | - | - | - | - | - | - |
| - Options | - | - | | | | | | |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |
| - Other derivatives | - | 7,915 | - | - | - | - | - | - |
| + Long positions | - | 4,235 | - | - | - | - | - | - |
| + Short positions | - | 3,680 | - | - | - | - | - | - |

**2. Regulatory trading portfolio: distribution of exposures in equity and stock indexes in the main countries of the market**

| Transaction type/Listing index | Listed | | | Unlisted |
|---|---|---|---|---|
| | Italy | Germany | Other | |
| **A. Equity** | | | | |
| - Long positions | 1,333 | - | 39 | - |
| - Short positions | - | - | - | - |
| **B. Sales not yet settled on equity** | | | | |
| - Long positions | 143 | - | 6 | - |
| - Short positions | 187 | - | 12 | - |
| **C. Other derivatives on equity** | | | | |
| - Long positions | - | - | - | 2 |
| - Short positions | - | - | - | - |
| **D. Derivatives on stock indexes** | | | | |
| - Long positions | - | - | - | - |
| - Short positions | - | - | - | - |

## 2.2 Interest rate risk and price risk – Banking portfolio

### Qualitative information

### General aspects, management processes and measurement methods for interest rate risk and price risk

Interest rate risk

The interest rate risk for the banking book is defined as the current and prospective risk of profit/capital volatility due to unfavourable fluctuations in interest rates. From the definition of the interest rate risk, it is readily apparent that said risk is generated by the imbalances deriving from core business activities as a consequence of the difference in maturity and in the periods of redefinition of the interest rate conditions of assets and liabilities. The Bank's policy for managing the interest rate risk on the banking book is directed at stabilising the interest margin on the banking book.

The internal structures of the Bank monitor on a regular basis and provide adequate reporting of the interest rate risk on the banking book to the Senior Management and to the Board of Directors of the Bank. Stress tests are also carried out on a regular basis on the interest rate risk of the Repricing Gap and Duration Gap banking book. The operating limits to risk assumption were defined by the Board of Directors of the Bank and are reviewed by it on a regular basis.

The banking book comprises financial instruments (assets and liabilities) that are not in the trading portfolio. It is mainly made up of due to/from banks and customers as well as hedging derivatives.

As regards the banking book, attention is drawn to the following aspects concerning interest rate risk:

*Cash assets*

- debt securities, all in euro, total 1,348 million euros and are represented by the securities present in the portfolio of Financial assets designated at amortised cost, amounting to 994 million euros, and those present in the Financial assets designated at fair value through other comprehensive income portfolio, amounting to 354 million euros. Debt securities are mainly represented by Government bonds with 2020 maturity amounting to 723 million euros, with 2021 maturity amounting to 430 million euros, with 2024 maturity amounting to 76 million euros and with 2025 maturity amounting to 80 million euros;
- loans to banks (euro and foreign currencies), totalling 71 million euros, of which 47 million euros in deposits to banks and current accounts, mainly with floating rate, 7 million euros in compulsory floating rate reserve and 17 million euros in other loans;
- loans to customers (euro and foreign currencies), totalling 435 million euros, mainly consisting of current account credit lines of 170 million euros, loans to customers of 185 million euros, mostly with variable rate, and reverse repurchase agreements for 41 million euros.

*Cash liabilities*

- due to customers (euro and foreign currencies), totalling 1,791 million euros, of which 196 million euros in fixed rate time deposits (with 2020 maturity, for a nominal amount of 73 million euros, with 2021 maturity for a nominal amount of 49 million euros, with 2022 maturity for a nominal amount of 61 million euros and maturity by 2030 for a nominal amount of 13 million euros), 584 million euros in current accounts with floating rate or with revisable fixed rate, 985 million euros in repos on securities listed in regulated markets;
- due to banks (euro and foreign currencies) relate to loans and deposits totalling 0.3 million euros;
- debt securities totalling 25 million euros are floating-rate bonds (Euribor plus 30 b.p.) with maturity in October 2020.

Given the above, it may be concluded that the interest rate risk is low.

### Price risk

Price risk is the risk of capital losses on listed financial assets or assets that are similar to listed instruments due to fluctuations in the price of securities or to factors attributable to the peculiar situation of the issuer.

The Bank adopted special internal regulations that govern and limit the risk assumption with regard to some types of financial instruments and allow the continuous monitoring of the main risk indicators (VAR – Expected Shortfall – Volatility etc.)

### Quantitative information

### 1. Banking portfolio: distribution of financial assets and liabilities by residual duration (repricing date)

(Currency: euro)

| 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 | More than 10 years | Undated |
|---|---|---|---|---|---|---|---|---|
| **1. Cash assets** | **294,301** | **611,915** | **189,889** | **285,119** | **450,125** | **3,408** | **-** | **-** |
| 1.1 Debt securities | - | 440,801 | 176,466 | 281,437 | 448,893 | - | - | - |
| - with the option of early redemption | - | 3,094 | - | 5,152 | 18,443 | - | - | - |
| - other | - | 437,707 | 176,466 | 276,285 | 430,450 | - | - | - |
| 1.2 Loans to banks | 50,090 | 6,727 | - | - | - | - | - | - |
| 1.3 Loans to customers | 244,211 | 164,387 | 13,423 | 3,682 | 1,232 | 3,408 | - | - |
| - current accounts | 165,519 | - | - | - | - | - | - | - |
| - other loans | 78,692 | 164,387 | 13,423 | 3,682 | 1,232 | 3,408 | - | - |
| - with the option of early redemption | 44,839 | 123,830 | 13,423 | 2,058 | 257 | 300 | - | - |
| - other | 33,853 | 40,557 | - | 1,624 | 975 | 3,108 | - | - |
| **2. Cash liabilities** | **585,390** | **376,916** | **77,243** | **374,542** | **383,953** | **2,698** | **85** | **-** |
| 2.1 Due to customers | 585,021 | 376,916 | 52,330 | 374,542 | 383,953 | 2,698 | 85 | - |
| - current accounts | 571,004 | 20,410 | 2,940 | 40,305 | 132,298 | 131 | 85 | - |
| - other payables | 14,017 | 356,506 | 49,390 | 334,237 | 251,655 | 2,567 | - | - |
| - with the option of early redemption | - | - | - | - | - | - | - | - |
| - other | 14,017 | 356,506 | 49,390 | 334,237 | 251,655 | 2,567 | - | - |
| 2.2 Due to banks | 369 | - | - | - | - | - | - | - |
| - current accounts | 369 | - | - | - | - | - | - | - |
| - other payables | - | - | - | - | - | - | - | - |
| 2.3 Debt securities | - | - | 24,913 | - | - | - | - | - |
| - with the option of early redemption | - | - | - | - | - | - | - | - |
| - other | - | - | 24,913 | - | - | - | - | - |
| 2.4 Other liabilities | - | - | - | - | - | - | - | - |
| - with the option of early redemption | - | - | - | - | - | - | - | - |
| - other | - | - | - | - | - | - | - | - |
| **3. Financial derivatives** | **-** | **-** | **4,546** | **-** | **-** | **-** | **-** | **-** |
| 3.1 With underlying security | - | - | - | - | - | - | - | - |
| - Options | - | - | - | - | - | - | - | - |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |
| - Other derivatives | - | - | - | - | - | - | - | - |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |
| 3.2 Without underlying security | - | - | 4,546 | - | - | - | - | - |
| - Options | - | - | - | - | - | - | - | |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |
| - Other derivatives | - | - | 4,546 | - | - | - | - | - |
| + Long positions | - | - | 4,546 | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |
| **4. Other off-balance sheet transactions** | **35,338** | **6,404** | **-** | **15,222** | **6** | **8** | **-** | **-** |
| + Long positions | 6,849 | 6,404 | - | 15,222 | 6 | 8 | - | - |
| + Short positions | 28,489 | - | - | - | - | - | - | - |

**1. Banking portfolio: distribution of financial assets and liabilities by residual duration (repricing date)**

(Currency: other currencies)

| 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 | More than 10 years | Undated |
|---|---|---|---|---|---|---|---|---|
| **1. Cash assets** | **18,793** | **-** | **-** | **-** | **-** | **-** | **-** | |
| 1.1 Debt securities | - | - | - | - | - | - | - | - |
| - with the option of early redemption | - | - | - | - | - | - | - | - |
| - other | - | - | - | - | - | - | - | - |
| 1.2 Loans to banks | 14,500 | - | - | - | - | - | - | - |
| 1.3 Loans to customers | 4,293 | - | - | - | - | - | - | - |
| - current accounts | 4,293 | - | - | - | - | - | - | - |
| - other loans | | - | - | - | - | - | - | - |
| - with the option of early redemption | - | - | - | - | - | - | - | - |
| - other | - | - | - | - | - | - | - | - |
| **2. Cash liabilities** | **15,096** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| 2.1 Due to customers | 15,096 | - | - | - | - | - | - | - |
| - current accounts | 13,730 | - | - | - | - | - | - | - |
| - other payables | 1,366 | - | - | - | - | - | - | - |
| - with the option of early redemption | - | - | - | - | - | - | - | - |
| - other | 1,366 | - | - | - | - | - | - | - |
| 2.2 Due to banks | - | - | - | - | - | - | - | - |
| - current accounts | - | - | - | - | - | - | - | - |
| - other payables | - | - | - | - | - | - | - | - |
| 2.3 Debt securities | - | - | - | - | - | - | - | - |
| - with the option of early redemption | - | - | - | - | - | - | - | - |
| - other | - | - | - | - | - | - | - | - |
| 2.4 Other liabilities | - | - | - | - | - | - | - | - |
| - with the option of early redemption | - | - | - | - | - | - | - | - |
| - other | - | - | - | - | - | - | - | - |
| **3. Financial derivatives** | **-** | **-** | **4,546** | **-** | **-** | **-** | **-** | **-** |
| 3.1 With underlying security | - | - | - | - | - | - | - | - |
| - Options | - | - | - | - | - | - | - | - |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |
| - Other derivatives | - | - | - | - | - | - | - | - |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |
| 3.2 Without underlying security | - | - | 4,546 | - | - | - | - | - |
| - Options | - | - | - | - | - | - | - | - |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |
| - Other derivatives | - | - | 4,546 | - | - | - | - | - |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | 4,546 | - | - | - | - | - |
| **4. Other off-balance sheet transactions** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| + Long positions | - | - | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - | - | - |

## 2.3 Exchange rate risk

### Qualitative information



**A. General aspects, management processes and measurement methods for exchange rate risk**

Exchange rate risk management is the responsibility of the General Management and the Finance Department carries out trading, hedging and brokering activities within specific operating limits (amounts) with regard to both financial assets and liabilities denominated in foreign currencies in its own account or on behalf of customers.

Generally, the exposure to exchange rate risk is quite low and limited to temporary misalignments in opposite sign positions. The Bank keeps this risk to a minimum by monitoring the treasury exposure due to the time mismatching between asset and liability items.

**B. Exchange rate risk hedging activity**

At 31 December 2019, two hedges for GBP 2,300 thousand and CHF 2,000 thousand were open for the property.

## Quantitative information

### 1. Distribution by currency of assets, liabilities and derivatives

| Items | Currencies | | | | | |
|---|---|---|---|---|---|---|
| | US dollar | Pound sterling | Yen | Canadian dollar | Swiss franc | Other currencies |
| **A. Financial assets** | **7,518** | **7,659** | **129** | **78** | **9,159** | **134** |
| A.1 Debt securities | - | - | - | - | - | - |
| A.2 Equity | - | - | - | - | - | - |
| A.3 Loans to banks | 6,839 | 6,395 | 128 | 78 | 928 | 132 |
| A.4 Loans to customers | 679 | 1,264 | 1 | - | 2,346 | 2 |
| A.5 Other financial assets | - | - | - | - | 5,885 | - |
| **B. Other assets** | **35** | **25** | **-** | **-** | **-** | **-** |
| **C. Financial liabilities** | **8,467** | **4,753** | **29** | **-** | **1,847** | **1** |
| C.1 Due to banks | - | - | - | - | - | - |
| C.2 Due to customers | 8,467 | 4,753 | 29 | - | 1,847 | 1 |
| C.3 Debt securities | - | - | - | - | - | - |
| C.4 Other financial liabilities | - | - | - | - | - | - |
| **D. Other liabilities** | **-** | **-** | **-** | **-** | **-** | **-** |
| **E. Financial derivatives** | **3,058** | **2,906** | **4,592** | **-** | **1,904** | **-** |
| - Options | - | - | - | - | - | - |
| + Long positions | - | - | - | - | - | - |
| + Short positions | - | - | - | - | - | - |
| - Other derivatives | 3,058 | 2,906 | 4,592 | - | 1,904 | - |
| + Long positions | 1,867 | 34 | 2,296 | - | 37 | - |
| + Short positions | 1,191 | 2,872 | 2,296 | - | 1,867 | - |
| **Total assets** | **9,420** | **7,718** | **2,425** | **78** | **9,196** | **134** |
| **Total liabilities** | **9,658** | **7,625** | **2,325** | **-** | **3,714** | **1** |
| **Imbalance (+/-)** | **(238)** | **93** | **100** | **78** | **5,482** | **133** |

## Section 3 - Derivatives and hedging policies

### 3.1 Derivatives held for trading

### A. Financial derivatives

#### A.1 Financial derivatives held for trading: end-of-period notional values

| 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 offset agreements | Without offset agreements | | | With offset agreements | Without offset agreements | |
| **1. Debt securities and interest rates** | **-** | **-** | **-** | **-** | **-** | **-** | **4,686** | **4,216** |
| a) Options | - | - | - | - | - | - | - | - |
| b) Swaps | - | - | - | - | - | - | 471 | - |
| c) Forwards | - | - | - | - | - | - | - | - |
| d) Futures | - | - | - | - | - | - | 4,215 | 4,216 |
| e) Other | - | - | - | - | - | - | - | - |
| **2. Equity and stock indexes** | **-** | **-** | **2,415** | **1,828** | **-** | **-** | **2,394** | **1,339** |
| a) Options | - | - | 587 | - | - | - | 1,055 | - |
| b Swaps | - | - | - | - | - | - | - | - |
| c) Forwards | - | - | - | - | - | - | - | - |
| d) Futures | - | - | 1,828 | 1,828 | - | - | 1,339 | 1,339 |
| e) Other | - | - | - | - | - | - | - | - |
| **3. Currencies and gold** | **-** | **-** | **9,138** | **-** | **-** | **-** | **21,620** | **-** |
| a) Options | - | - | - | - | - | - | - | - |
| b) Swaps | - | - | - | - | - | - | - | - |
| c) Forwards | - | - | 9,138 | - | - | - | 21,620 | - |
| d) Futures | - | - | - | - | - | - | - | - |
| e) Other | - | - | - | - | - | - | - | - |
| **4. Goods** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **5. Other** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Total** | **-** | **-** | **11,553** | **1,828** | **-** | **-** | **28,700** | **5,555** |

### 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 | Without central counterparties | | |
| | | With offset agreements | Without offset agreements | | | With offset agreements | Without offset agreements | |
| **1. Positive fair value** | | | | | | | | |
| a) Options | - | - | 94 | - | - | - | 456 | - |
| b) Interest rate swaps | - | - | - | - | - | - | - | - |
| c) Cross currency swaps | - | - | - | - | - | - | - | - |
| d) Equity swaps | - | - | - | - | - | - | - | - |
| e) Forwards | - | - | 81 | - | - | - | 33 | - |
| f) Futures | - | - | - | - | - | - | - | - |
| g) Others | - | - | - | - | - | - | - | - |
| **Total** | **-** | **-** | **175** | **-** | **-** | **-** | **489** | **-** |
| **2. Negative fair value** | | | | | | | | |
| a) Options | - | - | - | - | - | - | - | - |
| b) Interest rate swaps | - | - | - | - | - | - | 8 | - |
| c) Cross currency swaps | - | - | - | - | - | - | - | - |
| d) Equity swaps | - | - | - | - | - | - | - | - |
| e) Forwards | - | - | 152 | - | - | - | 72 | - |
| f) Futures | - | - | - | - | - | - | - | - |
| g) Others | - | - | - | - | - | - | - | - |
| **Total** | **-** | **-** | **152** | **-** | **-** | **-** | **80** | **-** |

### A.3 OTC Financial derivatives held for trading: notional values, gross positive and negative fair value by counterparty

| Underlying assets | Central counterparties | Banks | Other financial institutions | Other entities |
|---|---|---|---|---|
| **Contracts not covered by offset agreements** | | | | |
| **1) Debt securities and interest rates** | | | | |
| - notional value | X | - | - | - |
| - positive fair value | X | - | - | - |
| - negative fair value | X | - | - | - |
| **2) Equity and stock indexes** | | | | |
| - notional value | X | - | 81 | 2.334 |
| - positive fair value | X | - | 19 | 75 |
| - negative fair value | X | - | - | - |
| **3) Currencies and gold** | | | | |
| - notional value | X | 6,842 | 2,296 | - |
| - positive fair value | X | 36 | 45 | - |
| - negative fair value | X | 116 | 36 | - |
| **4) Goods** | | | | |
| - notional value | X | - | - | - |
| - positive fair value | X | - | - | - |
| - negative fair value | X | - | - | - |
| **5) Other** | | | | |
| - notional value | X | - | - | - |
| - positive fair value | X | - | - | - |
| - negative fair value | X | - | - | - |
| **Contracts covered by offset agreements** | | | | |
| **1) Debt securities and interest rates** | | | | |
| - notional value | - | - | - | - |
| - positive fair value | - | - | - | - |
| - negative fair value | - | - | - | - |
| **2) Equity and stock indexes** | | | | |
| - notional value | - | - | - | - |
| - positive fair value | - | - | - | - |
| - negative fair value | - | - | - | - |
| **3) Currencies and gold** | | | | |
| - notional value | - | - | - | - |
| - positive fair value | - | - | - | - |
| - negative fair value | - | - | - | - |
| **4) Goods** | | | | |
| - 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 derivatives held for trading: notional values

| Underlying/Residual life | Up to 1 year | From over 1 year to 5 years | More than 5 years | Total |
|---|---|---|---|---|
| A.1 Financial derivatives on debt securities and interest rates | - | - | - | - |
| A.2 Financial derivatives on equity and stock indexes | 1,853 | 562 | - | 2,415 |
| A.3 Financial derivatives on currencies and gold | 9,138 | - | - | 9,138 |
| A.4 Financial derivatives on goods | - | - | - | - |
| A.5 Other financial derivatives | - | - | - | - |
| **Total 2019** | **10,991** | **562** | **-** | **11,553** |
| **Total 2018** | **28,430** | **228** | **42** | **28,700** |

## Section 4 - Liquidity risk

### Qualitative information

**A. General aspects, management processes and measurement methods for the liquidity risk**

The Bank defined the liquidity risk as the inability to meet own payment commitments. This risk is linked to the inability to raise funds (funding liquidity risk) or to the existence of limits for the disinvestment of assets (market liquidity risk).
Funding liquidity risk means the risk according to which the Bank is not able to meet its own payment commitments and obligations efficiently (compared to the "desired" risk profile and/or "fair" economic conditions) due to the inability to raise funds without compromising its core business activities and/or financial situation.
Market liquidity risk means the risk according to which the Bank is able to dispose of an asset only by incurring capital losses due to the low liquidity of the reference market and/or due to the timing with which the transaction will be carried out.

The analysis of the Bank's financial instruments (assets and liabilities) highlights that, overall, liquidity risk is low. In fact, the loans portfolio is mostly made up of short-term funding sources both on the interbank market and with regard to customers (as it comprises mainly on-demand loans that are directly connected with the private banking activity). Most of the securities trading portfolio is made up of highly liquid debt securities issued by countries of the Eurozone.
Concerning the sources of funding, they comprise current accounts, time deposits, repos and the issue of floating rate bonds. The concentration of the funding sources, present on primary and consolidated customers, is the consequence of the business model adopted by the Bank that entails issuing loans and providing services to highly selected customers.

The Bank's overall exposure to liquidity risk is therefore maintained at modest levels thanks to the structure of the financial portfolio described above.

The ability to meet commitments promptly and economically is guaranteed by carefully monitoring the position through the use of information systems that ensure the ongoing monitoring of the liquidity requirements that are managed, where necessary, by resorting to the interbank deposits and, alternatively, to the repos market.

On the basis of the supervisory provisions, the Bank has defined the guidelines on the governance and management of liquidity risk and the methods of stress tests to be carried out. More specifically, the roles and responsibilities have been defined by the corporate bodies involved, the calculation methods of the LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio) and the criteria to be applied in carrying out stress testing.
The short-term liquidity management policy, monitoring using the LCR indicator, includes all limits and alert thresholds that allow, both in normal market conditions and in stressful periods, for the measurement of the liquidity risk to which it is exposed. The liquidity needed to cope with any structural imbalance in the breakdown of assets and liabilities along a one-year timeframe, instead, is monitored through the NSFR indicator.

Within the liquidity risk management process, the Bank's Risk Control organisational unit:

- periodically carries out the stress tests identified by the Bank for risk measurement, performing the measurements necessary to determine the value of the LCR - (Liquidity Coverage Ratio) - indicator (aimed at assuring that the Bank holds an amount of high quality liquid assets that enables it to withstand stress situations on the funding market for a time horizon of 30 days) and the NSFR - Net Stable Funding Ratio - indicator (aimed at assuring a structural balance of the financial statements of the bank);
- prepare the report to be sent to the Senior Management in which the liquidity risk exposure determined on the basis of stress tests is illustrated.

The analyses carried out at 31 December 2019 show that the potential outgoing cash flows are entirely covered by the inflows and by the liquidity buffer held by the Bank, and therefore no risk situations are noted.

## Quantitative information

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

(Currency: euro)

| Item/Time frame | 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 | More than 5 years | Undated |
|---|---|---|---|---|---|---|---|---|---|---|
| **Cash assets** | **281,095** | **40,557** | **58** | **41,292** | **437,954** | **23,910** | **350,443** | **586,056** | **146,125** | **6,728** |
| A.1 Treasury bonds | - | - | - | - | 421,204 | 20,509 | 327,485 | 505,549 | 80,001 | - |
| A.2 Other debt securities | - | - | - | 5,145 | 11,125 | 28 | 5,205 | 18,972 | - | - |
| A.3 UCI units | 26,576 | - | - | - | - | - | - | - | - | - |
| A.4 Loans | 254,519 | 40,557 | 58 | 36,147 | 5,625 | 3,373 | 17,753 | 61,535 | 66,124 | 6,728 |
| - Banks | 50,101 | - | - | - | - | - | - | - | - | 6,728 |
| - Customers | 204,418 | 40,557 | 58 | 36,147 | 5,625 | 3,373 | 17,753 | 61,535 | 66,124 | - |
| **Cash liabilities** | **585,070** | **120** | **4,274** | **9,034** | **363,502** | **53,765** | **398,154** | **383,953** | **2,783** | **-** |
| B.1 Deposits and current accounts | 571,053 | 120 | 4,274 | 8,547 | 7,484 | 2,947 | 40,432 | 132,298 | 216 | - |
| - Banks | 369 | - | - | - | - | - | - | - | - | - |
| - Customers | 570,684 | 120 | 4,274 | 8,547 | 7,484 | 2,947 | 40,432 | 132,298 | 216 | - |
| B.2 Debt securities | - | - | - | - | - | - | 24,913 | - | - | - |
| B.3 Other liabilities | 14,017 | - | - | 487 | 356,018 | 50,818 | 332,809 | 251,655 | 2,567 | - |
| **Off-balance sheet transactions** | **31,789** | **3,323** | **-** | **-** | **6,970** | **6,600** | **18,715** | **12,364** | **10,963** | **-** |
| C.1 Financial derivatives with exchange of capital | - | 3,323 | - | - | 4,592 | 4,546 | - | - | - | - |
| - Long positions | - | 1,384 | - | - | 2,296 | 4,546 | - | - | - | - |
| - Short positions | - | 1,939 | - | - | 2,296 | - | - | - | - | - |
| C.2 Financial derivatives without exchange of capital | 94 | - | - | - | - | - | - | - | - | - |
| - Long positions | 94 | - | - | - | - | - | - | - | - | - |
| - Short positions | - | - | - | - | - | - | - | - | - | - |
| C.3 Deposits and loans to be received | - | - | - | - | - | - | - | - | - | - |
| - Long positions | - | - | - | - | - | - | - | - | - | - |
| - Short positions | - | - | - | - | - | - | - | - | - | - |
| C.4 Commitments to lend funds | 30,643 | - | - | - | 2,327 | 87 | 18,272 | 2,958 | 2,700 | - |
| - Long positions | 2,150 | - | - | - | 2,327 | 87 | 18,272 | 2,958 | 2,700 | - |
| - Short positions | 28,493 | - | - | - | - | - | - | - | - | - |
| C.5 Financial guarantees given* | 1,052 | - | - | - | 51 | 1,967 | 443 | 9,406 | 8,263 | - |
| 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 | - | - | - | - | - | - | - | - | - | - |

Bank "Undated loans" refer to the deposit in the Compulsory reserve.
Item C.1 includes the value of the purchases and sales of securities not yet settled.

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

(Currency: other currencies)

| Item/Time frame | 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 | More than 5 years | Undated |
|---|---|---|---|---|---|---|---|---|---|---|
| **Cash assets** | **18,803** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| A.1 Treasury bonds | - | - | - | - | - | - | - | - | - | - |
| A.2 Other debt securities | - | - | - | - | - | - | - | - | - | - |
| A.3 UCI units | - | - | - | - | - | - | - | - | - | - |
| A.4 Loans | 18,803 | - | - | - | - | - | - | - | - | - |
| - Banks | 14,503 | - | - | - | - | - | - | - | - | - |
| - Customers | 4,300 | - | - | - | - | - | - | - | - | - |
| **Cash liabilities** | **15,096** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| B.1 Deposits and current accounts | 13,730 | - | - | - | - | - | - | - | - | - |
| - Banks | - | - | - | - | - | - | - | - | - | - |
| - Customers | 13,730 | - | - | - | - | - | - | - | - | - |
| B.2 Debt securities | - | - | - | - | - | - | - | - | - | - |
| B.3 Other liabilities | 1,366 | - | - | - | - | - | - | - | - | - |
| **Off-balance sheet transactions** | **-** | **3,323** | **-** | **-** | **4,592** | **4,546** | **-** | **-** | **-** | **-** |
| C.1 Financial derivatives with exchange of capital | - | 3,323 | - | - | 4,592 | 4,546 | - | - | - | - |
| - Long positions | - | 1,939 | - | - | 2,296 | - | - | - | - | - |
| - Short positions | - | 1,384 | - | - | 2,296 | 4,546 | - | - | - | - |
| C.2 Financial derivatives without exchange of capital | - | - | - | - | - | - | - | - | - | - |
| - Long positions | - | - | - | - | - | - | - | - | - | - |
| - Short positions | - | - | - | - | - | - | - | - | - | - |
| C.3 Deposits and loans to be received | - | - | - | - | - | - | - | - | - | - |
| - Long positions | - | - | - | - | - | - | - | - | - | - |
| - Short positions | - | - | - | - | - | - | - | - | - | - |
| C.4 Commitments to lend funds | - | - | - | - | - | - | - | - | - | - |
| - Long positions | - | - | - | - | - | - | - | - | - | - |
| - Short positions | - | - | - | - | - | - | - | - | - | - |
| C.5 Financial guarantees given* | - | - | - | - | - | - | - | - | - | - |
| C.6 Financial guarantees received | - | - | - | - | - | - | - | - | - | - |
| C.7 Credit derivatives with exchange of capital | - | - | - | - | - | - | - | - | - | - |
| - Long positions | - | - | - | - | - | - | - | - | - | - |
| - Short positions | - | - | - | - | - | - | - | - | - | - |
| C.8 Credit derivatives without exchange of capital | - | - | - | - | - | - | - | - | - | - |
| - Long positions | - | - | - | - | - | - | - | - | - | - |
| - Short positions | - | - | - | - | - | - | - | - | - | - |

## Section 5 - Operating risk

### Qualitative and quantitative informations

### A. General aspects, management processes and measurement methods for operating risk

Operating risk is defined as the risk to incur losses arising from the inadequacy or weakness in procedures, human resources and internal systems, or from external events. These include losses arising from frauds, human errors, interruptions in business activities, unavailability of systems, contractual default, natural and/or geopolitical disasters. The operating risk includes the legal risk, while it does not include strategic and reputational risks.

The Bank, albeit adopting a standardised calculation method of the operating risks, carries out their analysis/self-assessment. In order to standardise the quantification process of operating risks, the Bank has also formalised the adopted method in the document called "Management of operating risks in Banca Finnat".

The analysis of operating risks and the identification of processes with major impact are periodically carried out by the Risk Control Organisational Unit to detect in a timely manner the business areas and the processes with higher operating risk in order to take the necessary corrective actions.

In particular, the analysis focuses on the identification, within the above-mentioned operating procedures, of the activities that may generate operating risks for the Bank and of the related controls to mitigate the risks themselves.

With regards to the quantification of internal capital supporting the operating risk, as previously mentioned, the Bank uses the basic approach under the scope of determining prudential equity requirements, as prescribed by the provisions per Regulation EU 575/2013.

In this context, the internal control function verifies that said procedures, and any revisions thereof, are correctly implemented and are observed, as well as ensuring that they comply with regulations in force.

## Part F – Information on shareholders' equity

### Section 1 – Shareholders' equity

**Qualitative and quantitative informations**

The Bank's shareholders' equity comprises the Share Capital, Reserves, Treasury Shares, Valuation Reserves and Profit (loss) for the year. All financial instruments that are not classified as financial assets or liabilities according to the IAS/IFRS are considered part of the equity.

For supervisory purposes, the relevant aggregate equity is calculated based on the applicable regulations laid down by the Bank of Italy and constitutes the reference control data of the prudential supervisory regulations.

Pursuant to the above-mentioned regulations, the Bank is required to comply with a minimum supervisory ratio of 8%, calculated by reference to credit and market prices.

The net equity of the Bank totals 237,697 thousand euros. It is detailed in the table below.

### B.1 Equity: breakdown

| Items/Amounts | Amount 31.12.2019 | Amount 31.12.2018 |
|---|---|---|
| 1. Share capital | 72,576 | 72,576 |
| 2. Share issue premiums | - | - |
| 3. Reserves | 121,280 | 118,855 |
| - retained earnings | 117,039 | 114,570 |
| a) legal reserve | 11,486 | 11,181 |
| b) statutory reserve | - | - |
| c) treasury shares | 14,059 | 14,059 |
| d) other | 91,494 | 89,330 |
| - other | 4,241 | 4,285 |
| 4. Capital instruments | - | - |
| 5. (Treasury shares) | (14,059) | (14,059) |
| 6. Valuation reserves: | 57,122 | 43,770 |
| - Equity designated at fair value through other comprehensive income | 55,638 | 50,345 |
| - Hedges of equity designated at fair value through other comprehensive income | - | - |
| - Financial assets (other than equity) designated at fair value through other comprehensive income | 373 | (7,739) |
| - Property and equipment | - | - |
| - Intangible assets | - | - |
| - Foreign investment hedge | - | - |
| - Cash flow hedge | - | - |
| - Hedging instruments (non-designated elements) | - | - |
| - Foreign exchange differences | - | - |
| - Non-current assets held for sale and discontinued operations | - | - |
| - Financial liabilities designated at fair value through profit or loss (changes of own credit rating) | - | - |
| - Actuarial profit (loss) on defined benefit pension plans | (253) | (200) |
| - Share of valuation reserves connected with investee companies carried at equity | - | - |
| - Special revaluation regulations | 1,364 | 1,364 |
| 7. Profit (loss) for the year | 778 | 6,098 |
| **Total** | **237,697** | **227,240** |

Item 6. Valuation reserves, totalling 57,122 thousand euros, comprises the sub-items:

- Equity designated at fair value through other comprehensive income amounting to 55,638 thousand euros of which Equity investments in subsidiaries measured at fair value amounting to 51,218 thousand euros (InvestiRE SGR S.p.A. 40,782 thousand euros, Finnat Fiduciaria S.p.A. 3,666 thousand euros, Finnat Gestioni S.A. 5,466 thousand euros and Natam Management Company S.A. 1,304 thousand euros) and other equity for 4,420 thousand euros;
- Financial assets (other than equity) designated at fair value through other comprehensive income: almost exclusively Government bonds for 373 thousand euros;
- Actuarial profit (loss) on defined benefit pension plans: the portion of the IAS provisions for termination indemnities that, in accordance with IAS 19, is recognised in valuation reserves in the amount of -253 thousand euros;

Special revaluations regulations: revaluations made on owned property in accordance with the provisions of Italian Laws no. 576 of 2 December 1975, no. 72 of 19 March 1983, no. 413 of 30 December 1991 for a total of 1,356 thousand euros and a further revaluation of 8 thousand euros performed in FY 1974.

### B.2 Valuation reserves of financial assets designated at fair value through other comprehensive income: breakdown

| Assets/amounts | Total 31.12.2019 | | Total 31.12.2018 | |
|---|---|---|---|---|
| | Positive reserve | Negative reserve | Positive reserve | Negative reserve |
| 1. Debt securities | 670 | 297 | 1,012 | 8,751 |
| 2. Equity | 56,124 | 486 | 50,408 | 63 |
| 3. Loans | - | - | | |
| **Total** | **56,794** | **783** | **51,420** | **8,814** |

The reserve of item 1. Debt securities mainly concerns the fair value adjustment, after taxes, on total Government bonds.

The reserve of item 2. Equity also includes the adjustment to fair value, net of taxes, of equity investments in subsidiaries by 51,218 thousand euros.

### B.3 Valuation reserves of financial assets designated at fair value through other comprehensive income: annual changes

| | Debt securities | Equity | Loans |
|---|---|---|---|
| **1. Initial amount** | **(7,739)** | **50,345** | **-** |
| **2. Positive changes** | **8,594** | **6,598** | **-** |
| 2.1 Increases in fair value | 7,615 | 6,598 | - |
| 2.2 Losses for credit risk | 93 | X | - |
| 2.3 Reclassification of negative reserve to the income statement | 886 | X | - |
| 2.4 Transfers to other shareholders' equity components (equity) | - | - | - |
| 2.5 Other changes | - | - | - |
| **3. Negative changes** | **482** | **1,305** | **-** |
| 3.1 Decreases in fair value | 7 | 1,305 | - |
| 3.2 Recoveries on credit risk | 361 | - | - |
| 3.3 Reclassification of positive reserve to the income statement: from disposal | 114 | X | - |
| 3.4 Transfers to other shareholders' equity components (equity) | - | - | - |
| 3.5 Other changes | - | - | - |
| **4. Final amount** | **373** | **55,638** | **-** |

The comment of changes in Valuation reserves of financial assets designated at fair value through other comprehensive income is provided in Part D - Statement of comprehensive income.

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

Reserves related to defined benefit plans are negative by 253 thousand euros and increased by 53 thousand euros compared to 2018 (negative by the amount of 200 thousand euros).

### Section 2 – Own funds and capital ratios

Please refer to the disclosure on own funds and on capital adequacy contained in the public disclosure ("Third Pillar") of the Banca Finnat Group.

## Part H – Related party transactions

In terms of related party transactions, the Bank has complied with the Regulations for related party transactions, approved by the Board of Directors on 2 August 2013.

For further information on related party transactions carried out during the financial year, please refer to the paragraph in the Directors' Report on Operations.

As required by IAS 24, information on related party transactions is provided below.

### 1. Information on remuneration of key executives

As a result of the latest amendments made by Consob to its resolution no. 11971 of 14 May 1999 for the aforesaid information, please refer to the "Report on Remuneration" prepared in accordance with Article 123-ter of the Italian Consolidated Financial Law and according to form 7-bis of Annex 3A of the Issuers' Regulation.

### 2. Information on related party transactions

The following table shows the assets, liabilities, guarantees and commitments at 31 December 2019 separately for different types of related parties under IAS 24.

| BALANCE SHEET | Financial receivables (payables) | Receivables (payables) for the domestic consolidated tax system | Other receivables (payables) | Sureties issued | Available margins on sureties and irrevocable credit lines granted |
|---|---|---|---|---|---|
| **SUBSIDIARIES** | | | | | |
| InvestiRE SGR S.p.A. | (6,726) | 667 | 5,062 | 4,778 | (15,222) |
| Finnat Fiduciaria S.p.A. | (1,038) | (12) | - | - | - |
| Natam Management Company S.A. | - | - | 128 | - | - |
| **ASSOCIATED COMPANIES** | | | | | |
| Imprebanca S.p.A. | (369) | - | - | 23 | - |
| **MANAGEMENT WITH STRATEGIC RESPONSIBILITIES AND COMPANY REPRESENTATIVES** | **(4,351)** | **-** | **-** | **-** | **-** |
| **OTHER RELATED PARTIES** | **(9,727)** | **-** | **262** | **1** | **-** |

Receivables (payables) for the domestic consolidated tax system and Other receivables (payables) are included in the financial statement items "Other assets" and "Other liabilities".

With regard to subsidiaries and associated companies, the breakdown of main income statement items is also shown.

| INCOME STATEMENT | Other operating income (Other administrative expenses) | Interest income (expense) | Dividends | Fee and commission income (expense) |
|---|---|---|---|---|
| **SUBSIDIARIES** | | | | |
| InvestiRE SGR S.p.A. | 25 | (26) | 3,520 | - |
| Finnat Fiduciaria S.p.A. | 4 | - | 80 | 15 |
| Finnat Gestioni S.A. | 1 | - | 290 | - |
| Natam Management Company S.A. | - | - | - | 229 |
| **ASSOCIATED COMPANIES** | | | | |
| Imprebanca S.p.A. | | 2 | - | - |

### Part L – Segment reporting

The Bank draws up the segment reporting in part L of the Notes to the Consolidated Financial Statements, exercising the option granted by the Circular Letter of the Bank of Italy no. 262 of 22 December 2005 and subsequent amendments.

## Part M – Disclosure on leases

The main changes and impacts relating to the adoption of the new accounting standard IFRS 16 are commented on in a specific section in Part A - Accounting policies Section 2 - Other aspects.
This section contains the information required by IFRS 16 which is not present in the other parts of the financial statements.

### Section 1 - Lessee

#### Qualitative information

At 31 December 2019, there were 42 leases, of which i) 14 relating to buildings; ii) 2 relating to electronic systems; iii) 26 relating to other types (of which 23 cars).

A total of 95.7% of the value of rights of use booked to balance sheet assets refers to property leases, which primarily include properties for office and bank branch use and, to a lesser extent, employee accommodation. The property leases recognised in rights of use, all relating to assets located in Italy, have durations exceeding 12 months and typically have renewal or extinguishment options that can be exercised by the lessor and the lessee according to the legal or contractual provisions. The contracts do not make provision for forward purchases of properties; in addition, the leases do not envisage significant restoration costs.
As set out in the Banca Finnat Group's Policy, adopted by the Group companies to govern the methods of identification, evaluation and accounting recognition of leases, in the event of the signing of new rental contracts, the duration of the lease is determined by taking into account the expiry of the contracts and any options set out in the lease, such as, for example, lease extension or termination options. In particular, in the largely prevailing cases of leases drafted according to the provisions of Law 392/1978, with a contractual duration of 6 years and the option of tacitly renewing the six-year lease by six years, the total duration of the lease is set at 12 years. In cases in which the analysis of the individual leases results in new elements or specific situations, this general indication is superseded.

Leases relating to electronic system concern 0.4% of the value of rights of use recognised in balance sheet assets.

Leases relating to other types concern 3.9% of the value of rights of use recognised in balance sheet assets and refer, for 3.4%, to long-term rental contracts relating to cars provided to employees, directors (personal and business use) or made available to the Bank branches and other Group offices, and for the remainder to ATMs and TCRs pertaining exclusively to the Bank. Almost all car contracts have a five-year duration and do not include an option to buy the asset. Furthermore, no provision is made for renewal options but the contracts can be extended based on management of the fleet of cars; in the event of early termination, a penalty will generally be applied. Lease fees are paid early on a monthly basis.

In 2019, Banca Finnat did not carry out any sale or leaseback transactions.

As regards sub-leasing, bear in mind that the Bank has a single sub-lease in place on a portion of a property for an insignificant amount.

Based on the provisions of the Policy, cited above, the Banca Finnat Group avails itself of the exemptions set out in IFRS 16 and, subsequently: i) the provisions regarding the recognition, initial measurement, subsequent measurement, presentation and disclosure in the financial statements of short-term leases with a duration of equal to or less than 12 months and leases in which the underlying asset is of a low value are not applied (low value means 5 thousand euros); ii) the provisions of IFRS 16 do not apply to leases of intangible assets.

**Quantitative informations**

Part B - Assets in the Notes to the Financial Statements shows, respectively, the information on the rights of use acquired:

- Table 8.1 - Property and equipment used in operation: breakdown of assets measured at cost
- Table 8.6 - Property and equipment used in operation: annual changes and Table IFRS 16 - Property and equipment used in operation: annual changes

Part B - Liabilities shows lease payables:

- Table 1.2 - Financial liabilities designated at amortised cost: breakdown by product of due to customers
- Table 1.6 - Lease payables

In particular, rights of use acquired under a lease amount to 8,973 thousand euros at 31 December 2019, of which 8,584 thousand euros relating to property leases. Lease payables amounted to 9,176 thousand euros. Please refer to said sections for more details.

Lastly, please refer to the specific sections contained in Part C of the Notes to the Financial Statements for information concerning:

- interest income and interest expense relating to lease payables (Section 1 Interest – Tables 1.1 and 1.3);
- depreciation of right-of-use assets (Section 13 - Net losses/recoveries on property and equipment).

**Section 2 - Lessor**

As of today, the Bank has no transactions in place involving the transfer of assets, either under an operating or finance lease.

**Significant non-recurring operations and positions or transactions deriving from atypical and/or unusual operations**

Pursuant to the Consob Communication DEM/6064293 of 28 July 2006, it should be noted that:

- in 2019, no non-recurring events occurred or were carried out, meaning events or operations that do not usually take place, in connection with ordinary business operations;
- no atypical and/or unusual transactions took place during 2019, either within the Group or with related or third parties. Atypical and/or unusual transactions are those operations which, due to their magnitude/importance, to the nature of the counterparty, to the subject matter of the transaction and to the method for determining the transfer price and time frame (close to the year-end), may give rise to doubts as to: the accuracy/completeness of the information set out in the financial statements, any conflict of interest, the safeguarding of the company's net worth and the protection of minority interests.

The most significant Group transactions in the 2019 financial year are commented on in a special section of the Directors' Report on Operations.

# ATTACHMENTS TO THE FINANCIAL STATEMENTS

## STATEMENT OF CHANGES IN EQUITY INVESTMENTS

**Statement of changes in equity investments**
(amounts in euros)

| | 31.12.2018 | |
|---|---|---|
| | No. of shares or units | Value |
| **Subsidiaries** | | |
| Finnat Fiduciaria S.p.A. | 300,000 | 5,597,020 |
| InvestiRE SGR S.p.A. | 7,409 | 55,344,287 |
| Finnat Gestioni S.A. | 525 | 3,073,217 |
| Natam Management Company S.A. | 750 | 2,215,493 |
| **Total Subsidiaries (A)** | | **66,230,017** |
| **Companies subject to joint control** | | |
| Liphe S.p.A. | | |
| Aldia S.p.A. | | |
| **Total companies subject to joint control (B)** | | - |
| Companies subject to significant influence | | |
| Prèvira Invest SIM S.p.A. in liquidation | 30,000 | 57,424 |
| Imprebanca S.p.A. | 10,000,000 | 6,175,943 |
| **Total companies subject to significant influence (C)** | | **6,233,367** |
| **Total (A+B+C)** | | **72,463,384** |

| Acquisitions, subscriptions and reclassifications | | Sales and liquidations | | Profit (loss) | Changes in fair value/ impairment | 31.12.2019 | |
|---|---|---|---|---|---|---|---|
| No. of shares or units | Value | No. of shares or units | Value | | | No. of shares or units | Value |
| | | | | | | | |
| - | - | - | - | - | 2,173,256 | 300,000 | 7,770,276 |
| - | - | - | - | - | (687,799) | 7,409 | 54,656,488 |
| - | - | - | - | - | 2,811,834 | 525 | 5,885,051 |
| - | - | - | - | - | (143,156) | 750 | 2,072,337 |
| **-** | **-** | **-** | **-** | **-** | **4,154,135** | | **70,384,152** |
| | | | | | | | |
| 750,000 | 750,000 | - | - | - | (600,000) | 750,000 | 150,000 |
| 1,300,000 | 1,300,000 | - | - | - | (910,000) | 1,300,000 | 390,000 |
| **2,050,000** | **2,050,000** | **-** | **-** | **-** | **(1,510,000)** | | **540,000** |
| | | | | | | | |
| - | - | - | - | - | (48,024) | 30,000 | 9,400 |
| - | - | - | - | - | - | 10,000,000 | 6,175,943 |
| **-** | **-** | **-** | **-** | **-** | **(48,024)** | | **6,185,343** |
| **2,050,000** | **2,050,000** | **-** | **-** | **-** | **2,596,111** | | **77,109,495** |

**Relazione del Collegio sindacale all'Assemblea degli Azionisti di Banca Finnat Euramerica SpA**
**(ai sensi dell'Art. 153 D.Lgs. 24 febbraio 1998 n. 58)**
**Esercizio chiuso il 31 dicembre 2019**

Signori Azionisti,

il Collegio Sindacale di Banca Finnat Euramerica S.p.A., ai sensi dell'art. 153 del D.Lgs. n. 58 del 1998 è chiamato a riferire all'Assemblea degli Azionisti, convocata per l'approvazione del bilancio, sull'attività di vigilanza svolta nel corso dell'esercizio nell'adempimento dei propri doveri, sulle omissioni e sui fatti censurabili eventualmente rilevati e sui risultati dell'esercizio sociale. Il Collegio è altresì chiamato ad avanzare eventuali proposte in ordine al bilancio e alla sua approvazione.

La presente relazione riferisce sull'attività svolta dal Collegio della Società nell'esercizio chiuso al 31 dicembre 2019.

Il Collegio in carica alla data della presente Relazione è stato nominato dall'Assemblea degli Azionisti del 27 aprile 2018 ed è composto da Alberto De Nigro (Presidente), Barbara Fasoli Braccini (Sindaco effettivo) e Francesco Minnetti (Sindaco effettivo).

Nel corso dell'esercizio chiuso il 31 dicembre 2019, il Collegio ha svolto l'attività di vigilanza prevista dalla legge (e, in particolare, dall'art. 149 del TUF e dall'art. 19 del D.Lgs. n. 39 del 2010), tenuto conto dei principi di comportamento del Collegio Sindacale di società quotate raccomandati dal Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili, e delle disposizioni Consob in materia di controlli societari.

La revisione legale dei conti spetta, invece, alla società E&Y S.p.A. alla quale, in data 29 aprile 2011, è stata affidata dall'Assemblea degli Azionisti per un novennio detta attività.

**Attività di vigilanza sull'osservanza della legge e dello statuto**

Il Collegio ha acquisito le informazioni strumentali allo svolgimento dei compiti di vigilanza ad esso attribuiti mediante la partecipazione alle riunioni del Consiglio di Amministrazione, alle audizioni del Management della Società e del Gruppo, agli incontri con la Società di Revisione, all'analisi dei flussi informativi acquisiti dalle competenti strutture aziendali e dalle Funzioni di Controllo (in particolare Compliance, Antiriciclaggio, Internal Auditing e Controllo Rischi), nonché ulteriori attività di controllo.

L'attività di vigilanza sopra descritta è stata svolta nel corso di 33 riunioni del Collegio, nonché assistendo a tutte le riunioni del Consiglio di Amministrazione, che sono state tenute in numero complessivo di 17. Inoltre, il Collegio ha partecipato alle 13 riunioni del Comitato Rischi e alle 6 riunioni del Comitato Remunerazioni e alle Assemblee del 24 aprile 2019 e del 1° agosto 2019.

Si fa presente infine che il Comitato per le Nomine si è riunito n. 3 volte nel corso dell'anno.

Si precisa, inoltre, che nel corso dell'attività di vigilanza svolta e sulla base delle informazioni ottenute dalla Società di Revisione, non sono state rilevate omissioni, fatti censurabili o irregolarità o comunque fatti significativi, tali da richiederne la segnalazione agli organi di controllo.

Inoltre, il Collegio:

- ai sensi dell'art. 150, commi 1 e 3 del TUF:

(i) ha ottenuto dagli Amministratori adeguate informazioni sull'attività svolta e sulle operazioni di maggior rilievo economico, finanziario e patrimoniale effettuate dalla Società e dalle società controllate, assicurandosi che le azioni deliberate e poste in essere fossero conformi alla legge e allo statuto sociale, non fossero in potenziale conflitto di interessi o in contrasto con le delibere assunte dall'Assemblea, non fossero manifestamente imprudenti o azzardate o tali da compromettere l'integrità del patrimonio aziendale.

In particolare, si segnalano – come già fatto dagli Amministratori nella loro Relazione alla quale si rinvia per maggiori approfondimenti – le seguenti operazioni ed eventi di particolare rilevanza nel 2019:

- in data 24 aprile 2019 l'Assemblea degli Azionisti della Banca:

- ha approvato il Bilancio al 31 dicembre 2018 e la distribuzione agli Azionisti di un dividendo lordo pari a Euro 0,01 per azione con data pagamento a partire dal 14 maggio 2019 (stacco cedola in data 13 maggio 2019);
- ha approvato la Politica di Remunerazione redatta ai sensi dell'art. 123-ter del D.Lgs. 58/98;

- In data 27 giugno 2019, in ottemperanza agli obblighi previsti dai patti parasociali, sottoscritti in data 15 marzo 2019 con la società Bio-On S.p.A., le assemblee di Liphe S.p.A. e Aldia S.p.A. hanno deliberato la nomina nei propri organi societari di esponenti designati da Banca Finnat, e pertanto, a partire dalla relazione finanziaria semestrale consolidata al 30 giugno 2019, Liphe S.p.A. e Aldia S.p.A. sono state classificate dalla Banca come imprese in joint venture e pertanto entrambe le partecipazioni, pari al 10% del capitale sociale di ciascuna, sono state contabilizzate nel bilancio consolidato con il metodo del patrimonio netto, come previsto dal principio contabile IAS 28. Successivamente, in ossequio all'aumento del capitale sociale da Euro 50 migliaia ad Euro 13 milioni in Aldia S.p.A. e da Euro 50 migliaia a Euro 7,5 milioni in Liphe S.p.A. deliberato il 13 settembre 2019, Banca Finnat ha versato, in data 30 settembre 2019, Euro 1.295 migliaia in Aldia S.p.A. e Euro 745 migliaia in Liphe S.p.A..
- In data 1° luglio 2019, nell'ambito delle linee strategiche finalizzate allo sviluppo dell'attività di Private banking, da realizzarsi attraverso l'ampliamento della base clienti e il rafforzamento dell'area Nord Italia, come previsto dal Piano Industriale, la Banca ha trasferito la propria sede in Milano da via Meravigli n. 3 a Via Manzoni n. 30.
- In data 1° agosto 2019 l'Assemblea degli Azionisti di Banca Finnat Euramerica - a seguito della imminente scadenza dell'incarico novennale a suo tempo conferito alla società di revisione E&Y S.p.A. - ha deliberato, tenuto conto della Raccomandazione espressa dal Collegio sindacale, il conferimento alla Società di Revisione KPMG S.p.A., per gli esercizi dal 2020 al 2028, dell'incarico per la revisione legale del Bilancio di esercizio individuale e consolidato e per la revisione contabile limitata del Bilancio consolidato semestrale abbreviato, nonché per i controlli contabili.

- La diffusione da parte dei mezzi di informazione di un report, riguardante la società Bio-On, prodotto da un fondo speculativo a fine luglio 2019, nel quale si accusava la medesima Bio-On di presunte irregolarità contabili e false comunicazioni sociali inerenti la capacità produttiva e la qualità dei prodotti offerti, ha determinato una rilevante riduzione del valore di mercato delle azioni della società stessa, nonché l'intervento da parte degli organi competenti finalizzato a verificare la veridicità o l'infondatezza di tali accuse.

  Nel mese di ottobre 2019 la Procura della Repubblica di Bologna ha contestato alle figure apicali della società e ad altri soggetti la commissione dei reati di false comunicazioni sociali e manipolazione del mercato. Su incarico della Procura della Repubblica, la Guardia di Finanza ha sottoposto a sequestro beni e risorse finanziarie di alcuni degli indagati. Contestualmente Borsa Italiana S.p.A. ha sospeso il titolo azionario della società Bio-On S.p.A. dalle negoziazioni sul mercato AIM Italia. Il Tribunale di Bologna ha, inoltre, nominato un amministratore giudiziario con l'incarico di verificare la situazione complessiva – contabile, economica e finanziaria – della società, nonché di verificare la persistenza della continuità aziendale. A seguito di istanza presentata dall'amministratore giudiziario, in data 20 dicembre 2019 il Tribunale di Bologna con sentenza n.137 ha dichiarato il fallimento della società Bio-On nominando il Giudice Delegato e due curatori fallimentari.

  Alla data del 31 dicembre 2019 Banca Finnat vantava un credito nei confronti della società Bio-On S.p.A., per un importo complessivo di circa Euro 15 milioni. Il rientro del finanziamento era previsto con pagamenti dilazionati fino al 15 settembre 2020. Tuttavia la prima tranche, pari a Euro 7 milioni, con scadenza 30 settembre 2019, non è stata rimborsata e, pertanto, l'importo complessivo del finanziamento era stato classificato tra i forborne non performing come inadempienza probabile.

  A seguito della dichiarazione di apertura della liquidazione giudiziale il rimborso del Credito avverrà secondo le regole della procedura concorsuale e conseguentemente il Consiglio di Amministrazione ha deliberato, in sede di redazione del Bilancio, il passaggio a sofferenza del credito verso la società Bio-On a far data dal 31 dicembre 2019 e la relativa rettifica di valore di € 12.197.000, procedendo altresì con la svalutazione delle partecipazioni in Aldia

S.p.A. e Liphe S.p.A. rispettivamente nella misura del 70 e dell'80% per complessivi € 1.510.000.

Tra la fine di luglio e dicembre 2019 la Banca ha ricevuto da Consob (ai sensi dell'articolo 115, comma 1, lett. c-bis) e dell'articolo 6-bis, comma 4, lett. a), del D. Lgs. n. 58/1998) e da Banca d'Italia alcune richieste di dati e informazioni circa i rapporti con Bio-On S.p.A. e circa le attività e le valutazioni poste in essere dalla Banca in merito. La Banca ha fornito prontamente i riscontri richiesti.

Inoltre, in data 28 novembre 2019, la Consob ha trasmesso al Collegio Sindacale della Banca una richiesta di dati e informazioni ai sensi dell'art. 115, comma 1, del D. Lgs. n. 58/1998 sempre con riferimento ai rapporti con Bio-On S.p.A. A fronte di tale richiesta il Collegio Sindacale ha fornito un pronto riscontro, così come ha fornito puntuale risposta all'analoga richiesta della Banca d'Italia del 25 ottobre 2019.

- In data 16 ottobre 2019 la Banca d'Italia ha emanato il provvedimento con il quale REDO SGR, società costituita fra la Fondazione Cariplo per il 66,66% ed Investire SGR per il 33,33% al fine di creare un soggetto specializzato nella strutturazione e nello sviluppo di housing sociale, edilizia universitaria e rigenerazione urbana ad impatto sociale, è stata autorizzata all'esercizio del servizio di gestione collettiva del risparmio, subordinandone l'iscrizione della società all'albo delle SGR all'approvazione di alcune modifiche dello statuto della società; tali modifiche sono state deliberate dall'assemblea straordinaria di REDO SGR in data 21 ottobre 2019 e, in data 6 novembre 2019 la Banca d'Italia ha comunicato l'iscrizione nell'albo delle SGR della REDO SGR S.p.A. con decorrenza 25 ottobre 2019.
- In data 27 novembre 2019, con efficacia a far data dal 1° dicembre 2019, è stato sottoscritto l'atto di conferimento del Ramo d'azienda da InvestiRE a REDO SGR SpA e del trasferimento alla stessa dei mandati di gestione dei Fondi Fil 1 e 2, e successivamente, il 23 dicembre 2019, come previsto dagli accordi, si è perfezionata la vendita da parte di InvestiRE alla Fondazione Cariplo del 63,89% della partecipazione nella REDO SGR S.p.A. A seguito delle descritte operazioni InvestiRE detiene il 33,3% di REDO SGR S.p.A. e Fondazione Cariplo il 66,6%, come al momento della costituzione.

Nel periodo intercorso tra la chiusura dell'esercizio 2019 e la data di redazione del bilancio non sono emersi eventi o fatti di rilievo che comportino la rettifica della situazione economica, patrimoniale e finanziaria del Gruppo. La Relazione sulla Gestione fa comunque specifico riferimento alla pandemia del nuovo "coronavirus" (Covid-19) diffusasi agli inizi di gennaio 2020 in tutta la Cina continentale in un periodo molto vicino alla data di chiusura dell'esercizio e, successivamente, anche in altri paesi tra cui l'Italia, che ha causato il rallentamento o l'interruzione dell'attività economica e commerciale in molteplici settori. Si evidenzia, peraltro, come la Banca abbia sin da subito seguito l'evolversi della situazione mondiale e poi nazionale determinata dalla diffusione del nuovo Coronavirus. In accordo con quanto previsto dallo IAS 1 e seguendo anche le raccomandazioni dell'ESMA dell'11 marzo 2020, la Banca ha intrapreso misure volte ad assicurare la normale prosecuzione delle attività aziendali in ottica di business continuity, costituendo apposito comitato di gestione della crisi. La Banca ha attuato varie iniziative, tra cui la predisposizione di un framework tecnologico per favorire lo smart working aziendale. Dando seguito alle raccomandazioni formulate da Autorità ed Enti nazionali la Banca ha in breve tempo permesso ad una percentuale significativa dei propri addetti di lavorare dalla propria abitazione, realizzando l'obiettivo primario di salvaguardare la salute dei dipendenti e conseguentemente garantendo la continuità della propria operatività e dei servizi offerti alla clientela. Sono state inoltre diffuse comunicazioni e raccomandazioni comportamentali ai colleghi nonché attuate varie misure sanitarie presso le proprie Sedi e Centri Private.

(ii) ha tenuto riunioni con gli esponenti della Società di Revisione e non sono emersi dati e/o informazioni rilevanti che debbano essere evidenziati nella presente relazione;

- ai sensi dell'art. 151, commi 1 e 2, del TUF:
    - ha avuto uno scambio di informazioni con i Collegi Sindacali delle società direttamente controllate.
    - ha ricevuto dall'Organismo di Vigilanza (di seguito, l'"OdV"), composto da due membri del Collegio e da un membro esterno, informazioni circa la propria attività, dalla quale non risultano anomalie o fatti significativi censurabili.

Sulla base delle informazioni acquisite, ha rilevato l'osservanza degli obblighi informativi in materia di informazioni regolamentate, privilegiate ovvero richieste dalle autorità di vigilanza.

**Attività di vigilanza sul rispetto dei principi di corretta amministrazione e sull'adeguatezza dell'assetto organizzativo**

Il Collegio:

- ha acquisito conoscenza e vigilato, per quanto di propria competenza, sull'adeguatezza della struttura organizzativa della Società e sul rispetto dei principi di corretta amministrazione, tramite osservazioni dirette, raccolta di informazioni dai responsabili delle funzioni aziendali e incontri con la Società di Revisione ai fini del reciproco scambio di dati e informazioni rilevanti e a tale riguardo non ha osservazioni particolari da riferire;

- ha valutato e vigilato sull'adeguatezza del sistema amministrativo-contabile, nonché sull'affidabilità di quest'ultimo a rappresentare correttamente i fatti di gestione, mediante l'ottenimento di informazioni dai responsabili delle rispettive funzioni, l'esame di documenti aziendali e l'analisi dei risultati del lavoro svolto dalla Società di Revisione e a tale riguardo non ha osservazioni particolari da riferire.

Sulla base delle informazioni acquisite, il Collegio dà atto che le scelte gestionali sono ispirate al principio di corretta informazione e di ragionevolezza e che gli Amministratori sono consapevoli della rischiosità e degli effetti delle operazioni compiute.

Il Consiglio di Amministrazione vigila sul generale andamento della gestione, con particolare attenzione alle situazioni di conflitto di interessi, tenendo in considerazione, in particolare, le informazioni ricevute dall'Amministratore Delegato, dal Comitato Rischi, nonché confrontando periodicamente i risultati conseguiti con quelli programmati.

Rileviamo che nel Consiglio di Amministrazione sono presenti cinque amministratori indipendenti e riteniamo che il numero di consiglieri indipendenti sia adeguato rispetto alla composizione dell'intero Consiglio.

Si rileva inoltre che l'Amministratore Delegato rende periodicamente conto al Consiglio di Amministrazione delle attività svolte nell'esercizio delle deleghe.

Abbiamo preso atto che, in ottemperanza all'art. 123-bis del D.Lgs. 58/1998, la Banca – aderente al Codice di Autodisciplina del Comitato per la Corporate Governance delle Società quotate – ha elaborato la Relazione sul Governo Societario.

Il Collegio non ha rilevato nel corso dell'esercizio chiuso al 31 dicembre 2019 l'esistenza di operazioni atipiche e/o inusuali con società del Gruppo, con terzi o con parti correlate.

Come precisato dagli Amministratori nelle Nota integrativa al bilancio consolidato e al bilancio d'esercizio, le operazioni poste in essere con società del Gruppo o con parti correlate sono regolate a valori normali e correnti condizioni di mercato.

In riferimento a tali operazioni, il Collegio ritiene adeguate le informazioni rese nel progetto di bilancio della Società cui la presente relazione si riferisce.

Il Collegio ha verificato l'esistenza di un corretto flusso di informazioni con le società controllate e/o partecipate, ricevendo conferma circa la sussistenza di disposizioni impartite dalla Società ai sensi dell'art. 114, comma 2 del TUF.

Ed in tale ambito abbiamo proceduto allo scambio di informazioni con i Collegi Sindacali delle società controllate anche mediante riunione collegiale. Nei contatti intercorsi con tali organi di controllo non sono emersi aspetti di particolare rilievo.

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Con specifico riferimento alle attività previste dal Testo Unico sulla Revisione Legale, si segnala quanto segue.

**Informativa al Consiglio di Amministrazione sull'esito della revisione legale e sulla relazione aggiuntiva di cui all'art. 11 del Regolamento europeo (Reg. UE 537/2014)**

Il Collegio rappresenta che la società di revisione E&Y S.p.A. ha rilasciato in data 30 marzo 2020 la relazione aggiuntiva ex art. 11 del Regolamento europeo, che rappresenta i risultati della revisione legale dei conti effettuata e include la dichiarazione relativa all'indipendenza di cui all'art. 6, paragrafo 2, lettera a), del Regolamento, oltre che le informative richieste dall'art. 11 del medesimo Regolamento, senza individuare carenze significative. Il Collegio Sindacale provvederà ad informare il Consiglio di Amministrazione della Società in merito agli esiti della revisione legale, trasmettendo a tal fine la relazione aggiuntiva, corredata da eventuali osservazioni, ai sensi dell'art. 19 del D.Lgs. 39/2010.

Relativamente all'esercizio precedente, il Collegio Sindacale ha provveduto ad informare il Consiglio di Amministrazione in merito agli esiti della revisione legale nella riunione del 24 aprile 2019.

**Attività di vigilanza sul processo di informativa finanziaria**

Il Collegio ha verificato l'esistenza di norme e procedure a presidio del processo di formazione e diffusione delle informazioni finanziarie.

A tale proposito, la Relazione annuale sul governo societario e gli assetti proprietari definisce le linee guida di riferimento per l'istituzione e la gestione del sistema delle procedure amministrative e contabili. Il Collegio ha esaminato, con l'assistenza del Dirigente Preposto alla redazione dei documenti contabili e societari, Dott. Giulio Bastia, le procedure relative all'attività di formazione del bilancio della Società e del bilancio consolidato, oltre che degli altri documenti contabili periodici.

Si evidenzia che il Dirigente preposto è stato nominato dal Consiglio di Amministrazione della Società in data 9 febbraio 2017, con parere favorevole del Collegio, in quanto giudicato in possesso di un'adeguata esperienza in materia di amministrazione, finanza e controllo e, quindi, di tutti i requisiti di professionalità previsti dalla legge e dallo statuto.
Il Collegio Sindacale ha, inoltre, avuto evidenza del processo che consente al Dirigente preposto e all'Amministratore a ciò delegato di rilasciare le attestazioni previste dall'art. 154-bis del TUF.

Il Collegio Sindacale è stato informato che le procedure amministrative e contabili per la formazione del bilancio e di ogni altra comunicazione finanziaria sono predisposte sotto la responsabilità del Dirigente preposto, il quale, congiuntamente all'Amministratore a ciò delegato, ne attesta l'adeguatezza e l'effettiva applicazione in occasione del bilancio di esercizio, di quello consolidato e della relazione finanziaria semestrale.

Sono state rilasciate da parte dell'Amministratore a ciò delegato e del Dirigente preposto le attestazioni del bilancio consolidato e del bilancio d'esercizio ai sensi dell'art. 81-ter del Regolamento Consob del 14 maggio 1999 e successive modifiche e integrazioni.

Il Collegio Sindacale esprime, pertanto, una valutazione di adeguatezza del processo di formazione dell'informativa finanziaria e ritiene non sussistano rilievi da sottoporre all'Assemblea.

**Attività di vigilanza sull'efficacia dei sistemi di controllo interno, di revisione interna e di gestione del rischio e sulla revisione legale dei conti annuali e dei conti consolidati**

Il Collegio ha valutato e vigilato sull'adeguatezza del sistema di controllo interno e sull'efficacia dei sistemi di controllo interno e di gestione del rischio.

Inoltre, il Consiglio di Amministrazione ha individuato al proprio interno un amministratore – l'Amministratore delegato - esecutivo incaricato di sovrintendere alla funzionalità del sistema di controllo interno.

In particolare, il Collegio, nell'ambito degli incontri periodici avuti con Responsabile dell'Internal Audit, peraltro cambiato in corso d'anno a causa della conclusione per limiti di età del rapporto di lavoro col soggetto per molti anni incaricato, è stato compiutamente informato in merito agli interventi di Internal Audit finalizzati a verificare l'adeguatezza e l'operatività del sistema di controllo interno e il rispetto della normativa interna ed esterna, nonché sull'attività di gestione del rischio.

In data 19 marzo 2020, il Responsabile dell'Internal Audit ha rilasciato la propria relazione per l'esercizio 2019 ove viene rappresentato che il sistema di controllo interno adottato dalla società presenta, nel complesso, un buon livello di adeguatezza ed efficacia.

Ulteriormente, il Collegio Sindacale, a seguito della attribuzione a due dei suoi membri anche delle funzioni spettanti all'Organismo di Vigilanza di cui all'articolo 6, comma 4bis del D.Lgs.

231/2001 sulla responsabilità amministrativa degli enti, ha preso visione e ottenuto informazioni sull'attività di carattere organizzativo e procedurale posta in essere dalla Banca ai sensi del citato Decreto.

L'Organismo di Vigilanza ha relazionato sulle attività svolte nel corso dell'esercizio 2019 senza segnalare profili di criticità degni di menzione, evidenziando una situazione nel complesso soddisfacente e di sostanziale allineamento a quanto previsto dal Modello di Organizzazione, Gestione e Controllo.

**Attività di vigilanza sulla revisione legale del bilancio d'esercizio e del bilancio consolidato**

- la contabilità è stata sottoposta ai controlli previsti dalla normativa da parte della Società di Revisione E&Y S.p.A., alla quale, come detto, l'Assemblea degli Azionisti del 29 aprile 2011 ha conferito l'incarico di revisore legale dei conti per gli esercizi 2011/2019. Nel corso degli incontri periodici avuti con il Collegio, la Società di Revisione non ha evidenziato rilievi a riguardo;

- il Collegio Sindacale: (i) ha analizzato l'attività svolta dalla società di revisione e, in particolare, l'impianto metodologico, l'approccio di revisione utilizzato per le diverse aree significative di bilancio e la pianificazione del lavoro di revisione; (ii) ha condiviso con la società di revisione le problematiche relative ai rischi aziendali, potendo così apprezzare l'adeguatezza della risposta pianificata dal revisore in termini di approccio di revisione con i profili, strutturali e di rischio, della Società e del Gruppo;

- nel corso dell'anno il Collegio Sindacale ha periodicamente incontrato, come riportato in precedenza, il Dirigente preposto alla redazione dei documenti contabili e societari.

La Società di Revisione legale ci ha informato che, nel corso della sua attività di riscontro e di verifica dei dati per il bilancio e nel corso delle verifiche trimestrali, non è venuta a conoscenza di atti o fatti ritenuti censurabili o degni di segnalazione. Essa ha rilasciato in data 30 marzo 2020 la relazione sulla revisione del bilancio d'esercizio e la relazione sulla revisione del bilancio consolidato. Sul punto si rappresenta che:

o entrambe le relazioni contengono: (i) il giudizio di rappresentazione veritiera e corretta della situazione patrimoniale e finanziaria di Banca Finnat Euramerica S.p.A. e del Gruppo al 31 dicembre 2019, del risultato economico e dei flussi di cassa per l'esercizio chiuso a tale data in conformità agli International Financial Reporting Standards adottati dall'Unione Europea nonché ai provvedimenti emanati in attuazione dell'art. 9 del D.Lgs. 38/05 e dell'art. 43 del D.Lgs. 18 agosto 2015, n. 136; (ii) la descrizione degli aspetti chiave della revisione e le procedure di revisione in risposta agli aspetti chiave; (iii) il giudizio di coerenza della relazione sulla gestione con il bilancio d'esercizio e consolidato al 31 dicembre 2019 e sulla conformità della stessa alle norme di legge; (iv) il giudizio di coerenza di alcune specifiche informazioni della relazione sul governo societario e gli assetti proprietari indicate nell'art. 123-bis, comma 4, del D.Lgs. 58/1998 con il bilancio d'esercizio e consolidato al 31 dicembre 2019; (v) la conferma che il giudizio sul bilancio d'esercizio e il giudizio sul bilancio consolidato espresso nelle rispettive relazioni sono in linea con quanto indicato nella relazione aggiuntiva destinata allo scrivente Collegio Sindacale, nella sua funzione di comitato per il controllo interno e la revisione contabile, predisposta ai sensi dell'art. 11 del Regolamento europeo;

o le citate relazioni non contengono rilievi né richiami di informativa.

Infine, si informa che, a norma dell'art.6, comma 1 del D.Lgs. n. 254 del 2016, La Società non ha provveduto alla redazione della Dichiarazione consolidata di carattere non finanziaria, non ricorrendone i presupposti di legge.

**Indipendenza della Società di Revisione**

Il Collegio Sindacale ha vigilato, anche con riferimento a quanto previsto dall'art. 19 del D.Lgs. 39/2010, sull'indipendenza della società di revisione E&Y S.p.A., verificando la natura e l'entità dei servizi diversi dal controllo contabile prestati alla Banca e alle sue controllate da parte della stessa società di revisione e delle entità appartenenti al network della medesima.

Nella relazione finanziaria annuale al bilancio, al quale si rinvia, è stata data completa informativa sui compensi corrisposti dalla Banca, e dalle sue controllate alla società di revisione E&Y S.p.A., inclusa la sua rete, ai sensi dell'articolo 149 duodecies del Regolamento Emittenti.

I compensi corrisposti nel 2019, senza considerare il contributo Consob e le spese vive, sono:

Revisione contabile € 180mila
Servizi di attestazione € 9 mila
Altri servizi € 20 mila

La revisione contabile riguarda la revisione dei bilanci d'esercizio, i controlli contabili del Gruppo nonché il bilancio consolidato e la relazione semestrale consolidata della Capogruppo.

I servizi di attestazione si riferiscono alle verifiche dei modelli Unico, Irap, CNM (consolidato nazionale), 770 ordinario e certificazione unica.

Si precisa che nell'ambito della categoria "Altri servizi" (diversi dalla revisione contabile e dai servizi di attestazione) resi da Ernst & Young Financial-Business Advisors S.p.A. per € 20 mila gli stessi si riferiscono all'attività di consulenza in relazione al resolution plan per la quale il Collegio ha dato il proprio nulla osta.

L'incidenza degli "Altri servizi" rispetto alla "Revisione contabile" e ai "Servizi di attestazione (connessi alla revisione contabile)" è pertanto pari al 10,60%.

Alla luce di quanto esposto, il Collegio ritiene quindi sussistente il requisito di indipendenza della società di revisione E&Y S.p.A., che ha fornito, con lettera allegata alla Relazione aggiuntiva ex art. 11 del regolamento europeo, conferma annuale della propria indipendenza ai sensi dell'art. 6 paragrafo 2) lett. a) del Regolamento Europeo 537/2014 e ai sensi del paragrafo 17 dell'ISA Italia 260.

**Procedura volta alla selezione dei revisori legali**

Nel corso dell'esercizio si è resa necessaria la procedura volta alla selezione dei revisori legali. In particolare, tenuto conto che con l'approvazione del bilancio relativo all'esercizio 2019 verrà a scadenza l'incarico di revisione legale per il novennio 2011-2019, affidato a Ernst & Young Spa , al fine di consentire un adeguato passaggio di consegne tra il revisore uscente e il nuovo revisore incaricato nonché per garantire il rispetto dei limiti temporali posti a salvaguardia dell'indipendenza del revisore, il Collegio sindacale, agendo in qualità di Comitato per il Controllo Interno e la Revisione Contabile ai sensi dell'art. 19 del Decreto

legislativo n. 39/2010, d'intesa con le funzioni aziendali competenti, ha ritenuto opportuno avviare con un anno di anticipo la procedura di selezione per l'assegnazione dell'incarico di revisione legale per il novennio 2020-2028.
A seguito della procedura il Collegio ha presentato la propria Raccomandazione prima al Consiglio di Amministrazione in data 27 giugno 2019 e poi all'Assemblea dei soci in data 1 agosto 2020, che in tale occasione, come già detto, ha nominato la KPMG S.p.A. per il novennio 2020-2028.

**Attività di vigilanza sui rapporti con società controllate e controllanti e sulle operazioni con parti correlate**

Come già anticipato, il Collegio ha verificato le operazioni con parti correlate e/o infragruppo di natura ordinaria o ricorrente, in merito alle quali riferisce quanto segue.

Le operazioni infragruppo, di natura sia commerciale sia finanziaria, riguardanti le società controllate e la società controllante, sono regolate su basi equivalenti a quelle prevalenti in transazioni tra parti indipendenti.

Esse trovano adeguata descrizione nell'ambito del bilancio. In particolare, nella parte H della Nota Integrativa al bilancio consolidato, sono riportati i saldi economici e patrimoniali derivanti dai rapporti, di natura commerciale e finanziaria, derivanti dai rapporti della Società con parti correlate.

Si precisa che le transazioni con parti correlate non includono operazioni atipiche o inusuali, ossia estranee alla normale gestione d'impresa.

**Omissioni o fatti censurabili, altri pareri resi, azioni intraprese**

Il Collegio dà atto che:

- nel corso dell'esercizio ha rilasciato i seguenti pareri:
    - pareri ai sensi dell'art. 2389 3° comma del Codice Civile;

- espresso voto favorevole, ai sensi art. 136 D.Lgs n. 385/1993 e successive modifiche, su operazioni creditizie;
- espresso il proprio nulla osta alla seconda versione del Piano di Risanamento della Banca;
- espresso il proprio parere favorevole alla nomina dott.ssa De Simone quale Responsabile della funzione Internal Audit, nonché in merito alla remunerazione proposta.
- espresso parere favorevole in merito alla approvazione della Policy in materia di contrasto al riciclaggio e al finanziamento del terrorismo di Banca Finnat.
- verificato la corretta applicazione dei criteri e delle procedure di accertamento adottate dal Consiglio di Amministrazione per valutare i requisiti di onorabilità, professionalità ed indipendenza dei suoi membri;
- accertato che i requisiti di indipendenza dei componenti il Collegio già sussistenti all'atto di nomina permangono;
- seguito il processo di formazione e approvazione del resoconto ICAAP e ILAAP;

- non sono state presentate denunce di cui all'art. 2408 cod. civ., così come non sono stati presentati esposti di alcun genere;

- non è stato necessario presentare all'Assemblea le proposte così come previsto dall'art. 153, comma 2 del D.lgs. 58/98, né il Collegio si è avvalso dei poteri di convocazione dell'Assemblea o del Consiglio di Amministrazione.

**Bilancio d'esercizio, bilancio consolidato e relazione sulla gestione**

Con specifico riguardo all'esame del bilancio d'esercizio chiuso al 31 dicembre 2019, del bilancio consolidato (redatti in base ai principi contabili internazionali IAS/IFRS emessi dall'International Accounting Standards Board (IASB) adottati dall'Unione Europea, nonché conformemente ai provvedimenti emanati in attuazione dell'art. 9, comma 3 del D.Lgs. n. 38 del 2005 e dell'art. 43 del D.Lgs. n. 136 del 2015) e della Relazione sulla gestione, il Collegio riferisce quanto segue:

- il fascicolo di bilancio è stato consegnato al Collegio in tempo utile affinché sia depositato presso la sede della Società corredato dalla presente relazione;
- ha verificato che il bilancio della Società e il bilancio consolidato risultano redatti secondo la struttura e gli schemi imposti dalle norme vigenti e sono accompagnati dai documenti previsti dal codice civile e dal TUF;
- ha verificato la razionalità dei procedimenti valutativi applicati e la loro rispondenza alle logiche dei principi contabili internazionali
- ha verificato la rispondenza del bilancio ai fatti e alle informazioni di cui si è avuta conoscenza a seguito dell'espletamento dei doveri che gli competono; non si hanno, quindi, osservazioni al riguardo;
- per quanto a conoscenza del Collegio, gli Amministratori, nella redazione del bilancio, non hanno derogato alle norme di legge ai sensi dell'art. 2423, comma 4, cod. civ.;
- ha verificato l'osservanza delle norme di legge inerenti la predisposizione della relazione sulla gestione e a tale riguardo non si hanno osservazioni da riferire.

* * * * *

Tenuto conto di tutto quanto precede, sotto i profili di nostra competenza, non rileviamo motivi ostativi circa l'approvazione del bilancio al 31 dicembre 2019 e delle proposte di delibera formulate dal Consiglio di Amministrazione.

Roma, 30 marzo 2020

Per Il Collegio Sindacale

Alberto De Nigro

EY
Building a better working world

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# Relazione della società di revisione indipendente ai sensi dell'art. 14 del D. Lgs. 27 gennaio 2010, n. 39 e dell'art. 10 del Regolamento (UE) n. 537/2014

Agli Azionisti della
Banca Finnat Euramerica S.p.A.

## Relazione sulla revisione contabile del bilancio d'esercizio

### Giudizio

Abbiamo svolto la revisione contabile del bilancio d'esercizio della Banca Finnat Euramerica S.p.A. (la "Società"), costituito dallo stato patrimoniale al 31 dicembre 2019, dal conto economico, dal prospetto della redditività complessiva, dal prospetto delle variazioni del patrimonio netto, dal rendiconto finanziario per l'esercizio chiuso a tale data e dalla nota integrativa.

A nostro giudizio, il bilancio d'esercizio fornisce una rappresentazione veritiera e corretta della situazione patrimoniale e finanziaria della Società al 31 dicembre 2019, del risultato economico e dei flussi di cassa per l'esercizio chiuso a tale data, in conformità agli International Financial Reporting Standards adottati dall'Unione Europea nonché ai provvedimenti emanati in attuazione dell'art. 9 del D. Lgs. 28 febbraio 2005, n.38 e dell'art. 43 del D. Lgs. 18 agosto 2015, n. 136.

### Elementi alla base del giudizio

Abbiamo svolto la revisione contabile in conformità ai principi di revisione internazionali (ISA Italia). Le nostre responsabilità ai sensi di tali principi sono ulteriormente descritte nella sezione Responsabilità della società di revisione per la revisione contabile del bilancio d'esercizio della presente relazione. Siamo indipendenti rispetto alla Società in conformità alle norme e ai principi in materia di etica e di indipendenza applicabili nell'ordinamento italiano alla revisione contabile del bilancio. Riteniamo di aver acquisito elementi probativi sufficienti ed appropriati su cui basare il nostro giudizio.

### Aspetti chiave della revisione contabile

Gli aspetti chiave della revisione contabile sono quegli aspetti che, secondo il nostro giudizio professionale, sono stati maggiormente significativi nell'ambito della revisione contabile del bilancio dell'esercizio in esame. Tali aspetti sono stati da noi affrontati nell'ambito della revisione contabile e nella formazione del nostro giudizio sul bilancio d'esercizio nel suo complesso; pertanto su tali aspetti non esprimiamo un giudizio separato.

Abbiamo identificato il seguente aspetto chiave della revisione contabile:

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| Aspetto chiave | Risposte di revisione |
| --- | --- |
| Valutazione Partecipazioni | |
| La voce 70 dell'attivo "Partecipazioni", pari al 31 dicembre 2019 a 77 milioni di Euro, include le seguenti partecipazioni in imprese controllate valutate al fair value per 70 milioni di Euro: Finnat Fiduciaria S.p.A., InvestiRE S.G.R. S.p.A., Finnat Gestioni S.A. e Natam S.A..<br><br>La valutazione delle partecipazioni è un aspetto rilevante per la revisione contabile in quanto le modalità di valutazione e determinazione del valore corrente di ciascuna partecipazione sono basate su assunzioni che richiedono agli amministratori l'esercizio di una significativa discrezionalità nella scelta di metodologie, assunzioni e parametri (quali il Weighted Average Cost of Capital "WACC", il costo del capitale proprio "Ke" e il tasso di crescita "g") nonché nella previsione dei loro flussi di cassa futuri e per il fatto che sono considerate variabili che possono risultare sensibili agli andamenti futuri dei mercati e degli scenari economici.<br><br>L'informativa sulla valutazione delle partecipazioni è riportata dagli amministratori nella Parte A "Politiche Contabili" e nella Sezione 7 "Partecipazioni" della Parte B della nota integrativa. | Le nostre procedure di revisione in risposta all'aspetto chiave della revisione contabile hanno incluso, tra l'altro:<br>• la comprensione delle modalità di determinazione del fair value delle partecipazioni adottate dalla Società effettuate con l'ausilio di esperti interni della Direzione, in linea con la metodologia di valutazione approvata dai competenti organi aziendali;<br>• la valutazione della competenza, della capacità e dell'obiettività degli esperti interni della Direzione della Banca;<br>• l'analisi delle assunzioni adottate alla base delle previsioni dei flussi di cassa futuri e della loro determinazione;<br>• la valutazione delle previsioni rispetto all'accuratezza dei dati storici considerati nelle precedenti previsioni.<br><br>Nello svolgimento delle nostre verifiche ci siamo avvalsi anche dell'ausilio di nostri esperti in tecniche di valutazione d'azienda, in particolare con riferimento alla valutazione dell'appropriatezza della metodologia e della ragionevolezza delle assunzioni utilizzate dagli amministratori per la determinazione del fair value delle partecipazioni in imprese controllate, nonché per la verifica dell'accuratezza matematica dei calcoli e l'analisi di sensitività sulle assunzioni chiave.<br><br>Infine, abbiamo esaminato l'adeguatezza dell'informativa resa in nota integrativa. |

## Responsabilità degli amministratori e del collegio sindacale per il bilancio d'esercizio

Gli amministratori sono responsabili per la redazione del bilancio d'esercizio che fornisca una rappresentazione veritiera e corretta in conformità agli International Financial Reporting Standards adottati dall'Unione Europea, nonché ai provvedimenti emanati in attuazione dell'art. 9 del D. Lgs. 28 febbraio 2005, n. 38 e dell'art. 43 del D. Lgs. 18 agosto 2015, n. 136 e, nei termini previsti dalla legge, per quella parte del controllo interno dagli stessi ritenuta necessaria per consentire la redazione di un bilancio che non contenga errori significativi dovuti a frodi o a comportamenti o eventi non intenzionali.

Gli amministratori sono responsabili per la valutazione della capacità della Società di continuare ad operare come un'entità in funzionamento e, nella redazione del bilancio d'esercizio, per l'appropriatezza dell'utilizzo del presupposto della continuità aziendale, nonché per un'adeguata informativa in materia. Gli amministratori utilizzano il presupposto della continuità aziendale nella redazione del bilancio d'esercizio a meno che abbiano valutato che sussistono le condizioni per la liquidazione della Società o per l'interruzione dell'attività o non abbiano alternative realistiche a tali scelte.

Il collegio sindacale ha la responsabilità della vigilanza, nei termini previsti dalla legge, sul processo di predisposizione dell'informativa finanziaria della Società.

## Responsabilità della società di revisione per la revisione contabile del bilancio d'esercizio

I nostri obiettivi sono l'acquisizione di una ragionevole sicurezza che il bilancio d'esercizio nel suo complesso non contenga errori significativi, dovuti a frodi o a comportamenti o eventi non intenzionali, e l'emissione di una relazione di revisione che includa il nostro giudizio. Per ragionevole sicurezza si intende un livello elevato di sicurezza che, tuttavia, non fornisce la garanzia che una revisione contabile svolta in conformità ai principi di revisione internazionali (ISA Italia) individui sempre un errore significativo, qualora esistente. Gli errori possono derivare da frodi o da comportamenti o eventi non intenzionali e sono considerati significativi qualora ci si possa ragionevolmente attendere che essi, singolarmente o nel loro insieme, siano in grado di influenzare le decisioni economiche degli utilizzatori prese sulla base del bilancio d'esercizio.

Nell'ambito della revisione contabile svolta in conformità ai principi di revisione internazionali (ISA Italia), abbiamo esercitato il giudizio professionale e abbiamo mantenuto lo scetticismo professionale per tutta la durata della revisione contabile. Inoltre:

- abbiamo identificato e valutato i rischi di errori significativi nel bilancio d'esercizio, dovuti a frodi o a comportamenti o eventi non intenzionali; abbiamo definito e svolto procedure di revisione in risposta a tali rischi; abbiamo acquisito elementi probativi sufficienti ed appropriati su cui basare il nostro giudizio. Il rischio di non individuare un errore significativo dovuto a frodi è più elevato rispetto al rischio di non individuare un errore significativo derivante da comportamenti od eventi non intenzionali, poiché la frode può implicare l'esistenza di collusioni, falsificazioni, omissioni intenzionali, rappresentazioni fuorvianti o forzature del controllo interno;
- abbiamo acquisito una comprensione del controllo interno rilevante ai fini della revisione contabile allo scopo di definire procedure di revisione appropriate nelle circostanze e non per esprimere un giudizio sull'efficacia del controllo interno della Società;

- abbiamo valutato l'appropriatezza dei principi contabili utilizzati nonché la ragionevolezza delle stime contabili effettuate dagli amministratori e della relativa informativa;
- siamo giunti ad una conclusione sull'appropriatezza dell'utilizzo da parte degli amministratori del presupposto della continuità aziendale e, in base agli elementi probativi acquisiti, sull'eventuale esistenza di un'incertezza significativa riguardo a eventi o circostanze che possono far sorgere dubbi significativi sulla capacità della Società di continuare ad operare come un'entità in funzionamento. In presenza di un'incertezza significativa, siamo tenuti a richiamare l'attenzione nella relazione di revisione sulla relativa informativa di bilancio ovvero, qualora tale informativa sia inadeguata, a riflettere tale circostanza nella formulazione del nostro giudizio. Le nostre conclusioni sono basate sugli elementi probativi acquisiti fino alla data della presente relazione. Tuttavia, eventi o circostanze successivi possono comportare che la Società cessi di operare come un'entità in funzionamento;
- abbiamo valutato la presentazione, la struttura e il contenuto del bilancio d'esercizio nel suo complesso, inclusa l'informativa, e se il bilancio d'esercizio rappresenti le operazioni e gli eventi sottostanti in modo da fornire una corretta rappresentazione.

Abbiamo comunicato ai responsabili delle attività di governance, identificati ad un livello appropriato come richiesto dagli ISA Italia, tra gli altri aspetti, la portata e la tempistica pianificate per la revisione contabile e i risultati significativi emersi, incluse le eventuali carenze significative nel controllo interno identificate nel corso della revisione contabile.

Abbiamo fornito ai responsabili delle attività di governance anche una dichiarazione sul fatto che abbiamo rispettato le norme e i principi in materia di etica e di indipendenza applicabili nell'ordinamento italiano e abbiamo comunicato loro ogni situazione che possa ragionevolmente avere un effetto sulla nostra indipendenza e, ove applicabile, le relative misure di salvaguardia.

Tra gli aspetti comunicati ai responsabili delle attività di governance, abbiamo identificato quelli che sono stati più rilevanti nell'ambito della revisione contabile del bilancio dell'esercizio in esame, che hanno costituito quindi gli aspetti chiave della revisione. Abbiamo descritto tali aspetti nella relazione di revisione.

## Altre informazioni comunicate ai sensi dell'art. 10 del Regolamento (UE) n. 537/2014

L'assemblea degli azionisti di Banca Finnat Euramerica S.p.A. ci ha conferito in data 29 aprile 2011 l'incarico di revisione legale del bilancio d'esercizio della Società per gli esercizi dal 31 dicembre 2011 al 31 dicembre 2019.

Dichiariamo che non sono stati prestati servizi diversi dalla revisione contabile vietati ai sensi dell'art. 5, par. 1, del Regolamento (UE) n. 537/2014 e che siamo rimasti indipendenti rispetto alla Società nell'esecuzione della revisione legale.

Confermiamo che il giudizio sul bilancio d'esercizio espresso nella presente relazione è in linea con quanto indicato nella relazione aggiuntiva destinata al collegio sindacale, nella sua funzione di comitato per il controllo interno e la revisione contabile, predisposta ai sensi dell'art. 11 del citato Regolamento.

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## Relazione su altre disposizioni di legge e regolamentari

### Giudizio ai sensi dell'art. 14, comma 2, lettera e), del D. Lgs. 27 gennaio 2010, n. 39 e dell'art. 123-bis, comma 4, del D. Lgs. 24 febbraio 1998, n. 58

Gli amministratori della Banca Finnat Euramerica S.p.A. sono responsabili per la predisposizione della relazione sulla gestione e della relazione sul governo societario e gli assetti proprietari della Banca Finnat Euramerica S.p.A. al 31 dicembre 2019, incluse la loro coerenza con il relativo bilancio d'esercizio e la loro conformità alle norme di legge.

Abbiamo svolto le procedure indicate nel principio di revisione (SA Italia) n. 720B al fine di esprimere un giudizio sulla coerenza della relazione sulla gestione e di alcune specifiche informazioni contenute nella relazione sul governo societario e gli assetti proprietari indicate nell'art. 123-bis, comma 4, del D. Lgs. 24 febbraio 1998, n. 58, con il bilancio d'esercizio della Banca Finnat Euramerica S.p.A. al 31 dicembre 2019 e sulla conformità delle stesse alle norme di legge, nonché di rilasciare una dichiarazione su eventuali errori significativi.

A nostro giudizio, la relazione sulla gestione e alcune specifiche informazioni contenute nella relazione sul governo societario e gli assetti proprietari sopra richiamate sono coerenti con il bilancio d'esercizio della Banca Finnat Euramerica S.p.A. al 31 dicembre 2019 e sono redatte in conformità alle norme di legge.

Con riferimento alla dichiarazione di cui all'art. 14, comma 2, lettera e), del D. Lgs. 27 gennaio 2010, n. 39, rilasciata sulla base delle conoscenze e della comprensione dell'impresa e del relativo contesto acquisite nel corso dell'attività di revisione, non abbiamo nulla da riportare.

Roma, 30 marzo 2020

EY S.p.A.

Giuseppe Miele
Giuseppe Miele
(Revisore Legale)

BANCA FINNAT GRUPPO BANCA FINNAT

**ATTESTAZIONE DEL BILANCIO D'ESERCIZIO AI SENSI DELL'ART. 81-TER DEL REGOLAMENTO CONSOB N. 11971 DEL 14 MAGGIO 1999 E SUCCESSIVE MODIFICHE E INTEGRAZIONI**

1. I sottoscritti Arturo Nattino in qualità di Amministratore Delegato e Giulio Bastia in qualità di Dirigente preposto alla redazione dei documenti contabili societari di Banca Finnat Euramerica S.p.A. attestano, tenuto anche conto di quanto previsto dall'art. 154-bis, commi 3 e 4, del decreto legislativo 24 febbraio 1998, n. 58:
   - l'adeguatezza in relazione alle caratteristiche dell'impresa e
   - l'effettiva applicazione

   delle procedure amministrative e contabili per la formazione del Bilancio di esercizio al 31 dicembre 2019.

2. Al riguardo non sono emersi aspetti di rilievo.

3. Si attesta, inoltre, che:
   3.1. il Bilancio d'esercizio:
   a. è redatto in conformità ai principi contabili internazionali applicabili riconosciuti nella Comunità europea ai sensi del regolamento (CE) n. 1606/2002 del Parlamento europeo e del Consiglio, del 19 luglio 2002;
   b. corrisponde alle risultanze dei libri e delle scritture contabili;
   c. è idoneo a fornire una rappresentazione veritiera e corretta della situazione patrimoniale, economica e finanziaria dell'emittente.

   3.2 La Relazione sulla gestione comprende un'analisi attendibile dell'andamento e del risultato della gestione, nonché della situazione dell'emittente, unitamente alla descrizione dei principali rischi e incertezze cui sono esposti.

Roma, 19 marzo 2020

| | |
|---|---|
| **L'Amministratore Delegato** | **Il Dirigente preposto alla redazione dei documenti contabili societari** |
| (Arturo Nattino) | (Giulio Bastia) |

# 2019 REPORT ON CORPORATE GOVERNANCE AND SHAREHOLDERS[1] (PREPARED IN ACCORDANCE WITH ARTICLE 123-BIS OF THE ITALIAN CONSOLIDATED FINANCIAL LAW)

## APPROVED BY THE BOARD OF DIRECTORS ON 19 MARCH 2020

## TRADITIONAL ADMINISTRATION AND CONTROL MODEL



**CONTENTS**



1 The Report is published on the Website of the Bank at www.bancafinnat.it in the section Investor Relations - Corporate Governance.

## GLOSSARY

**Code/Governance Code**: the Corporate Governance Code of listed companies approved in July 2018 by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A., ABI, Ania, Assogestioni, Assonime and Confindustria.
**Civil Code/C.C.**: the Italian Civil Code.
**Board**: the Board of Directors of the Bank.
**Issuer:** Banca Finnat S.p.A.
**Year**: the 2019 financial year to which the Report refers.
**Consob Issuers Regulation**: the Regulation issued by the Consob with its resolution no. 11971 of 1999 (as amended) for issuers.
**Consob Markets Regulation**: the Regulation issued by the Consob with its resolution no. 20249 of 2017 for markets.
**Consob Related Parties Regulation**: the Regulation issued by the Consob with its resolution no. 17221 of 12 March 2010 (as amended) for related party transactions.
**Report**: the report on corporate governance and shareholder structure, which companies are obligated to prepare in accordance with Article 123-bis of the Italian Consolidated Financial Law.
**TUF**: Italian Legislative Decree no. 58 of 24 February 1998 (Consolidated Financial Law).

## REPORT ON CORPORATE GOVERNANCE AND SHAREHOLDERS

The present Report intends to provide an exhaustive representation on the corporate governance system adopted by Banca Finnat Euramerica S.p.A. (hereinafter "Banca Finnat" or the "Bank") and it contains information about the shareholders and on adoption of the Codes of Conduct.
The Report is made available on the website of Banca Finnat in the Investor Relations - Corporate Governance section.
The information contained herein refers to the year ended 31 December 2019 and, with regard to specific issues, it was updated at 19 March 2020, on which date the Board of Directors of the Bank approved it.
The Report takes account of the "2019 Annual report - 7th report on the application of the Governance Code" sent to all Chairmen of listed Italian companies, and cc'ed to the Managing Director and the Chairman of the Board of Statutory Auditors, by the Corporate Governance Committee of Borsa Italiana.

## 1.0 ISSUER PROFILE

Banca Finnat, with more than a century of banking tradition, coupled with independence, dependability and confidentiality, administers and manages the assets of wealthy investors.
Listed on the STAR segment of Borsa Italiana, it is specialised in performing investment and advisory services for private and institutional customers.
Its high specialisation and professionalism distinguish it in the Italian banking landscape: directly and with other Group companies, it offers a broad range of services and financial products, from Private Banking to

Consultancy services, from Trusteeship Activities to Family Office, from Real Estate and management of Real Estate Funds to Advisory & Corporate Finance and to Services for Institutional Investors.

To complete the Investment services, which have a central role within the Bank's activities, traditional Banking Services are also performed.

The Bank has adopted the traditional administration and control model, comprising two bodies appointed by the Shareholders' Meeting: the Board of Directors (with 11 Members), central body in the corporate governance system, exclusively in charge of managing and providing strategic supervision for the Bank and the Group, and the Board of Statutory Auditors with oversight functions over the administration and over compliance with the law and with the Articles of Association.

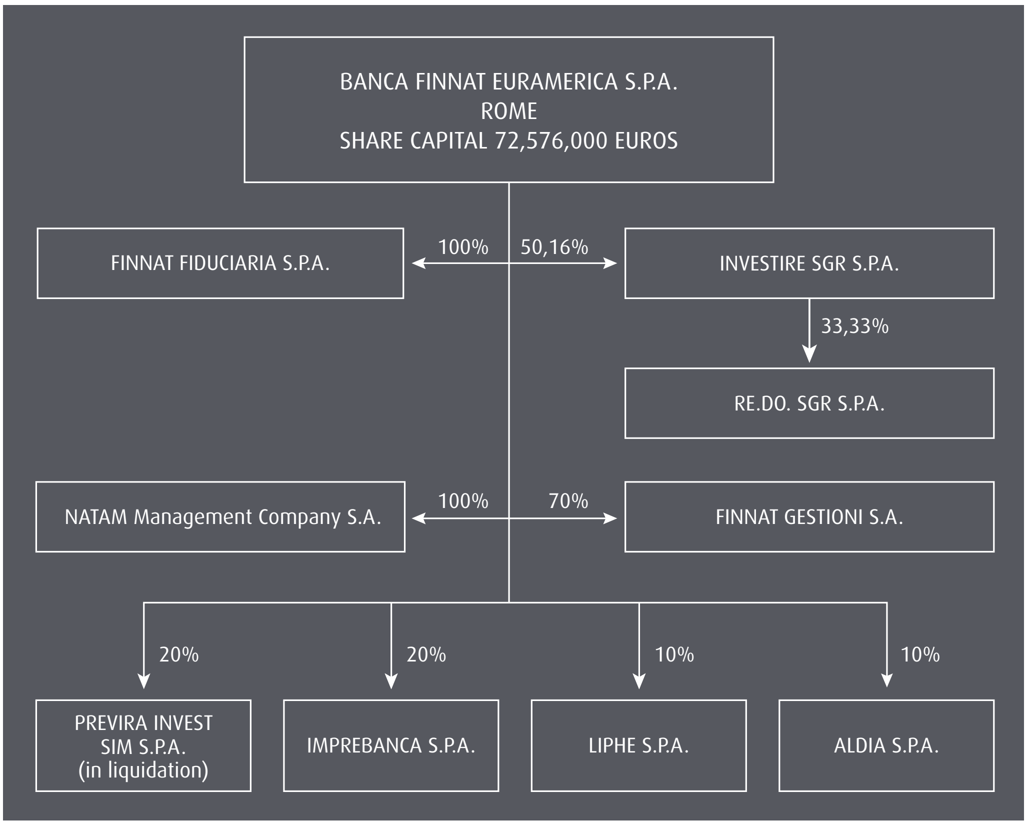
The Board of Directors, also in accordance with the recommendations of the Governance Code (hereinafter "the Code"), established three Committees internally (Risk, Appointments and Remuneration Committees), consisting of independent Directors and providing proposals, advice and preliminary studies for the Board itself.

The account auditing activity is entrusted to a specialised company (EY S.p.A.) enrolled in the dedicated Register, appointed by the Shareholders' Meeting for the nine years from 2011 to 2019, upon the justified proposal of the Board of Statutory Auditors.

The ordinary shareholders' meeting of the Bank of 1 August 2019 assigned the audit engagement for the nine-year period 2020-2028 to KPMG S.p.A.

The Supervisory Body under Legislative Decree no. 231/2001 is appointed by the Board of Directors.

Banca Finnat is the Parent Company of the Banca Finnat S.p.A. Group which at the date of the present report comprises the following.



**The Code of Ethics**

The Code of Ethics defines the values and the ethical principles that inspire the activity of Banca Finnat and of its subsidiaries, which must be complied with by the Corporate Bodies, the Senior Management, employees, consultants and contractors, suppliers, financial promoters, attorney and any other party who may act on behalf of the Bank and of its subsidiaries.

The Board of Directors of the Bank and of its subsidiaries undertake to enforce the principles contained in the Code of Ethics, enhancing trust, cohesion and group spirit, and they are inspired by the values expressed therein, also in determining the business objectives.

All Code of Ethics recipients shall know it and comply with its provisions, actively contributing to its widespread adoption and enforcement, throughout the time in which they work for the Bank and for its subsidiaries. All recipients shall also safeguard, by their conduct, the respectability and image of Banca Finnat and of its subsidiaries and to preserve the solidity of the corporate assets.

The principles contained in the Code of Ethics also supplement the rules of behaviour that personnel shall follow, by virtue of current regulations, of employment agreements, of internal procedures, and of the codes of conduct which the Group has adopted or promulgated internally.

The principles that Banca Finnat and its subsidiaries apply and the values they intend to pursue are: lawfulness, integrity, dignity and equality, quality, business ethics, professionalism and collaboration.

The Code of Ethics is available on the Bank's website, in the Investor Relation/Corporate Governance section.

**Small and Medium Enterprises issuing listed shares (SME)**

Based on the capitalisation and turnover data in the possession of Consob, pursuant to Article 2-ter of Consob Regulation no. 11971/1999, as amended by Consob Resolution no. 20621 of 10 October 2018, Banca Finnat was classified as a Small and Medium Enterprise (SME) and is included in the list published on Consob's website (http://www.consob.it/web/area-pubblica/emittenti-quotati-pmi).

## 2.0 INFORMATION ON SHAREHOLDERS AT 31 DECEMBER 2019

**a) Share capital structure**

The share capital of Banca Finnat at 31 December 2019 amounts to 72,576,000.00 euros, fully paid-up, consisting of 362,880,000 ordinary shares, all with a nominal value of 0.20 euros. Shares in Banca Finnat are listed in the STAR segment of Borsa Italiana.

At the date of the present Report, there are no ongoing programmes for the purchase and/or sale of treasury shares. At 31 December 2019, Banca Finnat held 28,810,640 treasury shares, equal to 7.94% of the share capital.

**b) Restriction to the transfer of securities**

n addition to the provisions of current legislation concerning the equity investment in the share capital of a bank, there are no other restrictions to the transfer of Bank shares.

**c) Major equity investments**

The Bank's shares are placed in the central management system for uncertified securities with Monte Titoli S.p.A.

The main equity investments at 31 December 2019, as shown in the communications received pursuant to Article 120 of the Italian Consolidated Financial Law are indicated in Table 1.

**d) Securities granting special rights**

No securities have been issued granting special control rights.

**e) Shares held by employees: mechanism for exercising voting rights**

There are no share participation schemes for employees.

**f) Restriction to voting rights**

There are no restrictions to voting rights.

**g) Shareholder agreements**

The Directors are not aware of the existence of any significant shareholder agreement in accordance with Article 122 of the Italian Consolidated Financial Law.

**h) Change of control clauses and provisions established by the Articles of Association on takeover bids**

No significant agreements were executed that become effective, are amended, or are extinguished in case of change of control of the Bank.

The Articles of Association of Banca Finnat do not make exceptions to the passivity rules established by Article 104, paragraphs 1 and 2, of the Italian Consolidated Financial Law nor to the application of the neutralisation rules laid down by Article 104-bis, paragraphs 2 and 3, of the Italian Consolidated Financial Law.

**i) Delegations to increase the share capital and authorisations to purchase treasury shares**

No powers were delegated for capital increases, nor are Directors granted the power to issue investment financial instruments.

The Bank of Italy with measure no. 1039475/11 of 19 December 2011 authorised the Bank to purchase treasury shares accounting for more than 5% of the share capital, within the maximum limit of 10 million euros.

**l) Management and coordination**

The Bank is not subject to Management and Coordination pursuant to Article 2497 et seq. of the Italian Civil Code.

The information required by Article 123-bis, paragraph 1 letter i) and letter l) of the Italian Consolidated Financial Law) is respectively explained in paragraph 4.1 (Board of Directors - appointment and replacement) and in paragraph 9.0 (Remuneration of Directors) of this Report.

## 3.0 COMPLIANCE

Banca Finnat adheres to the currently applicable version of the Governance Code of Borsa Italiana S.p.A. of July 2018. The new Code of Corporate Governance, approved in January 2020, will be applied by the Bank from next year.

The Code is accessible on the website of the Corporate Governance Committee[2] and on that of the Bank[3] in the Investor Relations/Corporate Governance section.
An updated check of compliance with the Code was carried out in February 2020 at the time of the Board of Directors' examination of the 2019 Annual Report - 7th report on the application of the Code.
The Corporate Governance structure of Banca Finnat and of its subsidiaries is not affected by provisions of any non-Italian law.

## 4.0 BOARD OF DIRECTORS

### 4.1 APPOINTMENT AND REPLACEMENT

In accordance with Article 12 of the Articles of Association, the Board of Directors consists of a minimum of five and a maximum of eleven members, who remain in office for three years and whose term of office expires at the date of the shareholders' meeting called for approval of the financial statements of their final year in office. The composition of the Board of Directors must comply with the gender balance regulations in force.
Should the majority of the directors elected by the Shareholders' Meeting cease their office due to standing down, death or other causes, the entire Board is considered as having stood down and any director remaining in office must call the Shareholders' Meeting urgently to reconstitute the Board.
The Board of Directors is appointed on the basis of lists presented by the Shareholders, in which candidates must be listed with a progressive number (Article 12-bis of the Articles of Association). The Bank's Articles of Association have defined the methods, time-scales and requirements for the presentation of lists.
On 3 April 2013, on the proposal of the Appointments Committee, the Board of Directors approved the document that describes the optimal qualitative and quantitative composition of the Board of Directors, supplemented with the Recommendations of said Committee of 22 March 2018.

#### Succession Plans

At present, the Bank has not adopted plans for the succession of executive directors.

### 4.2 COMPOSITION

The Board of Directors in office was appointed by the Shareholders' Meeting of 27 April 2018 and will remain in office until approval of the financial statements at 31 December 2020. All Directors were appointed from the only list of candidates presented by the relative majority shareholder, Arturo Nattino.
At 31 December 2019, the members of the Board of Directors were as follows:

1. **Carlo Carlevaris**, Honorary Chairman (non-independent, non-executive); time in office since first appointment: 16 years.
2. **Flavia Mazzarella**, Chairman (independent, non-executive); time in office since first appointment: 3 years.

2 http://www.borsaitaliana.it/comitato-corporate-governance/codice/2015clean.pdf
3 htpp://www.bancafinnat.it

3. **Arturo Nattino**, Managing Director and General Manager (non-independent, executive); time in office since first appointment: 10 years.
4. **Leonardo Buonvino**, Deputy Chairman (non-independent, executive); time in office since first appointment: 13 years.
5. **Marco Tofanelli**, Deputy Chairman (independent, non-executive); time in office since first appointment: 2 years.[4]
6. **Ermanno Boffa**, Director (independent, non-executive); time in office since first appointment: 10 years.
7. **Roberto Cusmai**, Director (independent, non-executive); time in office since first appointment: 7 years.
8. **Giulia Nattino**, Director (non-independent, non-executive); time in office since first appointment: 6 years.
9. **Maria Sole Nattino**, Director (non-independent, non-executive); time in office since first appointment: 4 years
10. **Lupo Rattazzi**, Director (non-independent, non-executive); time in office since first appointment: 11 years.
11. **Andreina Scognamiglio**, Director (independent, non-executive); time in office since first appointment: 4 years.

The CV with the personal and professional characteristics of the Directors is available on the Website of the Bank, www.bancafinnat.it in the section "*About Us - Directors and Officers*".

**Diversity Policies**

Article 12-bis of the Articles of Association requires respect for the gender balance, in keeping at least with the minimum requirement set out in the currently applicable legislation and regulations; the current composition of the Board of Directors respects the legislation governing gender quotas.

**Maximum accumulation of the offices held in other companies**

The Board, based on the prior opinion of the Appointments Committee, in the course of its meeting of 9 February 2018 expressed its guidance with regard to the maximum limit to the accumulation of the offices held by the Directors, establishing the following:

1) an executive Director should not hold:
   i. the office of executive Director in another listed company, whether Italian or foreign, or in a financial[5], banking or insurance company or with shareholders' equity above 1 billion euros and
   ii. the office of non-executive Director or Auditor (or member of another audit body) in more than two of the aforesaid companies;
   iii. the office of non-executive Director of another issuer of which a Director of Banca Finnat Euramerica S.p.A. is an executive Director;

4 Appointed for the first time on 15 December 2011 until resignation on 20 November 2015.

5 For cumulation purposes, financial institutions are considered to be the financial brokers per Article 106 of Italian Legislative Decree no. 385 of 1993 (Consolidated Law on Banking - TUB) and the enterprises that perform activities and services of investment or collective asset management in accordance with Italian Legislative Decree no. 58 of 1998 (Consolidated Financial Law - TUF).

2) a non-executive Director, in addition to the office held in the Bank, should not hold:
   i. the office of executive Director in more than one of the aforesaid companies and the office of non-executive Director or of Auditor (or member of another audit body) in more than three of the aforesaid companies, or
   ii. the office of non-executive Director or Auditor (or member of another audit body) in more than five of the aforesaid companies;
   iii. the office of executive Director of another issuer of which an executive Director of Banca Finnat Euramerica S.p.A. is a non-executive Director.

Offices held in companies of the Banca Finnat Euramerica S.p.A. Group are excluded from the accumulation limit.

The list of the offices held by the members of the Board of Directors of Banca Finnat at 31 December 2019 is as follows:

**ARTURO NATTINO**

InvestiRE SGR S.p.A. (Chairman of the Board of Directors), Finnat Gestioni S.A. (Chairman of the Board of Directors), Finnat Fiduciaria S.p.A. (Director), REDO SGR SpA (Director).

**LEONARDO BUONVINO**

InvestiRE SGR S.p.A. (Director).

**MARCO TOFANELLI**

InvestiRE SGR S.p.A. (Director), Armonia SGR (Director).

**ERMANNO BOFFA**

InvestiRE SGR S.p.A. (Director), Willis S.p.A. (Permanent Auditor).

**MARIA SOLE NATTINO**

Finnat Fiduciaria S.p.A. (Director).

**LUPO RATTAZZI**

GL Investimenti s.r.l. (Director), Vianini S.p.A. (Director).

### Induction program

In 2019, the members of the Board of Directors and the Board of Statutory Auditors took part in an in-depth meeting on FinTech.

### 4.3 ROLE OF THE BOARD OF DIRECTORS

The Articles of Association grant the Board of Directors the broadest powers of Bank ordinary and extraordinary administration. More specifically, they grant the faculty to carry out all acts and deeds it may hold appropriate for the implementation and attainment of the corporate purpose, only excluding any act that the law reserves to the Shareholders' Meeting.

In 2019, 17 meetings of the Board of Directors were held; their average duration was 1.40 hours. During 2020, 5 meetings have already been held and a further 8 are scheduled.

The meetings are carried out with notice of at least 5 days, as per the Articles of Association, sent via e-mail or registered letter and the board meetings are conducted by dedicating the time necessary to the items on the agenda to allow a constructive debate and gather the contributions from the directors.
As a rule, the Joint General Manager is invited to attend the Board meetings; the heads of the control functions and the key executives are invited to attend as well, depending on the items in the agenda of the subsidiaries as well.
The Bank established an IT platform which Directors and Statutory Auditors can access using their credentials, in order to consult the documents relating to board meetings.
In addition to the powers exclusively attributed by Article 2381 of the Italian Civil Code, also taking into account the indications of the Code, in 2019 the Board of Directors of the Bank, in particular:

i) assessed, on the basis of information acquired from the appointed bodies (Managing Director, General Manager, Joint General Manager, Manager in charge of preparing the accounting documents), and with the control functions, the suitability of the administrative and accounting organisation, with a special reference to the internal auditing and risk management system; it continuously verified the corporate structure and consequently the efficiency of the internal auditing system;
ii) examined the organisational, administrative and accounting structure of the subsidiaries;
iii) examined and approved the Bank's three-year strategic plan and approved the quarterly, half-yearly and annual and consolidated balance sheets and income statements of the Bank and its subsidiaries, and periodically monitored their implementation;
iv) assessed and approved the Bank's operations in advance and, in compliance with that specified by the Group Regulations, approved operations of significant strategic, economic, equity and financial importance involving its subsidiaries;
v) positively ascertained the independence of 5 Directors.

**Self-assessment**

The self-assessment of Banca Finnat's Board of Directors will be conducted in 2020, geared towards the appointment of the new Board of Directors which will coincide with approval of the financial statements at 31 December 2020.

### 4.4 APPOINTED BODIES

The Bank delegated all management powers to the Managing Director and General Manager, Mr. Arturo Nattino, who is the Chief Executive Officer of the Bank. The interlocking directorate situation prescribed by application Criterion 2.C.5 of the Code is not applicable.
The Chairman is responsible for the legal representation of the Bank against third parties and in legal proceedings and for the company signature. The Chairman's duties are to organise the work of the Board and to provide liaison between executive and non-executive Directors.
The Deputy Chairmen of the Board of Directors are responsible, in accordance with the Articles of Association, for replacing the Chairman in all his tasks and powers, taking his/her place in the event of his/her absence or impediment.
The Managing Director, without prejudice to the powers of the Board of Directors in accordance with the law and the Articles of Association, is granted all powers necessary for the Bank's administration, with the broadest powers in this respect. Within the scope of the tasks assigned, the Managing Director shall represent and sign on the Bank's behalf.

**Chairman of the Board of Directors**

The Chairman of the Board of Directors has the powers prescribed by the law and by the Articles of Association; the Chairman has not received any management powers.

**Disclosure to the Board**

The Managing Director reports to the Board of Directors, on a half-yearly basis, on the work carried out under the scope of his powers.

During Board meetings, the Chairman of the Board of Directors informs the Directors in a timely manner of all updates to first and second level regulations linked to the Bank and Group's activities.

### 4.5 OTHER EXECUTIVE DIRECTORS

In addition to the Managing Director/General Manager, the Deputy Chairman, Leonardo Buonvino, is an executive director.

### 4.6 INDEPENDENT DIRECTORS

The Board of Directors, appointed by the Shareholders' Meeting of 27 April 2018 and in office until approval of the 2020 financial statements, was formed in accordance with the criteria specified in the Code and the regulations issued by the Bank of Italy and by Consob and is composed of 11 directors, 5 of whom independent.

Each independent Director filed his/her professional CV and released the statement of independent and undertook to notify the Board of Directors of any changes that may occur during his/her time in office as Director.

The checks regarding the independence of the Directors are carried out by the Board at the time of appointment and subsequently on an annual basis; the last check was conducted at the meeting on 24 February 2020.

### 4.7 LEAD INDEPENDENT DIRECTOR

The Bank's Board of Directors – despite the conditions not being satisfied, but for the purpose of aligning itself with the best market practices – appointed the Lead Independent Director Mr. Marco Tofanelli.

## 5.0 PROCESSING OF COMPANY DATA

The Bank has an internal procedure for the management of communications to the public of relevant events and circumstances, with the objective of allowing the fulfilment of the disclosure obligations pursuant to Article 114 of Legislative Decree no. 58 of 24 February 1998 (Consolidated Financial Law, "TUF"). Communication obligations are met, on the Bank Managing Director's behalf and on his instruction, by the "Investor Relator".

Communications are made immediately available to the public in compliance with the law.

The "Investor Relator" publishes the press releases on the Bank's website in both Italian and English, by the time of opening of the market on the day after the date on which said news is disclosed.

The disclosure remains available on the website for at least five years as from the date of publication (https://www.bancafinnat.it/it/pages/index/2/19/0/19/Info-regolamentate-Sito-Istituzionale).

In compliance with the provisions of Article 115-bis of Italian Legislative Decree no. 58/98 and of Regulation (EU) no. 596/2014, the Bank has set up the "Register of Persons with access to privileged information" (Insider Register). The Legal Department appointed to hold the "Insider Register".
The Bank has also adopted a specific internal procedure, the "Internal Dealing Code", which is binding for all Directors and Statutory Auditors and aims to govern the disclosure to be made to the market, in the event of company representatives trading in Bank shares (https://www.bancafinnat.it/it/pages/index/2/19/0/19/Info-regolamentate-Sito-Istituzionale).

## 6.0 INTERNAL BOARD COMMITTEES

The Board has established internally the Appointments Committee, the Remuneration Committee and the Risk Committee, consisting exclusively of non-executive independent Directors. For the Risk Committee and the Remuneration Committee, at least one member has accounting, financial and risk management experience.
No other Committees have been established within the Board of Directors.
The functions of the Committees have been attributed as prescribed by the Code.
The functions of the Committees are not reserved to the Board.

## 7.0 APPOINTMENTS COMMITTEE

The Committee is composed of three non-executive directors, all independent: Andreina Scognamiglio (Chairman), Lupo Rattazzi and Marco Tofanelli (members).
The meetings of the Committee are attended by the Chairman of the Board of Statutory Auditors or by another Statutory Auditor designated by him/her.
The Appointments Committee provides advice and formulates proposals for the Board of Directors, which incorporate the formulation of opinions, proposals and recommendations, in order to identify professionals who can contribute to the optimal qualitative and quantitative composition of the Board of the Bank and of its subsidiaries and investees; it also expresses its opinion on the outcomes of the self-assessment of the Bank's Board.
In 2019, the Committee met 3 times; meetings had an average duration of 35 minutes.
The Heads of the Functions involved in relation to the items on the Agenda were invited to attend.
During 2019, the Committee:

1. provided regular information to the Board of Directors through its Chairman, reporting in the first useful board meeting, about the activity carried out and the contents of the Committee meetings held in the time intervals between Board of Directors meetings;
2. expressed its opinion on the results of the self-assessment by the Board of Directors relating to 2018;
3. expressed its opinion on the appointments in the subsidiaries and investees.

For the correct performance of its functions, the Committee had the opportunity to access all information and company functions necessary for the performance of its duties.

## 8.0 REMUNERATION COMMITTEE

The Committee is composed of three non-executive directors, all independent: **Roberto Cusmai** (Chairman), **Ermanno Boffa** and **Andreina Scognamiglio** (members).
The meetings of the Committee are attended by the Chairman of the Board of Statutory Auditors or by another Statutory Auditor designated by him/her.
The Remuneration Committee provides advice and submits proposals to the Board of Directors concerning the remuneration of corporate officers and heads of the corporate control functions and the determination of personnel remuneration criteria.
The duties of the Committee are set by resolution of the Board of Directors who established and they can be supplemented or changed by subsequent resolution of the Board of Directors on the proposal of the Committee.
It met 6 times in 2019, with an average duration of approximately 30 minutes per meeting; in the current year, 2 meetings were held.
No director concerned took part in the meetings of the Remuneration Committee during which proposals were made with regard to their remuneration.
The Heads of the Functions involved in relation to the items on the Agenda were invited to attend.
During 2019, the Committee:

- provided regular information to the Board of Directors through its Chairman, reporting in the first useful board meeting, about the activity carried out and the contents of the Committee meetings held in the time intervals between Board of Directors meetings;
- examined the general principles and the 2019 Incentive System of the Bank and the subsidiaries and expressed its favourable opinion;
- approved the report on its activities carried out in 2018;
- expressed a favourable opinion on the remuneration policies for Directors, employees and contractors not bound by an employment agreement;
- examined the Remuneration Report relating to the remuneration paid out in 2019, prepared pursuant to Article 123-ter of Italian Legislative Decree 24 February 1998, no. 58 (Consolidated Financial Law, "TUF") and of Article 84-quater of Consob Regulation no. 11971 ("RE"), as well as in compliance with the Prudential Supervisory Provisions of the Bank of Italy;
- identified the most significant personnel;
- expressed a favourable opinion on the proposal to pay an annual fee to the Deputy Chairman based on the powers conferred;
- ascertained that the conditions for the activation of the 2018 Incentive System of the Bank and of the companies of the Group were met;
- expressed a favourable opinion to the granting of bonuses for "significant personnel";
- expressed a favourable opinion on the appointment of the head of the Internal Audit function;
- analysed and expresses its opinion to the Board regarding the letter of the Corporate Governance Committee concerning the matters of interest.

For the correct performance of its functions, the Committee had the opportunity to access all information and company functions necessary for the performance of its duties.

## 9.0 DIRECTORS' REMUNERATION

On 24 April 2019, the Shareholders' Meeting of Banca Finnat approved the policy for the remuneration of Directors, employees and contractors not employed directly by the Bank; for more details, please refer to the "Remuneration Report" drafted in accordance with art. 123-ter of the TUF relating to 2018 that will be published in accordance with the legal terms on the website www.bancafinnat.it in the section *Corporate Governance*.



## 10.0 RISK COMMITTEE

The Committee is composed of three non-executive directors, all independent: **Marco Tofanelli** (Chairman), **Ermanno Boffa** and **Roberto Cusmai** (members).
The entire Board of Statutory Auditors attends the Committee's meetings.
The Risk Committee, as prescribed in its own Regulation, performs the duties of the independent directors' Committee as provided by the "Regulation for Related Party Transactions and for the assumption of risk assets with regard to Related Parties" of Banca Finnat.
The Risk Committee has preparatory, advisory and proposal-making functions, incorporating the formulation of proposals, recommendations and opinions in relation to the internal auditing and risk management system, as well as the approval of periodic financial reports.
In 2019, the Committee met 13 times for an average duration of 1.15 minutes; 3 meetings were held in the current year.
The Heads of the Functions involved in relation to the items on the Agenda were invited to attend.
During 2019, the Committee:

- provided regular information to the Board of Directors through its Chairman, reporting in the first useful board meeting, about the activity carried out and the contents of the Committee meetings held in the time intervals between Board of Directors meetings;
- prepared and shared its annual Report to the Board on the activity carried out in 2018; it expressed its opinion on the adequacy and effectiveness of the internal auditing and risk management system;
- prepared and shared its half-year Report to the Board on the activity carried out from 1 January to 30 June 2019;
- received an outline of the report on the activity carried out in the second half of 2018 by the Supervisory Body;
- received information about the new employment agreement signed by the Head of the Internal Audit Function and expressed its favourable opinion on it;
- analysed and approved the following documentation:
  a) the Corporate Governance report at 31 December 2018;
  b) the quarterly summary reports (t*ableau de bord*) of the internal control functions,
  c) the ICAAP/ILAAP Preliminary Summary;
  d) an update of the RAF - Risk Appetite Framework;
  e) the ICAAP/ILAAP report relating to risk analysis;
  f) the quarterly report on transactions with related parties;
  g) the annual reports of the control functions;

h) the 2019 plan of activity of the control functions;
i) the annual report on complaints, drafted by the Compliance function;
j) related party transactions;
k) the framework resolutions regarding transactions involving the trading of financial instruments with related parties and current account overdrafts with related parties;
l) the half-yearly report of the Compliance function on transactions in financial instruments carried out by company representatives;
m) update of the Regulation for transactions with related parties;
n) the response to the requests of the Bank of Italy regarding complex products;
o) the annual Whistleblowing report and Whistleblowing policy;
p) the report drafted by the Internal Audit and Compliance functions on the practices and procedures of the Studies and Research Office and on conflicts of interest;
q) the outcomes of the self-assessment of money laundering risks;
r) the report on the controls performed on important operating functions outsourced outside of the Group prepared by the Internal Audit function;
s) the report on investment services drafted by the Internal Audit function;
t) the analysis of the memorandum on Bio On drafted by the Internal Audit function;
u) the impairment test – methodological note and the associated update;
v) the preliminary results at 31 December 2019;
w) the IFRS 9 and Third Pillar validation document;
x) the disclosure provided by the Manager in charge of preparing the accounting documents concerning the 2019 financial statements.

## 11.0 INTERNAL AUDITING AND RISK MANAGEMENT SYSTEM

The Bank, in line with current regulations and consistently with the indications of the Code, has adopted an Internal Auditing and Risk Management System capable of continuously monitoring the typical risks of the company's activity.
Thus, the Internal Auditing and Risk Management System is the comprehensive set of organisational controls, procedures and rules of conduct directed at enabling, through an adequate process of identification, measurement, management and monitoring of the main risks, a sound and proper management of the company, consistent with pre-set objectives. This system is an integral part of operations and it involves all sectors and corporate structure, each called, for matters under its competence, to assure constant, continuous monitoring of the risks.
The Internal Auditing and Risk Management System meets the need to assure sound and prudent management of the activities of the Bank and of the group, reconciling, at the same time, the attainment of the company objectives, the correct and punctual monitoring of risks and operations guided by correctness criteria; this system also meets the prescription of Article 7 of the Code.
The Internal Auditing and Risk Management System of Banca Finnat, defined by the Board of Directors and subject to periodic monitoring, consists of:
a) *line audits*: audits – of a systematic or periodic nature on a sample of data – carried out by the heads of the individual operating units, directed at assuring the correct performance of the transactions carried

out by the same productive structures or included in the procedures or carried out within the scope of back office activities;

b) *risk management audits*: audits carried out by the heads of the individual operating units and by the Risk Management Organisational Unit, connected with the process of definition of risk measurement methods, pertaining to the verification of compliance with the limits assigned to the various operating units and the check of consistency of the operations of the individual productive areas compared to the risk/return targets assigned for the individual types of risks (credit, market, operational);
c) *compliance audits*: audits carried out by the Compliance Organisational Unit on the operations' compliance with the law, with the instructions of the supervisory Authorities and with the Bank's own regulations;
d) *anti-money laundering audits*: audits carried out by the Anti-Money Laundering Organisational Unit on the operations' compliance with the law and with the instructions of the Supervisory Authorities to combat money laundering and the financing of terrorism, and with the Bank's consequent regulations;
e) *internal audit activity*: activity carried out by the Internal Auditing Function to check the regularity of the Bank's operations and risk trends, to assess the functionality of the comprehensive internal auditing system and to identify any anomalies and violations of procedures and regulations.

On 23 January 2019, the Board of Directors approved the fifth version of the RAF - Risk Appetite Framework, represented by the Policies, by the Processes, by the limits and control systems implemented by the Group to define and monitor the risk level the Bank intends to assume.

On 19 March 2019, the Board of Directors approved an update to the Policy for internal systems for the reporting of violations (whistleblowing), with the objective of reinforcing the protection of workers who report offences or irregularities that have occurred in relation to a public or private employment relationship.
In particular, the Policy was supplemented in order to:

- introduce the use of the alternative reporting channel, in addition to the electronic one, suited to guaranteeing the confidentiality of the whistleblower;
- reinforce the protection of the whistleblower against acts of reprisal or discrimination (such as dismissal) for reasons related directly or indirectly to the report;
- apply disciplinary measures against those who engage, through wilful misconduct or gross negligence, in groundless reports, for the purpose of damaging or prejudicing the reportee;
- clarify the corporate autonomy of the subsidiaries regarding the establishment and maintenance of an adequate and functioning whistleblowing system, in respect of the management and coordination guidelines defined by Banca Finnat;
- update new examples of areas subject to "whistleblowing";
- ensure compliance with the new regulatory framework regarding privacy.

The reports pertain to any behaviour constituting a violation of the rules governing the banking activity and investment services (Consolidated Law on Banking and Consolidated Financial Law).
On 19 March 2020, the Compliance Function submitted the report to the Board of Directors on the internal Whistleblowing systems for 2019, pointing out that it had not received any reports through the

aforementioned system. The report was made available to the Bank's personnel through its publication on the corporate Intranet by the Function itself.
The report ends with the 2020 work plan.



The Bank's Internal Auditing and Risk Management System also extends to the subsidiaries.
The Bank defined in a dedicated Policy the guidelines and the fundamental values on which its Internal Auditing System is based.
The keystone principles are:

- the corporate activity must comply with the applicable internal and external rules and it must be traceable and documentable;
- the assignment and the exercise of the powers within a decision-making process must be coupled with the positions of responsibilities and with the significance and/or the critical nature of the underlying economic transactions;
- there must be no subjective identity between those who make or implement the decisions, those who must provide accounting evidence of the transactions that were decided and those who must audit them as prescribed by law and by internal procedures;
- the confidentiality and compliance with regulations protecting privacy must be assured.

Responsibility for the Internal Auditing System rests, in accordance with current regulations, with the Board of Directors, which shall: (i) set its guidelines, strategic directions and risk management policies; (ii) approve the organisational structure of the Bank, ensuring that duties and responsibilities are clearly and appropriately assigned and periodically verify their adequacy and actual operation, ensuring that the main corporate risks are identified and managed properly; (iii) ensure that the control functions have an appropriate level of independence within the structure and are provided with adequate resources for correct operation.
Moreover, the Board of Directors with the support of the Risk Committee within the Board, periodically assesses the functionality, effectiveness and efficiency of the Internal Auditing System, promptly adopting any corrective measures as deficiencies and/or anomalies emerge in the performance of the audits.
To implement the recommendations of the Code on the matter of internal controls, the Board:

a) defined the guidelines of the Internal Auditing and Risk Management System, so that the main risks of the Bank and of its subsidiaries are correctly identified and adequately measured, managed and monitored, further determining, by approving the Risk Appetite Framework, the degree of compatibility of such risks with a management of the Bank that is consistent with the identified strategic objectives, both in an annual and multi-annual perspective;
b) periodically assesses the adequacy of the Internal Auditing and Risk Management System with respect to the Bank's characteristics and to the assumed risk profile, as well as its effectiveness; this assessment takes place mainly through: (i) the review, carried out with the support of the Risk Committee and with quarterly periodicity, of the results of the *tableau de bord* prepared by the heads of the control functions and with annual periodicity, of the results of the annual Reports, also prepared by the heads of the control functions; (ii) approval of the work plans prepared by the Heads of the corporate control functions.

Moreover, the Bank exercises management and coordination activities with respect to group companies through:

a) strategic control over the evolution of the different areas of activity in which the group operates and of the risks bearing on the property portfolio. This is control both on the expansion of the activities carried out by the companies of the group and on the policies for acquisition and disposal by group companies; strategic coordination is carried out mainly through the presence, in the Boards of Directors of each subsidiary, of some exponents designated by the Board;
b) management control directed at assuring that the conditions of economic, financial and capital balance of both the group's individual companies and the group as a whole are maintained. These control needs are met through the preparation of plans, schedules and budgets (company and group), and through the analysis of periodic statements, interim reports, yearly financial statements, at the individual company and consolidated level with reference to the entire group. Management coordination is provided through the intervention of the Planning and Management Control Organisational Unit that manages relations with the bodies/functions of the subsidiaries;
d) technical-operational control directed at assessing the various risk profiles provided to the group by the individual subsidiaries.

The Managing Director oversees the implementation of the strategies, of the RAF and of the risk governance policies defined by the Board of Directors; in particular:
a) it promotes the development and widespread adoption, at all levels, of an integrated risk culture in relation to the different types of risks and extended to the entire Bank;
b) it oversees the implementation of the strategies, of the Risk Appetite Framework - "RAF" (risk objective system) and of the risk governance policies defined by the Board of Directors;
c) it defines and oversees the implementation of the risk management process, assuring its consistency with the risk appetite framework and the risk governance policies and sets operational limits to the assumption of the various types of risk, consistent with the risk appetite framework;
d) it establishes the responsibilities of the corporate structures and functions involved in the risk management process, in order to prevent potential conflicts of interest; it also assures that the relevant activities are directed by qualified personnel, with an adequate level of independence and with adequate experience and knowledge for the duties they must perform;
e) it defines the internal information flows directed at ensuring that the corporate Bodies and the corporate control Functions are fully aware and capable of governing the risk factors and of verifying compliance with the RAF;
f) it implements the initiatives and actions necessary to continuously assure the completeness, adequacy, functionality and reliability of the internal auditing system and informs the Board of Directors of the results of the checks carried out;
g) it assures a correct, timely and secure management of the information for accounting, managerial and reporting purposes.

**Internal auditing system in relation to the financial disclosure process**
The Internal Auditing System in relation to the financial disclosure process is considered an integral part of the risk management system.
The purpose of the System is to assure the reliability, accuracy, trustworthiness and timeliness of the financial disclosure published periodically by the Bank, where these terms mean:

- **Reliability**: disclosure having the characteristics of correctness and compliance with generally accepted accounting principles and having the requirements prescribed by the applied laws and regulations;
- **Accuracy**: disclosure having the characteristics of neutrality and precision: the disclosure is considered neutral if it lacks preconceived distortions aimed at influencing its users' decision-making process in order to obtain a predetermined result;
- **Trustworthiness**: disclosure having the characteristics of clarity and completeness, such as to lead to informed investment decisions by investors: the disclosure is deemed clear if it facilitates the understanding of complex aspects of the company, but without becoming excessive and redundant;
- **Timeliness**: disclosure complying with the prescribed deadlines for its publication.

With reference to the measures adopted by the Bank to assure the characteristics of reliability, accuracy, trustworthiness and timeliness of the financial disclosure, reference is made to the activities carried out with respect to the definition of the Governance and Control Model of the Manager in charge of preparing the accounting documents, prepared in accordance with Article 154-bis of the Italian Consolidated Financial Law, which constitute a necessary prerequisite to assure a constant and complete view of the corporate areas that are actually relevant for the purposes of the preparation of the statutory and consolidated corporate accounting documents.

The definition of the Governance and Control Model of the Manager in charge of preparing the accounting documents of the Banca Finnat Group was guided:

- by the preliminary identification of a recognised, widely employed comparison model;
- by comparison with reference practices defined or referenced by institutional bodies;
- by comparison with domestic and international best practices adopted by businesses comparable with the Banca Finnat Group.

The model used as a reference by the Bank, which constitutes an internationally recognised method for analysing and evaluating the Internal Auditing System, is the one established by the CoSO Report – "Internal Control Integrated Framework" – developed by the "Committee of Sponsoring Organisation of the Treadway Commission".

Within the scope of the activities carried out, the roles and responsibilities were punctually identified of the corporate Functions involved in the existing risk control and management system in relation to the financial disclosure process of the Bank and of the Group.

The correct operation of the existing risk control and management system in relation to the financial disclosure process is a prerequisite and it cannot be independent from the punctual identification of the roles and responsibilities of the involved corporate functions.

In this regard, the Bank formalised its internal information flows and adopted a synoptic picture of the relationships between the Manager in charge of preparing the accounting documents and the other corporate functions.

The Bank adopted, in compliance with the provisions of Article 154-bis of the Italian Consolidated Financial Law, the office of the Manager in charge of preparing the accounting documents, who performs the following duties:

a) verification of the adequacy and actual application of administrative and accounting procedures for the preparation of the statutory and consolidated financial statements and of the abbreviated half-yearly financial statements;
b) verification that the documents are prepared in accordance with the applicable international accounting standards;

c) verification that documents match the accounting books and entries;
d) verification of the documents' ability to give a true and fair representation of the economic, financial and equity situation of the Bank and of the set of companies included in the consolidation;
e) verification, for the statutory and consolidated financial statements, that the report on operations includes a reliable analysis of the management performance and results, as well as the situation of the Bank and the Group of companies included in the consolidation, along with a discussion of the primary risks and uncertainties to which they are exposed.

To exercise the activities and to implement the necessary controls, the Manager in charge of preparing the accounting documents employs the control functions and the other Organisational Units of the Bank and of the Group and in particular:

a) of the Internal Auditing function, which provides the elements and information in relation to the critical areas observed within the Group in the course of its activity, providing its own opinions on the adequacy of the different entities of the Group and the necessary improvement actions;
b) of the Organisation Service, which provides the necessary support for the formalisation of the processes, risks and sensitive controls;
c) of the Group companies that provide the necessary data and information and report any anomalies or problems of procedures noted within the scope of their activity, which may cause significant impacts on the financial situation of the Bank or of the Group.

During the 2019 financial year, the Board of Directors approved the work Plan prepared by the Internal Audit Function with the input of the Board of Statutory Auditors and assessed the Internal Auditing and Risk Management System of the Bank, considering it appropriate to the features of the business carried on by the Bank.

The following is a brief description of the main auditing devices adopted by the Bank.

*The Compliance Function*

The Function, which reports to the Board of Directors of the Bank, oversees, in accordance with the most recent regulations of the Bank of Italy, according to a risk-based approach, the management of compliance risk with regard to business activities, verifying inter alia that the internal procedures are adequate to prevent this risk.

The head of the Function, appointed by the Board of Directors, is Pierluigi Angelini.

In general terms, compliance concerns the regulatory areas in respect of which forms of specialised supervision are not already provided for within the Bank.

The Compliance function is responsible for the management of compliance risk for the most relevant regulations, such as those pertaining to the exercise of banking and intermediation activities, management of conflicts of interest, transparency with regards to customers and, more generally, regulations established to protect the consumer, verifying that internal procedures are adequate for the prevention of said risk.

For the other regulations for which specialised supervision already exists, it is responsible together with the specialist functions in charge of defining the methodologies for the assessment of the compliance risk and the related procedures.

In addition it performs for Finnat Fiduciaria, under outsourcing arrangements, the activities prescribed for the Compliance function, when applicable; the activity is regulated by a dedicated agreement; concurrently, it ensures guidance, coordination and control of the activities performed by the Compliance function of the investee InvestiRE SGR, of Finnat Gestioni S.A. and of Natam Management Company.

The Function shall carry out the following tasks:

a) it assists the Risk Manager in the definition of the methodology relating to compliance risks and assesses and controls the reputation risk according to the procedures established by him;
b) it identifies the procedures appropriate to ensure an adequate supervision of non-compliance risks identified in accordance with the methodology per letter a);
c) it continuously identifies the applicable regulations, measure and assess their impact on processes and on corporate procedures and propose the organisational and regulatory measures necessary to comply with reference regulations;
d) it assesses the suitability and efficiency of the measures taken to remedy any deficiency in complying with obligations laid down by the relevant legislation;
e) it informs the competent organisational units about obligations contained in the reference regulations, in case of procedural or contractual changes;
f) it assesses in advance compliance with the applicable regulations of all innovative projects, including operations in new products or services or the entry in new markets, which the Bank intends to undertake, having regard inter alia to the prevention and management of conflicts of interest both between the different activities performed by the Bank, and with reference to the employees and to corporate officers;
g) it provides consultancy and support services with regard to corporate bodies and structures in areas in which compliance risk is significant, and it collaborates in the staff training activity on the provisions applicable to the activities carried out;
h) it carries out, also with the collaboration of specialist functions, specific tests as well as regular controls on business procedures to evaluate their effectiveness and adequacy in relation to the objective of preventing compliance risk;
i) it continuously verifies compliance with the contractual limits prescribed for the individual asset management lines, and it prepares information reports for the involved corporate functions;
j) it assists the Operations Department and the Risk Control Organisational Unit both in the analysis of the ICT risk of the Bank and in the preparation of the period information to the Managing Director on the analyses and assessments carried out;
k) it verifies the analysis of conformity and of the outsourcing agreements and with suppliers;
l) it provides corporate bodies with adequate information flows on the results of the activities carried out, the initiatives implemented on identified problems and the corrective actions to be taken, also with reference to the Group companies and to the other investees;
m) it coordinates and exchanges information flows, with the other corporate control functions and towards the Supervisory Body for matters under its competence;
n) it verifies the consistency of remuneration and company incentive policies and practices;
o) it verifies the compliance of the audit procedures of ICAAP/ILAAP with the external and internal regulations;
p) it monitors trading carried out on behalf of third parties and on its own behalf on financial instruments, for the purpose of complying with regulations on Market Abuse;
q) it manages the internal violation reporting system (whistleblowing): it receives any reports, it verifies their truthfulness and it notifies the competent corporate bodies for the consequent and appropriate assessments;
r) it manages the customer complaints log.

For the purposes of the guidance, coordination and control activity as parent company, the Bank's Compliance function, with respect to the investees, it can:

- ask for clarifications in relation to matters under its competence;
- directly verify compliance with the obligations of the investee according to the procedures. In this case, the checks are carried out with the aid of the corresponding Function of the investee. The results of the checks are communicated to the administration and control bodies of the Parent Company.

*Internal Auditing*

Internal Audit activities are entrusted to the Internal Auditing Organisational Unit that directly reports to the Board of Directors of the Bank.

The head of the Function, appointed by the Board of Directors, is Maria De Simone.

The Function is provided with the required autonomy and independence from the operating structures and has adequate resources and means to carry out its task, works with personnel with appropriate knowledge and professional skills and has no access restrictions to company data and files.

Internal Auditing is responsible for ensuring a constant and independent supervisory action on the regular course of the operations and processes of the Bank in order to prevent or report the occurrence of anomalous and risky behaviours or situations, evaluating the effectiveness of the overall internal auditing system and its suitability to ensure the effectiveness and efficiency of corporate processes, safeguard the value of assets and protect against losses, ensure the reliability and integrity of financial and management information, the compliance of the operations both with the policies established by the company governance bodies and by internal and external laws and regulations. It also provides consultancy services to the corporate functions also by taking part in projects, in order to improve the effectiveness of control processes.

The tasks and activities of the Function, in addition to being defined in the company Function Diagram, are defined in the special Regulations issued by the Board of Directors of the Bank.

In carrying out its tasks, the Internal Auditing takes into account the risks involved in different areas in view of the strategic objectives and of information obtained from the results of the audits and of the consequent priorities, it prepares an Action plan – on the basis of which it will operate – which is screened by the Risk Committee, and subsequently approved by the Board of Directors.

The Internal Audit Function carries out the aforesaid activity for Banca Finnat as well as for the subsidiary Finnat Fiduciaria S.p.A. on the basis of a dedicated outsourcing agreement that regulates the services rendered. It also performs coordination activities on the subsidiary InvestiRE SGR S.p.A. and it carries out control activities on the investees Finnat Gestioni S.A. and Natam Management Company.

The weaknesses found during the audits are systematically reported to the Organisational Units involved for a prompt action of improvement in respect of which a follow-up is carried out subsequently.

The Internal Audit Function was assigned the task of overseeing the regular performance of operations of the Bank and the evolution of risks and to assess the completeness, adequacy, functionality and reliability of the components of the Internal Auditing System, suggesting possible improvements to the Risk Appetite Framework ("RAF"), to the risk management process and to the instruments for measuring and controlling risks, formulating, on the basis of the results of the audits, recommendations to corporate bodies.

The function shall carry out the following tasks:

a) checks, also with on-site inspections, the regularity of the different corporate activities and compliance, in the different operating sectors, with the limits prescribed by the authorising mechanisms, as well as full and correct use of the available information in the different activities;

b) assesses the completeness, adequacy, functionality and reliability of the other components of the internal auditing system including second level control corporate functions, of the risk management process and of the other corporate processes;
c) verifies the effectiveness of the RAF definition process, the internal consistency with the overall set-up and the conformity of corporate operations with the RAF;
d) verifies, within the ICAAP/ILAAP, the effective application of the regulations and the contents of the report; verifying revisions and monitoring the action plan and proposing improving actions to be included in the action plan;
e) verifies the adequacy, overall reliability and security of the information system (ICT audit) and regularly controls the company's business continuity plan;
f) verifies the adequacy and correct operation of the corporate processes, including outsourced ones, and of the methods for assessing corporate activities with particular regard to financial instruments;
g) carries out controls on important operating or outsourced control functions;
h) performs periodic tests on the functioning of the operating and internal control procedures;
i) verifies the removal of anomalies identified in the operations and functioning of the controls;
j) monitors the respect for the internal policies and regulations;
k) carries assessment tasks also with regard to specific irregularities, where required by the Board of Directors, by the Managing Director and the General Manager and by the Board of Statutory Auditors;
l) directly communicates the results of the assessments and the evaluations carried out by the corporate bodies and, in the event of assessments concluded with negative judgments or that highlight significant shortcomings, transmits the outcomes to said bodies fully, promptly and directly;
m) ensures the corporate bodies have adequate information flows on the results of the activities carried out, the initiatives implemented on identified problems and the corrective actions to be taken, also with reference to Finnat Fiduciaria and the other investees;
n) coordinates and exchanges information flows, with the other corporate control functions and with the auditing firm, and ensures information flows towards the Supervisory Body for matters under its competence;
o) engages in relations with the Supervisory Bodies for the activities within its competence.

The Function reports every quarter to the corporate bodies on the results of the activities carried out and it prepares and submits to the aforesaid bodies the report on the set of activities it carried out during the year also with respect to outsourcers for the important operating functions outsourced. It also submits the Plan for the three-year activities that is approved by the Board of Directors, with the input of the Risk Committee.

During the year, the head of the Function prepared the three-year plan of activities, presented to the Board of Directors at the meeting on 19 March 2019. The plan is composed of a fixed part, i.e. audits that are repeated each year given required by the reference legislation and therefore targeted at verifying the compliance of the same, and by a variable part that includes specific audits and controls that aim to ascertain respect for the internal regulations, by the Bank's departments (organisational units), in providing banking and investment services.

The Audit Plan is structured according to a risk based approach, with the goal of intervening on the main corporate risks and of covering the relevant corporate scope within a reasonable time interval.

The Function, in accordance with the plan, has planned and carried out direct and specific control activities on the Bank's departments in order to ascertain the adequacy of the internal auditing and risk management

system, the effectiveness of the first level controls and the monitoring of risks by the second level control functions.
At the end of each audit, the Head of the Function draws up a report, which describes in detail the activities carried out, their results and the suggestions made to remove any anomaly reported or to improve the audit system within the analysed processes. The records of the audits are delivered to the Senior Management, to the Heads of the Organisational Units involved in the audit process and, if of interest, to the other corporate control functions.
The Head of Internal Auditing also prepares a quarterly summary report (*tableau de bord*) on the audits carried out in the reference quarter and annually, the summary report on the activities performed during the year, as well as the report on the audits carried out with respect to the important outsourced operating functions which it submits to the Board of Directors, after it is analysed by the Risk Committee and by the Board of Statutory Auditors.
If particularly important situations occur, the Head of the Function informs immediately the competent Company Bodies and Functions.

In 2019, the areas of intervention concerned, among other things:
a. anti-money laundering and anti-terrorism;
b. the ICAAP/ILAAP process and the RAF;
c. the important operating functions outsourced;
d. the security and reliability of the IT systems;
e. the exposure to related parties;
f. the set of the activities of the headquarters and branches both with reference to banking services and to the investment services rendered;
g. the effectiveness of some processes, identified in the plan, and the observance of internal regulations;
h. the regular and correct performance of activities regarding specific organisational units forming the object of the plan for the year.

In addition to the aforesaid activities carried out for the Bank, Internal Auditing carried out audit activities with respect to the subsidiaries Finnat Fiduciaria S.p.A., Finnat Gestioni S.A. and Natam Management Company and it carried out guidance and coordination activities with respect to the subsidiary InvestiRE SGR.

The Internal Audit Function, in carrying out the activities within its competence, had access to the necessary information to perform the engagement assigned to it.

*Risk Control Function*
The Risk Control Organisational Unit, which reports to the Board of Directors of the Bank, is an important safeguard for the management of the risks connected with the different corporate activities.
The head of the Function, appointed by the Board of Directors, is Antonio Mancaniello.
The Function is provided with the required autonomy and independence from the operating structures and has adequate resources and means to carry out its task, works with personnel with appropriate knowledge and professional skills and has no access restrictions to company data and files.
The Function collaborates in the definition and implementation of the Risk Appetite Framework (RAF) and of the related risk governance policies and in the definition, preparation and revision of the Recovery Plan framework.

The Function's activities include:

a) assisting the corporate bodies and the senior management in defining the RAF, risk controlling policies and the different phases that form their management process as well as fixing the operating limits to the assumption of various types of risk;
b) formulating proposals for the updating of the Restructuring Plan with reference to: recovery indicators and the associated calibration thresholds, recovery scenarios, definition of metrics, both quantitative and qualitative;
c) proposing the quantity and quality parameters required for defining the RAF, which also refer to stress scenarios and, in case of amendments to the internal and external operating contexts, the adjustment to such parameters;
d) verifying the adequacy of the RAF and, continuously, the adequacy of the management process of risks and operating limits;
e) drawing up on a regular basis the map of risks and prepare the ICAAP/ILAAP Report in line with the RAF and the Restructuring Plan;
f) developing, validating and maintaining the risk measurement and control systems ensuring their compliance with the requirements of the specific legislation;
g) defining common metrics for assessing the operating risks in compliance with the RAF, coordinating with the Compliance Function and with the Operation Management in the IT area and defining methods of assessment and control of reputational risks, coordinating with the Compliance Function and the most exposed corporate Functions;
h) analysing the Bank's ICT risk, in concert with the Operations Department and the Compliance OU, and verifying the disclosure provided in this area by the IT outsourcer. Consequently providing an adequate periodic flow of information about the analyses and assessments made to the Managing Director;
i) assisting the corporate bodies in the assessment of the strategic risk by monitoring the significant variables;
j) analysing the risks of new products and services and those deriving from the entry in new operating and market segments;
k) providing preventive opinions on the consistency of major transactions with the RAF;
l) monitoring the actual risk assumed by the Bank and its compliance with the risk objectives as well as the compliance with the operating limits assigned to the operating structures in relation to the assumption of various types of risk;
m) ensuring monitoring regarding loans, as detailed and defined in the Bank's Credit Regulation;
n) supporting the Credits Committee in the evaluation of anomalous loans, providing its own recommendations on the matter;
o) verifying the adequacy and effectiveness of the measures taken to remedy the deficiencies identified in the risk management process;
p) ensuring the corporate bodies with adequate information flows on the results of the activities carried out, the initiatives implemented on identified problems and the corrective actions to be taken also with reference to the Trust Company of the group and the other investees; coordinating and exchanging information flows with the other corporate control functions and providing information flows to the auditing firm;
q) carrying out guidance, coordination and control on the activities performed by the risk management function of the investees, also by implementing the necessary information flows for the purposes of evaluation and monitoring of group risks.

*The Anti-Money Laundering Function*

The Function, reporting to the Bank's Board of Directors, is responsible for preventing and combatting money laundering and financing of terrorism.

The head of the Function, appointed by the Board of Directors, is Mauro Ceccarelli.

The Function has the required autonomy and independence and has adequate resources and means to carry out its task, works with personnel with appropriate knowledge and professional skills and has access to all the activities of the Bank and to any relevant information for the performance of its duties.

The Function is responsible for the performance of the activities prescribed by the current anti-money laundering regulations both for the Bank and, through outsourcing arrangements, for Finnat Fiduciaria S.p.A., as well as to ensure guidance, coordination and control of the activities of the anti-money laundering functions of the subsidiaries, according to the profiles dictated by the Group Regulation.

The head of the Function was appointed by the Manager in charge of reporting on suspicious transactions, pursuant to art. 36 of the Legislative Decree 231/2007.

The Function's activities include:

a) identifying applicable laws and regulations and measure their impact on processes and internal procedures and collaborate in the definition of the internal auditing system and procedures to prevent and counter money laundering risks;
b) continuously verifying the adequacy of the money laundering risk management process and the suitability of the internal controls and the procedures and proposing the organisational and procedural modifications aimed at ensuring adequate monitoring of money laundering risks, collaborating in the definition of the money laundering risk governance policies and the various phases into which the management process of said risk is structured;
c) verifying the reliability of the information system for the fulfilment of customer due diligence obligations, storage of data and the inputting of data to the Single Computerised Database, reporting of suspicious transactions;
d) carrying out, in agreement with the manager in charge of the reporting on suspicious transactions, checks on the functionality of the reporting process and on the consistency of the evaluations performed by the first level on customer transactions;
e) sending the aggregate data on a monthly basis to the FIU concerning the overall operations of the Bank and the objective communications regarding transactions at risk of money laundering;
f) providing consultancy and support services to the corporate bodies and to the senior management, in particular, if new products, services and activities are offered by carrying out preventively the relevant assessments;
g) carrying out, in agreement with the other company functions concerned, the annual self-assessment of the risks of money laundering to which the Bank is exposed;
h) handling, in agreement with the other competent company functions regarding training, the preparation of an adequate training plan, targeted at updating personnel on an ongoing basis;
i) ensuring corporate bodies appropriate information flows on the results of the activities carried out, the actions taken on identified problems and on the corrective actions to be taken and report on the staff training activity also with reference to Finnat Fiduciaria of the Group' and the other investees;
j) coordinating and exchanging information flows with the other corporate control functions;
k) carrying out guidance, coordination and control on the activities performed by the anti-money laundering function of the investees, also by implementing the necessary information flows for the purposes of evaluation and monitoring of group risks.

### 11.1 DIRECTOR IN CHARGE OF THE INTERNAL AUDITING AND RISK MANAGEMENT SYSTEM

The Director in charge of the Internal Auditing System is the Managing Director, who:

a) manages the identification of the main corporate risks, taking into account the activities carried out by the Bank;
b) causes the execution of the guidelines defined by the Board, handling the design, implementation and management of the internal auditing and risk management system and constantly verifying its adequacy and effectiveness;
c) handles the adaptation of this system to the dynamics of the operating conditions and of the legal and regulatory landscape;
d) may ask the Internal Audit Function to carry out audits on specific operating areas and on compliance with rules and internal procedures in the execution of corporate operations, concurrently informing the Chairman of the Board of Directors, the Chairman of the Risk Committee and the Chairman of the Board of Statutory Auditors and promptly reports to the Board of Directors about problems and critical issues emerged in the performance of his/her activity or of which (s)he was otherwise informed, so the Board can take the appropriate initiatives.

### 11.2 ORGANISATIONAL MODEL PURSUANT TO ITALIAN LEGISLATIVE DECREE NO. 231/2001

In 2004, the Bank adopted an Organisation, management and auditing model in accordance with Italian Legislative Decree no. 231/2001 (hereafter, "the Model").

On 27 April 2018, the Board appointed the members of the Body: Alberto De Nigro (Chairman), Barbara Fasoli Braccini and Alessandro de' Micheli (members).

In 2018, the Bank completed the process of completely revising the Model, which was approved on 23 January 2019 by the Board of Directors.

The Model consists of a 'general part', summarising the main contents of Italian Legislative Decree no. 231/2001, and a 'special part', which identifies the various activities of the Bank presenting a potential risk of committing the different types of crimes considered in the decree, the structures and/or functions of the Bank where these crimes can easily be committed, and the procedures and/or internal rules aimed at preventing them from being committed.

### 11.3 AUDITING FIRM

Auditing of the accounts is entrusted, in accordance with the law, to an auditing firm enrolled in the special Consob register, engaged by the Shareholders' Meeting.

The auditing firm is EY S.p.A., engaged by the Shareholders' Meeting on 29 April 2011 for the nine-year period between 2011 and 2019 to audit the statutory and consolidated financial statements and the half-yearly report.

The Shareholders' Meeting of the Bank of 1 August 2019 assigned the audit engagement for the nine-year period 2020-2028 to KPMG S.p.A.

The auditing firm has free access to the data, to the documentation and to the information useful for the performance of its own activities.

For each year, the company issues a report giving its opinion on the compliance of the statutory financial statements of the Bank with the regulations governing them.

### 11.4 MANAGER IN CHARGE OF PREPARING THE ACCOUNTING DOCUMENTS AND OTHER CORPORATE ROLES AND FUNCTIONS

The figure of the Manager in charge of preparing the accounting documents is governed by the Bank's Articles of Association, which require the person to be chosen from employees who have carried out – also in other companies – management functions for at least three years in accounting and/or auditing and/or internal auditing matters, or alternatively, has exercised the profession of accountant for at least five consecutive years, in observance of the requirements of integrity set forth in the applicable regulations for the appointment of members of the control bodies of listed companies.

The task is conferred on an open-ended basis by the Board or until an expiry date that may be established at the time of appointment, unless revoked, by the Board itself.

The Bank's Board of Directors, at the meeting on 9 February 2017, appointed the Joint General Manager as the Manager in charge of preparing the accounting documents.

The Board of Directors shall exercise oversight to ensure that the Manager in charge of preparing the accounting documents has adequate means and powers available to carry out his/her assigned duties with the help of all necessary human and material resources pertaining to the Bank, and independently exercising his spending power up to the limit of the budget annually authorised by the Board of Directors on the basis of a specific proposal presented by the Manager in charge of preparing the accounting documents and first submitted to the Board of Statutory Auditors.

In more detail, the Manager in charge of preparing the accounting documents is vested with all necessary powers for discharging his duties, so he can autonomously:

a) formulate and sign all accounting communications to be sent to the market on the Bank's behalf;
b) sign correspondence and communications of an accounting nature that are binding for the Bank;
c) prepare and sign the reports to the annual and consolidated financial statements;
d) prepare and approve business procedures impacting the individual and consolidated financial statements and documents subject to certification;
e) freely access all information deemed significant both inside the Bank and the companies of the group, to obtain adequate flows of information and/or documentation;
f) communicate with all and/or operative and auditing managers of the Bank;
g) have free access to all the Bank's computer systems;
h) have spending power up to the limits of the budget authorised annually by the Board of Directors;
i) organise the business structure using internal resources and, where necessary, may also outsource activities;
j) organise the human resources of the organisational units involved based on number and professionalism;
k) organise his office, hiring and organising all human resources and technical means held to be necessary;
l) use Internal Auditing, Organisation and Compliance for the mapping and analysis of the processes of competence and in implementing any specific controls held to be necessary.

### 11.5 COORDINATION BETWEEN THE PARTIES INVOLVED IN THE INTERNAL AUDITING AND RISK MANAGEMENT SYSTEM

The Board of Directors of the Bank assess at least on a half-yearly basis the adequacy and effectiveness of the Internal Auditing and Risk Management System with respect to the characteristics of the Bank and to the assumed risk profile.

All flows supporting the assessments of the Internal Auditing and Risk Management System by the Board of Directors of the Bank are preliminarily examined by the Risk Committee within the Board – which meets jointly with the Board of Statutory Auditors – that reports the results of its preliminary activity directly to the Board, with periodic Reports and/or by issuing opinions.

In the meeting of 19 March 2020, the following were presented to the Board:

a) The Annual Report of the Internal Auditing Function on the 2019 audits; the Report of the Internal Auditing Function on the audits carried out in 2019 on investment services; the Annual audits plan for 2020;
b) Report of the Risk Control Function on the activities carried out in 2019; Plan of activities for 2020;
c) IFRS 9 and Third Pillar validation document;
d) The Compliance Function's Report on the activity carried out in 2019 and the Report on customer complaints for 2019; the annual Audit Plan for 2020;
e) Annual Whistleblowing report;
f) The Supervisory Body's Report on the activity carried out in 2019;
g) The Report by the Manager in charge of preparing the accounting documents;
h) The Risk Committee's Report on the activity carried out in 2019;
i) The Remuneration Committee's Report on the activity carried out in 2019;
j) Report on Corporate Governance;
k) The Remuneration Report pursuant to Article 123-ter of the Italian Consolidated Financial Law.

The Board of Directors, taking also into account the contents of the aforesaid Reports and the information acquired from the appointed Bodies, assessed the Bank's organisational, administrative and accounting structure as adequate as at the date of the Board meeting.

## 12.0 DIRECTORS' INTERESTS AND TRANSACTIONS WITH RELATED PARTIES

On 27 June 2019, the Board of Directors approved a new version of the "Regulation for Related Party Transactions and for the assumption of risk assets with regard to Related Parties" already adopted in 2013 in accordance with Art. 2391-bis of the Italian Civil Code, of Consob Regulation no. 17221/2010 and with Title V, Chapter 5 of the New Prudential Supervisory Provisions for Banks set forth in Circular Letter no. 263 of the Bank of Italy. The aforementioned Regulation is available on the Company website (wwww.bancafinnat.it) in Investor Relations/Corporate Governance.

The Bank also adopted specific software for the assessment of the Related Parties and for the management of Related Party Transactions.

## 13.0 APPOINTMENT OF STATUTORY AUDITORS

In accordance with Article 20 of the Articles of Association, the Shareholders' Meeting elects the Board of Statutory Auditors, comprising three Permanent Auditors and two Alternate Auditors, all auditors listed in the register established at the Ministry of Justice.

The entire Board of Statutory Auditors is appointed on the basis of lists presented by the Shareholders, wherein candidates must be listed and progressively numbered with regard to candidates to the office of

Permanent Auditor, and assigned progressive letters with regards to Alternate Auditors. The entire Board of Statutory Auditors is appointed in compliance with gender balance regulations in force. The Bank's Articles of Association have defined the methods, time-scales and requirements for the presentation of lists.

## 14.0 COMPOSITION AND OPERATION OF THE BOARD OF STATUTORY AUDITORS

Auditors remain in office for three years and may stand for re-election. The Shareholders' Meeting that appoints the Auditors and the Chairman of the Board of Statutory Auditors also determine their fees. The Auditors shall be reimbursed all costs sustained by virtue of their office.
The Board of Statutory Auditors currently in office was appointed by the Shareholders' Meeting of 27 April 2018 and will remain in office until approval of the financial statements at 31 December 2020.
The members of the Board of Statutory Auditors were appointed from among the only list of candidates presented by the relative majority shareholder, Arturo Nattino. Since no minority list was presented, Alberto De Nigro was elected Chairman of the Board of Statutory Auditors at the proposal of the majority shareholder. The Shareholders' Meeting approved the appointment of Board of Statutory Auditors with the favourable vote of 93% of the voting share capital (accounting for 69% of the share capital).
The members of the Board of Statutory Auditors are: **Alberto De Nigro** (Chairman), **Barbara Fasoli Braccini** (Permanent Auditor), **Francesco Minnetti** (Permanent Auditor), **Antonio Staffa** (Alternate Auditor) and **Laura Bellicini** (Alternate Auditor).
The CV with the personal and professional characteristics of the Auditors is available on the website of the Bank, www.bancafinnat.it in the section "Governance".
During the year, there has been a constant exchange of information between the Board of Statutory Auditors and the Bank's control functions.

In 2019, the Board of Statutory Auditors met 33 times, with meeting attendance at 93% and with an average duration of approximately 2.5 hours. This year, 5 meeting has already been held.
The Board of Statutory Auditors attends the meetings of the Risk Committee and of the Remuneration Committee.
The Board of Statutory Auditors positively assessed the existence of the requirements of independence of its members for 2019 so informed the Board.
The Board of Statutory Auditors, which met on 19 March 2019, verified, in accordance with the Governance Code, the correct application of the assessment criteria and procedures adopted by the Board of Directors to evaluate the independence of individual directors.

An Auditor who, on his own or on third parties' behalf, has an interest in a given transaction of the Issuer, shall promptly and thoroughly inform the other auditors and the Chairman of the Board of Statutory Auditors with regard to the nature, terms, origin and scope of his/her interest.
In relation to coordination between the parties involved in the internal auditing and risk management system, please refer to paragraph 11.6 above.
With respect to the accumulation of the appointments to serve as members of the administration and control bodies in other companies, the limits set by Consob with Article 144-terdecies of the Issuers Regulation shall apply.

Based on the communications received, the offices of Director or Statutory Auditor held by each Auditor in other companies are indicated below:

**Alberto De Nigro** (Chairman)
**Vianini S.p.A**. (Chairman of the Board of Statutory Auditors), **Autostrade per l'Italia** (Permanent Auditor), F2i (Permanent Auditor), **Atlantia S.p.A.** (Permanent Auditor).



**Francesco Minnetti** (Permanent Auditor)
**InvestiRE SGR S.p.A**. (Chairman of the Board of Statutory Auditors), **Green Arrow SGR S.p.A.** (Chairman of the Board of Statutory Auditors), **Green Arrow Capital S.p.A.** (Chairman of the Board of Statutory Auditors), **Italiana Costruzioni S.p.A.** (Permanent Auditor).

*Diversity Policies*
The Bank complies with gender diversity criteria, in the composition of the Board of Statutory Auditors: one third of the permanent and alternate members of the Board consists of statutory auditors of the less represented gender.

## 15.0 RELATIONS WITH SHAREHOLDERS

The Bank dedicates particular attention to investor relations instruments, to manage transparently relations with shareholders and the financial community (institutional investors, managers, analysts); for this purpose, it organises periodic meeting with the financial community, of which it provides adequate information in its own website, in the dedicated section.
In the specific Investor Relations section of the Bank's website (www.bancafinnat.it) information of both an accounting and financial nature is available (financial statements, half-yearly reports and quarterly reports, trend of the market value of financial instruments issued by the Bank and traded on regulated markets), in addition to information of interest to most shareholders (the make-up of the corporate bodies, group set-up, etc.), as well as press releases, documents presented during the regular meetings with the financial community, explanations of extraordinary operations and other significant and price-sensitive information. The website also includes the Calendar of Corporate Events, with the dates of the Shareholders' Meetings and the meetings of the Board of Directors called to approve the draft statutory financial statements, the consolidated financial statements, the half-yearly report and the interim management reports, in addition to those of a more strictly financial nature.
The Investor Relations Manager of Banca Finnat is Mr. Gianfranco Traverso Guicciardi (tel. 06/699331 e-mail: g.traverso@finnat.it).

## 16.0 SHAREHOLDERS' MEETINGS

The Shareholders' Meeting, duly constituted, represents all shareholders. Its resolutions, when taken in compliance with the law, oblige them even if not having attended or in disagreement. The ordinary or extraordinary meeting meets in accordance with the law and the provisions of the Articles of Association.

The Board of Directors must call the Shareholders' Meeting to approve the financial statements at least once a year, within 120 days of year end. Ordinary and extraordinary meetings can be held in either the registered offices or elsewhere, in a place to be specified in the notice of calling, as long as within the territory of the Italian State. For the methods by which the Shareholders' Meetings may be called, their constitution and the validity of the resolutions passed are in accordance with the provisions of law.
The Chairman of the Shareholders' Meeting ensures that the meeting has been regularly called, ascertaining the identity and legitimate presence of those in attendance, governs its proceedings and the results of votes cast. Said results must be noted in the minutes.
There are no provisions for: shares with multiple votes, loyalty shares, or particular rules pertaining to the percentages set for exercising the shares and the prerogatives safeguarding minorities.
The Shareholders' Meeting is chaired by the Chairman, or by one of the two Deputy Chairman of the Board of Directors in his absence, or in the absence of both, by the person appointed by the shareholders present.
The Bank's Articles of Association define the methods of calling and holding of the shareholders' meetings.
At the Shareholders' Meeting of 24 April 2019, 8 directors were present, with 4 directors attending the meeting on 1 August 2019.
All documents about the Shareholders' Meeting were made available in a timely manner on the Bank's website and at its registered office.
On 18 December 2018, the Board of Directors adopted, in accordance with Article 7 of the Articles of Association and in compliance with the principles outlined in the Code, a regulation governing the conduct of the ordinary and extraordinary Shareholders' Meeting of the Bank, approved by the Shareholders' Meeting on 24 April 2019 and amended by the next Shareholders' Meeting on 1 August 2019, to acknowledge some of the additions requested by a shareholder. During the year, no significant changes occurred in the market capitalisation of the Bank's shares or in its shareholders.

## 17.0 FURTHER CORPORATE GOVERNANCE PRACTICES

**Credits Committee**

The Board of Directors, with its resolution of 16 February 2004, established the Credits Committee as an advisory instrument in the decision to grant credit facilities and subsequently, in the meeting of 12 November 2010, resolved also to attribute decision-making functions to the Committee, within the limits set by the Board itself.
The Committee, appointed by the Board of Directors, comprises six members of the Senior Management: Arturo Nattino (Chairman), Giulio Bastia, Leonardo Buonvino, Giampietro Nattino, Tommaso Gozzetti and Carlo Pittatore (members).
Participation in the Committee's meetings, depending on the items up for discussion, may be extended to contractors or third parties.

*Functions of the Committee:*

- formulates the credit policy contents to be submitted to the Managing Director at the Board of Directors;
- expresses consultative opinion on the credit line and status shift proposals for positions reserved to the decision-making competence of the bodies above the Committee itself, after obtaining the opinion of the head of the Risk Control OU;

- resolves, within the limits of its competence, proposals of assumption of credit risk and status shift for positions under its competence for all types of credit within the risk limit set by the Board of Directors, after obtaining the opinion of the head of the Risk Control OU;
- carries out periodic checks on credit exposures and on compliance with the ratios defined by the supervisory Authorities;
- defines the economic conditions to be applied to the individual credit lines;
- proposes, when necessary, the revision/update of the Regulations, procedures and support systems for the lending activity;
- analyses and assesses the reports prepared by the Risk Control OU with regard to rating changes for major counterparties and to stage changes of the reports and resolves on this regard;
- resolves, within the scope of its competence, the start of credit collection initiatives;
- approves the periodic reports on the activity carried out, prepared by the Credits Organisational Unit, to be submitted when prescribed to the Board of Directors.

The Credits Committee generally meets once a week and, in any case, each time it may be necessary.
The Head of the Legal Department serves as Committee Secretary, preparing the meeting minutes; the minutes, approved at the end of the meeting, are signed by the Chairman and by the Secretary and the related documentation is retained by the Legal Department.
The Committee reports every six months to the Board of Directors on the activity it carries out.
The Committee passes its resolutions by majority vote of those in attendance, expressed by raising their hands. Any contrary votes or abstentions are mentioned in the minutes.
Committee members shall keep strict confidentiality and refrain from divulging any information whereof they become aware in the performance of their duties and they act with utmost diligence to prevent the external disclosure of confidential information.

**Management Committee**

By means of resolution of 15 December 2011, the Board of Directors established the Credits Committee as a support body for the Managing Director and the General Manager in the definition of the guidelines and investment strategies of the assets managed.
The Committee is composed of the Managing Director and the General Manager (Chairman), and as members by the Deputy General Manager, by the Head of Sales Department, Head of Investments and institutional relations Department, Head of Studies, research and investor relations Organisational Unit, Joint Sales Director, Representative of Family office Organisational Unit and Head of Institutional investors Organisational Unit.

*Functions of the Committee:*

- to formulate proposals, within the investment policies, assessing whether to maintain and/or make any changes to the breakdown of the managed portfolio;
- to provide operational guidance in relation to the practical implementation of the initiatives and agree the necessary actions;
- to provide indications, as a result of the assessments made, with regard to the lines of action to be undertaken in terms of investment strategy;
- to analyse, in collaboration with the office of the Deputy General Manager and in particular with the Asset Management Organisational Unit, the managed customers' portfolio, thereby assessing the performance and general strategies on the investments carried out by the Bank;

- to monitor and evaluate current market performance, in order to reach opinions on future performance.

**Treasury Committee**

The Treasury Committee, appointed by the Board of Directors, is a body supporting the Managing Director and General Manager with respect to the investment policies and guidelines for the assets of the Bank.
The Committee is composed of the Managing Director and the General Manager (Chairman), and as members by the Joint General Manager and by the Head of the Credits Organisational Unit, the Deputy General Manager, Head of the Sales Department, Head of the Treasury Organisational Unit and Head of the Risk Control Organisational Unit.

*Functions of the Committee:*

- to define the investment strategies for the assets of the Bank;
- to provide addresses with regard to the consequent asset allocation consistently with the risk limits set by the Board of Directors;
- to monitor performance of the treasury activity;
- to analyse the property portfolios;
- to monitor the trend and the situation of the Bank's liquidity and to provide indications in this regard.

**Internal Risk and Audit Committee**

By means of resolution of 15 December 2011, the Board of Directors established the Credits Committee as support body for the Managing Director and General Manager in formulating proposals pertaining to the identification, measurement, management and monitoring of the group's risks and of the RAF and in the analysis of risks and their level of control, assured by the corporate control functions and by the operational processes.
The Committee consists of the Managing Director and General Manager (Chairman) and, as members, the Joint General Manager, the Deputy General Manager, the Head of Internal Auditing, the Head of Risk Management, the Head of Anti-Money Laundering, the Head of Compliance and the Head of the Operations Department.

*Functions of the Committee:*

The Committee meets every 3 months:

- to analyse the group's level of risk exposure in relation to the different classes of risks, with the support of the organisational units tasked with risk management and control;
- to analyse and propose upgrades to the group's internal auditing system;
- to support the Managing Director and General Manager in the analysis and in the assessment of the restructuring plan and in the assessment of the revisions to be made to the Plan;
- to analyse and assess any exceedance of the defined thresholds of the recovery indicators and if the conditions for the proposed resolution to open the state of crisis hold true, to support the Managing Director and General Manager in the consequent activities under their competence;
- to analyse the performance of corporate liquidity and its monitoring, to assess any exceedance of the risk tolerance thresholds set by the Board of Directors and, if the Emergency Plan (CFP) is activated, to support the Managing Director and General Manager in the consequent activities under their competence.

## 18.0 CHANGES SINCE THE YEAR END OF REFERENCE

There were no changes to the company governance during the year.



## 19.0 CONSIDERATIONS ON THE LETTER OF 19 DECEMBER 2019 OF THE CHAIRMAN OF THE CORPORATE GOVERNANCE COMMITTEE

The Chairman of the Board of Directors, in its meeting of 24 January 2020, opened a discussion with regard to the letter of 19 December 2019 of the chairman of the Corporate Governance Committee Ms. Patrizia Grieco and on the attached Annual Report - 7th Report on the Application of the Governance Code for 2019, ninth year of activity of the Committee and asked the competent committees to carry out in-depth analyses and its own evaluations regarding the recommendations contained therein.

As regards the first Recommendation concerning the issue of sustainability linked to the remuneration strategy and policy, the Board took on board the conclusions of the two competent committees; in particular, with regards to the dimensions and complexity of the Bank, the Risk Committee considered that there are no current bank obligations regarding sustainability and asked Internal Audit to carefully monitor the regulatory developments, also in order to evaluate any underlying risks. In relation to the issue of remuneration, the Committee within the Board considered the issue of sustainability to be well represented and adequately covered by the Bank in the definition of the remuneration strategies and policy.

As regards Recommendation no. 2 regarding the adequacy and timeliness of the flows of documents and disclosures addressed to the Board of Directors, the Bank's Board believed the measures already adopted to be adequate (Regulation and operating procedure) which respect the distribution over time of the pre-board documentation and allow the directors to deliberate in a fully-informed manner.

In relation to the criteria concerning the independence of the directors (Recommendation no. 3), the Appointments Committee reserved the right to carry out in-depth analyses on the theme of independence in 2020 and, nonetheless, in time for the renewal of the Board of Directors expected in 2021.

In relation to the matter of the remuneration of the non-executive directors and the control body (Recommendation no. 4), the Board took on aboard the conclusions of the Remuneration Committee which considered that, based on an exclusively numerical examination, the remuneration of non-executive independent directors in the reference sector (so-called "smaller banks") appears to be higher than the remuneration established for the non-executive independent directors of Banca Finnat. However, taking into account the dimension and unique characteristics of Banca Finnat, the Committee considered said remuneration to be adequate.

As regards the compensation assigned to the control body (Board of Statutory Auditors), the analysis conducted led the Committee to conclude that the remuneration established for said body is in line with that envisaged for the sample taken as a reference.

* * * * *

**TABLE 1: INFORMATION ON SHAREHOLDERS**

| SHARE CAPITAL STRUCTURE at 31 December 2019 | | | | |
|---|---|---|---|---|
| | No. of shares | % of share capital | Listed/ unlisted | Rights and obligations |
| Ordinary shares | 362,880,000 | 100% | STAR | N.A. |
| Shares with limited voting right (savings shares) | N.A. | N.A. | N.A. | N.A. |
| Shares without voting right | N.A. | N.A. | N.A. | N.A. |

**OTHER FINANCIAL INSTRUMENTS**
**(assigning the right to subscribe newly-issued shares)**

| | Listed/ unlisted | No. of instruments in issue | Categories of shares under conversion/ exercise | No. of shares under conversion/ exercise |
|---|---|---|---|---|
| Convertible bonds | N.A. | N.A. | N.A. | N.A. |
| Warrants | N.A. | N.A. | N.A. | N.A. |

**MAJOR EQUITY INVESTMENTS at 31 December 2019**

| Declarant | Direct shareholder | % share of ordinary capital | % share of voting capital |
|---|---|---|---|
| Celeste Buitoni | Celeste Buitoni | - | 7.4863% |
| Arturo Nattino | Arturo Nattino | 21.675% | 21.675% |
| Andrea Nattino | Andrea Nattino | 16.8881% | 10.8537% |
| Giulia Nattino | Giulia Nattino | 12.00% | 12.00% |
| Paola Nattino | Paola Nattino | 12.00% | 12.00% |

## TABLE 2: COMPOSITION OF THE BOARD OF DIRECTORS AND OF COMMITTEES

Board of Directors

| Office | Members | Year of birth | Date of first appointment * | In office from | In office until | List ** | Exec. |
|---|---|---|---|---|---|---|---|
| Chairman | Flavia Mazzarella | 1958 | 10.02.2016 | 27.04.2018 | Approv. 2020 Fin. Statements | M | |
| Honorary Chairman | Carlo Carlevaris | 1931 | 21.06.2003 | 27.04.2018 | Approv. 2020 Fin. Statements | M | |
| Deputy Chairman | Leonardo Buonvino | 1937 | 28.04.2006 | 27.04.2018 | Approv. 2020 Fin. Statements | M | X |
| º Deputy Chairman | Marco Tofanelli | 1962 | 15.12.2011 | 27.04.2018 | Approv. 2020 Fin. Statements | M | |
| ◊ • Managing Director and General Manager | Arturo Nattino | 1964 | 14.05.2009 | 27.04.2018 | Approv. 2020 Fin. Statements | M | X |
| Director | Ermanno Boffa | 1966 | 29.04.2009 | 27.04.2018 | Approv. 2020 Fin. Statements | M | |
| Director | Roberto Cusmai | 1943 | 26.04.2012 | 27.04.2018 | Approv. 2020 Fin. Statements | M | |
| Director | Giulia Nattino | 1974 | 24.04.2013 | 27.04.2018 | Approv. 2020 Fin. Statements | M | |
| Director | Maria Sole Nattino | 1976 | 28.04.2015 | 27.04.2018 | Approv. 2020 Fin. Statements | M | |
| Director | Lupo Rattazzi | 1953 | 28.10.2008 | 27.04.2018 | Approv. 2020 Fin. Statements | M | |
| Director | Andreina Scognamiglio | 1959 | 28.04.2015 | 27.04.2018 | Approv. 2020 Fin. Statements | M | |

**THERE ARE NO DIRECTORS WHO LEFT OFFICE DURING THE YEAR**

**No. of meetings held during the year: 17**

Risk Committee: 13 Remuneration Committee: 6 Appointments Committee: 3 Executive Committee: NA

**Indicate the required quorum for the presentation of lists by minorities for the election of one or more members (pursuant to art. 147-ter of the TUF); 2.5%**

NOTES

The symbols indicated below must be inserted in the column "Office":

- • This symbol indicates the director in charge of the internal auditing and risk management system.
- ◊ This symbol indicates the main person responsible for management of the issuer (Chief Executive Officer or CEO).
- º This symbol indicates the Lead Independent Director (LID).
- * Date of first appointment of each director means the date on which the director was appointed for the first time (first ever) to the issuer's Board of Directors.
- ** This column indicates the list from which each director has been taken ("M": majority list; "m": minority list; "BoD": list presented by the Board of Directors).
- *** This column indicates the number of positions of director or statutory auditor held by the interested party in other companies listed on regulated markets, including foreign, in financial, banking, insurance or large companies. The Report on Corporate Governance indicates the positions in full.
- (*) This column indicates the participation of the directors in the meetings of the BoD and the committees respectively (indicate the number of meetings attended out of total meetings that could have been attended; e.g. 6/8; 8/8 etc.).
- (**) This column indicates the role of the director in the Committee: "P": Chairman; "M": member.

N.B. Mr. Tofanelli was appointed for the first time at Banca Finnat on 15 December 2011, until the termination of his office on 20 November 2015. Subsequently, he was appointed via co-optation again on 10 March 2017, and confirmed by the shareholders' meeting on 27 April 2017.

| | | | | | Risk Committee | | Remuneration Committee | | Appointments Committee | | Executive Committee, if applicable | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Non-exec. | Indep. Code | Indep. TUF | No. other offices *** | (*) | (*) | (**) | (*) | (**) | (*) | (**) | (*) | (**) |
| X | X | X | 0 | 17/17 | | | | | | | N.A. | N.A. |
| X | | | 0 | 4/17 | | | | | | | N.A. | N.A. |
| | | | 0 | 17/17 | | | | | | | N.A. | N.A. |
| X | X | X | 1 | 16/17 | 13/13 | P | | | 3/3 | M | N.A. | N.A. |
| | | | 0 | 17/17 | | | | | | | N.A. | N.A. |
| X | X | X | 1 | 16/17 | 12/13 | M | 5/6 | M | | | N.A. | N.A. |
| X | X | X | 0 | 17/17 | 13/13 | M | 6/6 | P | | | N.A. | N.A. |
| X | | | 0 | 15/17 | | | | | | | N.A. | N.A. |
| X | | | 0 | 16/17 | | | | | | | N.A. | N.A. |
| X | | | 2 | 17/17 | | | | | 3/3 | M | N.A. | N.A. |
| X | X | X | 0 | 15/17 | | | 6/6 | M | 3/3 | P | N.A. | N.A. |
| | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| | | | | | | | | | | | | |

### TABLE 3: COMPOSITION OF THE BOARD OF STATUTORY AUDITORS

| Board of Statutory Auditors | | | |
|---|---|---|---|
| Office | Members | Year of birth | Date of first appointment * |
| Chairman | Alberto De Nigro | 1958 | 26.04.2012 |
| Permanent Auditor | Barbara Fasoli Braccini | 1969 | 28.04.2015 |
| Permanent Auditor | Francesco Minnetti | 1964 | 21.06.2003 |
| Alternate Auditor | Laura Bellicini | 1964 | 28.04.2015 |
| Alternate Auditor | Antonio Staffa | 1943 | 26.04.2015 |

**THERE ARE NO AUDITORS WHO LEFT OFFICE DURING THE YEAR**

**No. of meetings held during the year: 33**

**Indicate the required quorum for the presentation of lists by minorities for the election of one or more members (pursuant to art. 148-ter of the TUF); 2%**

NOTES

* Date of first appointment of each statutory auditor means the date on which the statutory auditor was appointed for the first time (first ever) to the issuer's Board of Statutory Auditors.

** This column indicates the list from which each statutory auditor has been taken ("M": majority list; "m": minority list).

*** This column indicates the participation of the statutory auditors in the meetings of the Board of statutory auditors (indicate the number of meetings attended out of total meetings that could have been attended; e.g. 6/8; 8/8 etc.).

**** This column indicates the number of positions of director or statutory auditor held by the interested party pursuant to art. 148-bis of the TUF and the associated implementing provisions contained in the Consob Issuers Regulation. The full list of offices is published by Consob on its website pursuant to art. 144-quinquiesdecies of the Consob Issuers Regulation.

| | In office from | In office until | List ** | Indep. Code | Board meetings attended *** | No. other offices **** |
|---|---|---|---|---|---|---|
| | 27.04.2018 | Approv. 2020 Fin. Statements | M | X | 33/33 | 3 |
| | 27.04.2018 | Approv. 2020 Fin. Statements | M | X | 30/33 | 0 |
| | 27.04.2018 | Approv. 2020 Fin. Statements | M | | 32/33 | 3 |
| | 27.04.2018 | Approv. 2020 Fin. Statements | M | X | *** | 0 |
| | 27.04.2018 | Approv. 2020 Fin. Statements | M | X | *** | 3 |
| | | | | | | |
| | | | | | | |
| | | | | | | |

DESIGN BY
Ape Communication Srl

| | |
|---|---|
| Share Capital | € 72,576,000 fully paid-up |
| Registered office | 00186 Rome – Palazzo Altieri - Piazza del Gesù, 49 |
| R.E.A. Reg. No. | 444286 |
| Tax Identification No. | 00168220069 |
| VAT Registration No. | 00856091004 |
| Unique Code (SDI) | IOPVBGU |

| | |
|---|---|
| Telephone | +39 06 69933.1 |
| Fax | +39 06 6784950 |
| Website | www.bancafinnat.it |
| E-mail | banca@finnat.it |
| Investor Relations | investor.relator@finnat.it |


The Company is listed on the official market and its shares are admitted to trading on the STAR segment.
The above data refers to the Parent Company Banca Finnat Euramerica S.p.A.

www.bancafinnat.it