Reports and Financial Statements 2019

DEPObank
BANCA DEPOSITARIA ITALIANA

Contents

Boards and officers

At 6 April 2020

BOARD OF DIRECTORS

Chairman	Paolo Mario Tadini
Deputy Chairman	Pier Paolo Cellerino
CEO	Fabrizio Viola
Directors	Fabio Calì Giovanni Camera Rosa Cipriotti Francesco Colli Umberto Colli Ottavio Rigodanza Ezio Simonelli Paolo Vagnone

BOARD OF STATUTORY AUDITORS

Chairman	Gianluigi Fiorendi
Standing Auditors	Lorenzo Banfi Paolo Francesco Maria Lazzati
Alternate Auditors	Andrea Brambilla Gianluca Pozzi

GENERAL MANAGEMENT

Acting Assistant General Manager	Paolo Testi

Convocation of Shareholders’ Meeting

The Shareholders are called to the Ordinary Shareholders' Meeting in Milan, Piazza della Repubblica, 28 at the office of Notary Luca Zona, **on 7 May 2020 at 9.30 a.m. in first call** and, if necessary, on 8 May 2020, in second call, at the same place and same time, to discuss the following

AGENDA

1. Financial statements as at 31 December 2019; Directors’ Report on Operations; reports of the Board of Statutory Auditors and Independent Auditors; related resolutions.

2. DEPObank remuneration and incentive policies; related resolutions.

According to Article 9 of the Articles of Association, shareholders with voting rights may attend the Shareholders' Meeting. Shareholders are entitled to attend the Shareholders' Meeting if they send, at least two days before the date set for the first call, the notice of the intermediary that keeps the relevant accounts, in accordance with the law. Shareholders may be represented at the Shareholders' Meeting only by another shareholder.

It should be noted that the documentation required by current legislation relating to the items on the agenda is made available to shareholders, in accordance with the law, at the registered office. Shareholders may obtain a copy thereof.

In accordance with the provisions introduced by the Decree-Law on measures to strengthen the national health service and economic support for families, workers and businesses related to the COVID-19 epidemiological emergency (the so-called "Cure-Italy" Decree), the Shareholders’ Meeting will be held by means of telecommunications systems that ensure the identification of participants, their participation and the exercise of voting rights, pursuant to and for the purposes of Articles 2370 (4), 2479-bis (4) and 2538 (6) of the Italian Civil Code.

Sincerely,

DEPObank S.p.A.
The Chairman

DEPObank
BANCA DEPOSITARIA ITALIANA

Reports and Financial Statements 2019

DEPObank

BANCA DEPOSITARIA ITALIANA

Directors' Report on Operations

Directors' Report on Operations

Shareholders,

In financial year 2019, which began with the approval of the bank's new 2019-2023 Strategic Plan ("DEPObank: the Italian Fintech Multispecialist"), the Bank's two historical business units (Securities Services and Banking Payments) and the related treasury activities delivered a positive, regular performance, whereas the process of launching the new line of business involving *specialised lending* to small and medium-sized enterprises proved to be far from linear.

In the former area, in 2019 commercial indicators were up on the previous year and economic performance exceeded both the Plan objectives and 2018, as shown by highlights provided below:

- depositary bank assets under management (AuM) of € 70.5 billion at the reporting date, up by 11.6% on 2018, in line with the Plan objectives;
- 619 million payment transactions during the year, up by 7.0% on 2018, in line with the Plan objectives;
- (normalised) EBT of € 43.0 million, 36% above the Plan objectives and twice the 2018 result (pro-forma with regard to changes in scope).

The following developments took place within the framework of the launch of the new SME Lending Business Unit ("Vesta Project"), which forms the focus of the development efforts and new *asset side strategy* envisaged in the Strategic Plan:

- prompt recruitment of managers of high standing and launch of the implementation project;
- initial set-up of the operating machine involving the formation of an SPV specialised in the factoring of receivables from the public administration as a solution capable of expediting the launch of the lending business;
- the interruption, in autumn 2019, of implementation of the Vesta Project following the expression of interest (addressed to the parent company Equinova UK HoldCo, which took a positive view of it) in the acquisition of the bank by a potential acquirer that stated that it was not interested in developing the Vesta Project; this interruption was also necessary in the light of the press coverage, which made it impossible to continue *recruiting* management and to take advantage of the various business opportunities that had arisen in the meantime.

In the first part of the year, a thorough search yielded an opportunity to enable the bank to upgrade its technology through the acquisition (for which the contracts were signed in July and which was then completed in early 2020) of a German company (Cara Services GmbH) that owns a next-generation specialised lending platform developed by a highly competent and motivated team with specialist expertise in the digitisation of processes.

In March 2020, the majority shareholder announced that negotiations for the transfer of control of the Bank had been interrupted, owing in part to developments related to the spread of COVID-19 (coronavirus) pandemic, which led to an unprecedented market situation.

The change in outlook due to the withdrawal of this sale transaction, combined with the aforementioned interruption of the activities of the new specialised lending business, resulted in the need for deep reflection on the Bank's strategic outlook – a process which was still ongoing at the date of preparation of this Report on Operations.

In addition, all this took place in an environment shaped by the coronavirus; while the bank responded promptly to the emergency, ensuring business continuity in safe conditions for the physical health of workers, in both Milan and Rome (which now permanently operate more than 90% remotely, in *flexible working* mode), the emergency poses even more demanding challenges for the Bank, and for the entire national and global community, to face in everyday life and in the near future.

In light of the above, the Directors, without ruling out a potential restart of the Vesta Project, therefore considered it to be more appropriate, in discontinuity with the previous year, including for the purposes of the impairment test of the intangibles allocated to the Banking Payments and Securities Services CGUs (cash-generating units), to adopt a business plan excluding the expected impacts of the development of the new *asset side strategy*.

For the reasons described in further detail in the Notes to the Financial Statements, without having any impact on the cash flows of the CGUs tested, this decision led to the allocation of more capital to the CGUs concerned, with repercussions for their recoverable amounts.

The goodwill associated with the Securities Services CGU (€ 45.9 million) was therefore written down to zero, resulting, in view of the irrelevance of this write-down for tax purposes, in a loss for the year of € 29.2 million.

The impairment recognised in the income statement has no impact on either the Bank's capital adequacy, as capital ratios are calculated after deducting all intangible assets, or its prospective profitability.

In fact, the financial statements close with an improving financial performance by the core business and a sound financial situation, as represented by the following indicators:

- Normalised EBT (the Bank's first core business performance indicator) of € 40.8 million;
- An increase in equity of € 26.9 million (to € 472.6 million), benefiting from the disposal of certain non-strategic equity interests (equensWorldline SE and Fondo Italiano di Investimento SGR S.p.A.), the capital gain on which (totalling € 55.4 million) was taken to equity and not to the income statement, in accordance with international accounting standards;
- Further reinforcement of regulatory capital requirements, with Common Equity Tier 1 (CET1) capital of € 369.2 million (+ € 78.7 million on 31 December 2018) and a CET1 ratio of 39.63% (up 11.70 percentage points).

COVID-19

Early 2020 was dominated by the spread from China to Europe (and Italy in particular) and the United States of COVID-19, the implications of which, not only for public health, but also for the international and Italian economy, cannot be estimated at this time.

The "Events after the reporting date" section contains various considerations, referring to the date of 6 April 2020, relating to the actions taken by DEPObank following the coronavirus pandemic and the possibility of a slowdown in the economy, including in the Eurozone, with potential impacts that cannot yet be estimated, including on DEPObank's profitability.

INTERNATIONAL ECONOMICS

In 2019, the world economy slowed significantly, growing by 2.9% compared to 3.6% the previous year, suffering from the contraction of the manufacturing sector in all major countries. Production was impacted by the fall in international trade — caused by protectionist measures that began to be introduced in 2018 by the United States – and in 2020 there is a risk that the crisis will spread from industry to the rest of the economy. In further detail, in the USA the GDP growth rate fell from 2.9% to 2.3%, with investments and exports slowing sharply, despite household demand remaining buoyant; the Euro Area slowed from 1.9% to 1.2%, suffering from a deteriorating balance of trade; Japan, on the other hand, saw its growth rate rise from 0.3% to 1.0%, although it closed the year with a sharp fall in GDP following the collapse of domestic demand triggered by the increase in VAT that entered into effect on 1 October. Despite the slowdown in the economy, the unemployment rate fell not only in the United States (from 3.9% to 3.5%, the lowest level in half a century), but also in the Eurozone (from 7.8% to 7.4%) and Japan (from 2.4% to 2.2%).

Global inflation declined from 3.6% to 3.4%, mainly reflecting the decline in oil prices. Specifically, the change in consumer prices fell from 2.5% to 1.8% in the US, from 1.0% to 0.5% in Japan and from 1.8% to 1.2% in the Euro Area. Excluding the most volatile energy and food prices, it rose from 2.1% to 2.2% in the United States and from 0.1% to 0.4% in Japan, while — for the third consecutive year — it remained stable at 1.0% in the Eurozone.

THE ITALIAN ECONOMY

Italy further reduced its growth rate in 2019, from 0.7% in the previous year to 0.2%, despite the lesser slowdown in both domestic and foreign demand. The slowdown in consumption was limited to 0.6% (down from 0.8%) and in investment to 2.5% (down from 3.2%), while exports even gained some momentum (up from 1.8% to 2.0%), as did as government spending (up from 0.4% to 0.5%). The slow pace of GDP growth is therefore explained by a sharp reduction in inventories, which accompanied the contraction in industrial production and the loss of confidence among manufacturing entrepreneurs, in the face of decreasing orders and fears that US tariffs may also extend to Europe. The unemployment rate, despite low growth, nevertheless fell to 9.8% (from 10.4% at the end of 2018).

Inflation fell from 1.3% to 0.7%, driven downwards by the fall in the price of crude oil and with the net figure for the most volatile components holding stable at 0.5%.

RELEVANT MARKETS

Brief information on the markets in which DEPObank operates is provided below.

Payment systems

The Italian banking system saw the continuation of the process of concentration of operators through mergers that had begun in 2018.

As a result of the new legislation, the transformation of ICCREA and Cassa Centrale Banca into cooperative credit holding companies is driving a further reduction in the number of banks in the system.

At the national level, the use of alternatives to cash is still growing at modest rates compared to other countries, albeit with a constant trend. In the 2016-2019 period, SCT (Sepa Credit Transfer) payments grew by 2.8% and SDD (Sepa Direct Debit Core and B2B) commercial collections by 6.3%. Over the same period, cheques and banker's drafts and bills were both down by 10%.

Despite the progress made in recent years, the Italian payment system is still among those that make the most use of cash in Euro Area countries.

Globally, the spread and growth of electronic payments (e-payments and mobile payments) are confirming the estimates made by the authorities and specialists in the sector. In the 2015-2019 period, e-payments grew at an annual rate of 17.6% and mobile payments increased by 21.8%. The significant increase in digital payments is being driven above all by the adoption of instant payments by several countries and by the strong performance of the sector in "emerging" markets.

It should be noted that the instant payments product is also considered by the authorities and the financial industry to be among the key elements in the war on cash.

In this context, the European Central Bank and the Bank of Italy, with the support of the European Payment Council, have directed payment system infrastructures and payment service providers (PSPs) to develop and adopt instant payment service (SCT Instant) based on the SEPA SCT scheme with particularly high service levels (seven days a week, 365 days a year). The goal is to modernise the pan-European payment system while maintaining the payment formats and schemes long used by PSPs (banks, e-money institutions and payment institutions).

It should be noted that the creation by the European Central Bank of the instant payment service TIPS (Target Instant Payment Settlement), activated in November 2018, represents an element of strong discontinuity with the past.

Within this complex, developing scenario, it is reasonable to predict that the success of these initiatives will be determined by the ability of the European system to promptly implement robust, efficient interoperability and reachability mechanisms between authorised operators, as desired and requested by European lawmakers, building on the experience gained in the transition to SEPA. In fact, the operational model envisaged by TIPS appears designed to avoid problems related to the lack of interoperability between clearing and settlement systems, by assigning a decisive role to central banks, with the goal of preventing possible negative impacts arising from competition between specialised operators (e.g. ACHs), as was the case for SEPA.

Raising the limit of the amount for the SCT Inst from € 15,000 to € 100,000 will further facilitate the launch, penetration and dissemination of this new service, while also capturing a portion of the B2B and C2B payments that are currently executed using other systems and thereby facilitating the homogenisation and optimisation of management processes within the “financial” and “supply chain” segments of the corporates market.

It should be emphasised that TIPS was just one of the pillars of the structural development of the European Central Bank’s new liquidity management system (Vision 2020 project), which in the coming years will involve, among other things, the consolidation of TARGET2 and TARGET2-Securities and the new management of collateral, involving a single control point within banks known as central liquidity management.

In other developments relating to instant payments, in 2019 further European initiatives were launched, promoted by both institutions and the banking and financial industry, including “PEPSI” (the Pan-European Payment System Initiative), the objective of which is to build a new pan-European payment system based on instant payments. The success and effects of these initiatives will depend strictly on their ability to ensure circularity, ease of use and security of solutions, which can certainly act as an important driver of the development of the payment services market.

The European regulatory framework is focused on standardising payment processes, mitigating risks, extending competition and modernising the payments system and is having a significant impact on the choices of the business and operating models made by PSPs and by all relevant stakeholders more generally.

In particular, the entry into force of Directive (EU) No. 2015/2366 (PSD 2) on retail payments is having the effect desired by lawmakers of opening up the market for payment services to new non-banking participants known as TPPs (third-party providers), with which the Italian banking industry has already begun to engage. The issue of regulatory harmonisation between supervised and non-supervised companies (TPPs/fintech companies) will be the main area on which the speed of the run-up of new services to citizens will depend.

Within this scenario, DEPObank may continue to play its decisive role of system bank and increase its business, while also retaining its role in optimising the investments of its PSP customers by ensuring a swifter time-to-market than the competition, in addition to maintaining a level playing field with respect to the services offered by the major Italian and European banks.

Asset management

The assets under management (AuM) of the Italian asset management sector exceeded € 2,550 billion in December 2019. As projected, growth on the previous year was approximately +13%, driven by percent increases in all types of the relevant products and services. Asset management, in particular, was up by approximately +30%, making it the fastest-growing product/service, while pension funds recorded just 7% growth.

The latest EFAMA (European Fund and Asset Management Association) update, for 2017, highlights that relative to GDP the Italian asset management market is still smaller than the European average. As a percentage of Italian GDP, AuM amount to approximately 75%, far below the average for European nations of 134%.

The growth in 2019, after the evident slowdown in 2018, is an encouraging sign for the market. In this context, among the main trends, sustainable investments are driving the increase in assets under management. The now all-important need to reverse course on sustainability issues — as underlined in the Treaty of Paris and by the increasing regulatory attention at European level — has influenced the growth of AuM in accordance with ESG (environmental, social and governance) metrics.

An attempt to relaunch the Individual Savings Plans (PIR) was also made in 2019. The eliminating of the regulatory constraints imposed in 2018, which had substantially blocked the growth of such plans, was approved to promote their spread. However, management costs compared to traditional funds are still a major obstacle, since they offset some of the potential gains from the new tax breaks. Individual Savings Plans closed the fourth quarter of 2019 with net outflows (-€ 380.4 million), but are expected to return to being an important driver of growth in the sector in 2020.

Finally, continuous technological innovation was a driving force in wealth management, yielding improvements to already existing solutions such as robo-advisory and important innovations such as customer experience management tools. This trend is expected to lead to a marked improvement in efficiency, but also a consequent increase in competition.

STRATEGIC PLAN

As a result of the activities of redefining the strategic positioning of the company, conducted by the governing body starting in the second half of 2018, following the reorganisation of the Nexi Group, the Board of Directors at its meeting on 21 February 2019 approved the bank's “2019-2023 Strategic Plan” (“DEPObank: the Italian Fintech Multispecialist”).

The Plan identifies a strategy to strengthen existing businesses (Payments and Securities Services), which was to be accompanied, with a view to defining a complete asset side strategy, by a new line of business represented by specialised lending to small and medium-sized enterprises, while also transforming the bank according to a multispecialist and fintech model. As already mentioned, these activities are suspended.

In Payments, in an environment of discontinuity due to regulatory changes (PSD2 and EBC Vision 2020), which will result in the entry of new players and change the role of current participants, the Plan lays down a strategy for consolidating the role of "system bank” serving all market players (old and new), by offering traditional and innovative banking payment services, to meet customers’ needs for simplification and optimisation, while also ensuring speed, flexibility and harmonisation, without competing for their retail customers.

In Securities Services, within a market dominated globally by a few large players, but where there are still some local market segments that international players are unable to penetrate, DEPObank intends to continue to offer fund and global custody services, positioning the bank as a national champion and as a player focused on specific market segments serving customers that require specialisation, customisation, quality of service and proximity, including in the physical sense, while strengthening its position in the pension funds and AIFs sector in particular.

Alongside the two existing lines of business, the Plan envisaged the new SME Specialised Lending business; in a market characterised by a growing demand for debt capital among medium-sized companies and by a decline in banks' propensity to lend to them, interesting opportunities have been identified for new players, particularly in sectors without particular barriers to entry. The target positioning was therefore focused on products characterised by an attractive risk/return profile, in segments not adequately served by incumbents or requiring specialised skills, identified in particular as the factoring and crossover lending markets and, according to a tactical, highly selective approach, limited in its overall exposure, the UTP market.

The business model envisaged in the plan is that of a multispecialist (characterised by the offer of vertically specialised banking/financial services, capable of generating adequate levels of profitability and open to entry into new lines of business) and fintech bank (capable of combining state-of-the-art technologies enabling low cost-to-serve, highly competent, motivated resources with a strong ability to face challenges, a lean organisation able to operate effectively and efficiently and a brand strategy able to add value to specific products and services).

GOVERNANCE STRUCTURES

On 9 January 2019, following the conclusion of the first phase of the launch of the bank's new structure, and in view of the implementation of the subsequent phases of its development, there was a change of senior management personnel, with Paolo Tadini taking up the position of Chairman and Fabrizio Viola that of Chief Executive Officer.

DEVELOPMENT OF THE FINTECH MODEL

Following the approval of the Strategic Plan, the process of selecting potential acquisition options capable of expediting the transition to the fintech model was begun.

The search resulted in the identification of an opportunity to enable the bank to upgrade its technology by acquiring a company (Cara Services GmbH) that owns a next-generation technology platform capable of managing the various phases of the lending process through artificial intelligence and highly digitalised processes.

On 25 July 2019 DEPObank thus entered into an agreement with PrestaCap Holdings S.A. for the acquisition of 100% of the German company Cara Services GmbH for € 20 million; as discussed below in this Report, this acquisition was then closed in January 2020.

In addition to acquiring an innovative specialised lending platform, developed in the cloud, which uses innovative machine learning and business intelligence solutions, through this transaction the Bank also acquired a highly competent and motivated team with specialist know-how that can be used for the digitalisation of processes, including in the Bank's more traditional business areas.

OTHERTRANSACTIONS

The sale of the 5.76% equity interest in equensWorldline SE was closed on 30 September 2019. The interest was sold to the parent company Worldline SA (a French company listed on Euronext — Paris) due to the exercise of the call option reserved for it in October 2017 as part of the transaction that had led to the integration of Equens SE with Wordline Group companies operating in the payments sector.

The option (to be applied to the shares held by all minority shareholders) was exercised on the basis of a valuation of the company of € 2.95 billion, which allowed DEPObank to collect the sum of € 168.0 million (in addition to a dividend of € 1.6 million), against a book value at 31 December 2018 of € 110.1 million.

The sale of the 12.5% equity interest in Fondo Italiano di Investimento SGR S.p.A. was closed on 5 December 2019. The interest was sold to the relative majority shareholder Cassa Depositi e Prestiti S.p.A., on the basis of the sales agreements reached in the first half of the year, which also extended to an interest in another leading Italian bank.

Consideration for the sale was € 2.2 million, compared with a carrying amount at 31 December 2018 of € 0.5 million.

INTERNAL CONTROL SYSTEM

Internal Control System development projects continued in 2019 in line with the relevant legislative developments.

In keeping with the development of its control model, the Audit Service undertook further evolutionary initiatives in the areas of accounting for and managing the corrective actions identified in audit processes. These initiatives are part of a process of improving the effectiveness of audit action, including through a more direct correlation with the main company risks.

In line with the established guidelines and relevant regulations, the Audit Service verified the regularity of operations and risk performance and assessed the functioning of the Bank's overall system of internal controls, bringing some areas with room for improvement in the field of risk management to the attention of the corporate bodies. In particular, the department focused its activities on initiatives with operational content, in line with the planning already approved by the competent corporate bodies and based on priorities deriving from a risk-based approach and specific regulatory obligations.

During the year, the Compliance & AML Service, which continuously oversees the rules with regard to all company activities according to a risk-based approach, updated the rule set applicable to the Bank in order to comply with the new regulations, in addition to verifying that the processes, internal procedures, the organisational and regulatory system and the IT infrastructure to oversee operations are consistent with the objective of preventing the violation of any rule applicable to the Bank. Work continued on the implementation within the Bank of Directive (EU) 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing (the “Fourth Anti-Money Laundering Directive”), Directive (EU) 2018/843 (the “Fifth Anti-Money Laundering Directive”), Directive 2015/2366/EU on payment services in the internal market (“PSD2”), EU Regulation No. 2016/679 on data protection (“GDPR”) and Directive 2014/65/EU on markets in financial instruments (“MiFID II”).

RISK GOVERNANCE

During the period, the Risk Management Service supported management in achieving the objectives through:

- the preparation of opinions requested from time to time to ensure prudent and effective risk management in business initiatives;
- the specialist advice provided;
- the risk assessments relating to the planned reorganisation of the former Nexi banking group, carried out in particular in the first half of the year;
- verification of capital adequacy, necessary to cover the different types of risk.

At the same time, the full compatibility of company activities with the risk governance process was verified, through the definition and compliance with the risk tolerance defined in the risk appetite framework, which was subject to an annual review.

Regulatory compliance activity and refinement of methodologies, systems and processes for measuring corporate risks also continued; project initiatives, some of which were classified as Major Transactions, relating to the development of new products/services, were analysed, assessing their consistency with the RAF, and the planned Risk Control Self Assessment of operational processes was completed.

ORGANISATIONAL STRUCTURES

In 2019, the organisational structure of DEPObank was adapted to support the developments envisaged in the new 2019-2023 Strategic Plan.

In particular, the Chief Administrative Officer (CAO) Department was abolished and the following were created:

- the Deputy General Manager (DGM), with the task of coordinating the Chief Lending Officer (CLO), Chief Information Officer (CIO) and Chief Operating Officer (COO) Departments;
- the Human Resources Department, reporting to the CEO, with responsibility for management, training and development, industrial relations, human resources administration and organisational development;
- the COO Department, with responsibility for coordinating the operations of the business units, internal processes and regulations, procurement, facility management and general services;
- the CLO Department, with responsibility for granting, monitoring and managing credit and branch activities;
- the structure supporting the new SME Lending Business Line with responsibility for developing the new business of lending to small and medium-sized companies in its various forms: Crossover Lending & Factoring, Distressed & Turnaround Lending and Products Lending.

In addition, some fine-tuning of the organisational structure was carried out with a view to continuously improving operational efficiency.

In 2019 DEPObank passed the ISO 9001:2015 recertification audit by DNV, for the provision of treasury and finance services.

IT SYSTEM

DEPOBank's CIO Area carried out regulatory and innovation projects in the Securities Services and Payment sectors over the course of the year.

A feasibility study was launched to consider replacing the current core banking and related facility management solution, shifting from the current supplier, Creval, to the supplier CSE. The aim of this initiative is migration by 2020. The sustainability of this target timeline is subject to verification in the light of the corporate events indicated in the initial part of this Report.

In order to limit the impacts and risks of this change, DEPObank decided to replace the Finance and Securities Derivatives components in advance with a new cloud solution relying on the outsourcer Si-Grade. This initiative, the first phase of which was completed in mid-2019, as planned, with the launch of the Si-Finance 2.0 application, will see the adaptation of all the applications in the suite to the new solution by the end of 2020.

In 2019 DEPObank undertook the study phases of the regulatory project dictated by the EBA and supervised by the national banks involving consolidation of the TARGET2 and TARGET2-Securities platforms (the "Consolidation" project), responding to the milestones requested so far and organising for 2020 the project team that will handle the activity over the next two years (go-live scheduled for 22 November 2021).

Securities Services
During the year, some projects already started in 2018 were completed and some important regulatory and business initiatives were launched in order to offer customers services in line with demand.

Among main activities in 2019, attention should be drawn to the following:

- Global Custody
  - Completion of the project to migrate foreign equity assets to the Bank of New York Mellon for settlement and custody activities previously provided by BNP.
  - Completion of the securities lending management activities provided by BNYM to one of DEPObank's main clients in fund accounting and depositary bank services.
  - Updating settlement services to TARGET2-Securities as a direct participant in the settlement system.
  - Completion of the activity of calculating and managing taxation on Italian securities for foreign clients.
  - Initiation of the project to offer a new customer acceptance instrument for voluntary corporate actions.
  - Creation and completion of new reporting for internal use and settlement internaliser clients as established by the CSDR regulations.
- Risk Management
  - Launch of the project to automate liquidity reporting by using an intraday liquidity management product.

- Depositary bank controls
  - Launch of the project for the automation of activities related to the management of lookthrough controls with regard to funds.
- Transfer Agent
  - Completion of the project for the unification of the environments of an important client. As a result of an acquisition, this client had two different active environments.
  - Completion of all regulatory activities and customisations requested by clients.
- Fund Accounting and Transfer Agent
  - Completion of the adoption of a new specialised platform for fund accounting and transfer agent activities for the new line of business relating to real estate funds.
- Cross
  - Completion of the document management project using a product ("SolutionDoc") provided by Namirial that allows documents to be stored in a single company repository. Most of the structures that report to the Securities Services Operations Business Unit and the Depositary Bank & Controls Business Unit have now been launched. During 2020, the system will be rolled out to all the structures underlying the aforementioned BUs. During 2020, the automation of document processes and the specialisation of closed-end fund activities will continue.

Payment System

The most important projects include:

- Adjustments to the foreign procedure and acquisition of the SIA software to allow participation in the GPI Swift service for the tracking and transparency of foreign currency transactions between banks;
- Adjustments of online services to comply with PSD2 regulations in terms of strong customer authentication and access to third parties;
- Technological and regulatory adaptation of the CBI platform with migration from the LEVIS product to the IBK product.

Security & BCM

In the field of cyber security and business continuity, a series of activities were carried out to mitigate cyber risk and comply with current regulations in the area of:

- IT compliance analysis and standardisation of contractual requirements that DEPObank suppliers must meet;
- review of the Bank's business continuity plan (BCP) and verification (DR and BC tests) of the adequacy of the measures formulated to ensure the Bank's business continuity in both the business continuity and disaster recovery scenarios;
- periodic certification of logical access;
- analysis of the "Information Security Management System (ISMS)" to identify the security principles and technical and organisational countermeasures that the organisation uses to mitigate IT security threats.

REGULATORY COMPLIANCE

The first half of 2019 saw the completion of the review of the organisational model pursuant to Italian Legislative Decree 231/01 to take into account the new organisational structure resulting from the separation of the company from Nexi and to include the two new predicate offences (Italian Legislative Decree No. 107 of 10 August 2018 - Rules for the adaptation of national legislation to the provisions of EU Regulation No. 596/2014 on market abuse and Law No. 3 of 9 January 2019 - Measures to combat crimes against the public administration, on prescription of offences and on the transparency of political parties and movements).

HUMAN RESOURCES

The changes in the staff of DEPObank during 2019 are summarised in the following table:

Employees by professional category and gender (no.)	2019			2018		
	Men	**Women**	**Total**	**Men**	**Women**	**Total**
Executives	13	2	15	11	1	12
Middle managers	81	60	141	82	62	144
White-collar	75	132	207	87	142	229
Total	**169**	**194**	**363**	**180**	**205**	**385**

PERSONNEL

Training is a strategic factor for DEPObank, as it supports organisational changes and the dissemination and understanding of business strategies. DEPObank plays an active role in the process of professional growth of its personnel, favouring the improvement of individual performance through initiatives to hone skills, provide new work tools and methods and update knowledge in line with current legislation.

The 2019 training plan focused mainly on the following objectives:

a) updating and consolidating DEPObank's distinctive competences;
b) compliance with the typical laws governing banking and intermediation business and the related actions validated by the Compliance Service;
c) retraining of personnel who have changed their role as a result of organisational changes;
d) consolidation of English language proficiency;
e) spread of specific knowledge to support the correct use of flexible work within the company;
f) training of key figures in accordance with Italian Legislative Decree No. 81/2008.

Updating of skills, at the request of the various managers ("on demand") involved both participation in intercompany courses and the organisation of internal classrooms focusing in particular on areas affected by administrative and tax issues, cyber security, and the updating of systems and applications in use.

All the compulsory training actions included in the training plan were completed. Where possible, and in compliance with the law, compulsory courses were delivered in e-learning mode through the "DEPObank Academy" platform, specifically dedicated to online training. Compulsory classroom training focused on issues related to the Administrative Responsibility of Entities, AML, GDPR and MiFID-2.

The workshops dedicated to flexible work explored the issues related to the proper management of remote working methods, the reference legislation, the prevention of related health and safety risks and the use of supporting technological equipment.

Particular attention was paid to the training of employees performing the key roles identified in Italian Legislative Decree No. 81/2008 (personnel in charge, Prevention and Protection Service personnel and emergency management personnel).

THE WORKPLACE

DEPObank attaches particular importance to creating and managing suitable working environments that comply, in terms of both safety and health, with current legislation and national technical standards issued in this area, in all its workplaces.

The risk assessment carried out, therefore, took into account all the risk classes identified: risks to safety (i.e., accidents), risks to health (i.e., hygiene and the environment), risks to safety and health of a transversal nature and risks arising from external factors.

Particular attention was paid to issues relating not only to the ergonomic and technical compliance of workplaces, but also to the management of interference risks, the assessment of work-related stress risk, the analysis of mental fatigue, monotony and repetitiveness in work processes and the assessment of video terminal exposure risk, with the consequent updating of the tasks identified as exposing workers to risks for which health surveillance is mandatory.

INDUSTRIAL RELATIONS

Recognising the importance of managing trade union relations in a collaborative climate, in 2019 DEPObank and trade union organisations agreed on a series of initiatives benefiting all staff, and first and foremost the spread of flexible working. At 31/12/2019 the number of resources involved amounted to 33% of the entire population.

COMMUNICATION, INSTITUTIONAL EVENTS AND MEDIA RELATIONS

DEPObank's new structure became fully operational for the first time in 2019 and the planning of corporate communication activities continued to pursue the objectives of generating brand awareness and brand promotion with the target audiences, both external and internal, in line with the development guidelines set out in the new 2019-2023 Strategic Plan.

These include, in particular:
- participation in the main sector events;
- media relations activities to promote the main business initiatives and corporate transactions;
- direct marketing activities to promote new services and projects;
- the organisation of internal meetings and events to involve and engage all company personnel in innovation and growth objectives.

OPERATING PERFORMANCE

SECURITIES SERVICES

The results for 2019 benefited from the contribution of the business units and individual services in the terms described below.

During 2019, the services of the Securities Services Business Line (custody, administration and settlement of securities and fund services) provided to banks, brokerage firms, asset management companies and funds saw a sharp rise in assets under administration, but a marginal reduction in securities transactions intermediated.

In line with the new 2019-2023 Strategic Plan, Securities Services activities focused mainly on launching the target initiatives identified:

- development of commercial action to strengthen fund services in the alternative investment funds (AIF) segment through an integrated range for all the various types of funds (real estate, private equity, credit, etc.) in a market with high growth rates;
- expansion of the customer base through the launch of services aimed at reaching new types of customers (e.g. depositary bank services for pension funds, paying agent services for non-bank customers, etc.), including through collaboration agreements developed with other players on the market;
- strengthening the leading position in the pension funds market by offering dedicated services (e.g. specific pension funds indices, soft NAV, look-through UCITS, etc.) and high-quality controls;
- consolidating the partnership with BNY Mellon, to expand the range of services available to customers (e.g. tax services, securities lending, etc.) and extend the scope of business to include foreign customers operating in Italy.

Global Custody

Global custody services, provided to more than 150 institutional customers, reported significant growth in the portfolio of assets under administration in 2019 but a slight reduction in settlement services.

At year-end, the portfolio of securities in custody and under administration amounted to approximately € 143.4 billion, of which 44% represented by foreign securities, up by 18.9% on the 2018 values. An analysis of the portfolio’s performance shows 16.3% growth of the domestic component and 22.4% growth of the foreign component.

Settlement activities recorded a marginal decrease of 3.4% on 2018, owing entirely to transactions in Italian securities, which declined by 6.1%, whereas transactions on foreign markets increased (+2.6%). Overall business volumes in this segment amounted to 1.83 million transactions settled in 2019.

Operations Services and Depositary Bank & Controls

The Depositary Bank & Controls Service recorded a strong increase in assets under administration in 2019 to approximately € 70.5 billion (+11.6% on 2018), driven by both the positive financial market performance and the numerous commercial actions focusing on pension funds and alternative investment funds (AIFs).

In 2019 there were 49 client pension funds (+1 new pension fund) with a total assets of approximately € 30.5 billion (+16.1%), confirming DEPObank's market leadership in this segment.

The assets of open-end mutual funds grew more modestly to approximately € 33.2 billion (+5.6%), while the strong expansion of closed-end mutual funds continued, with assets under administration now amounting to approximately € 6.8 billion (+24.5%).

The total portfolio of funds under administration now includes 163 mutual funds, 36 private equity funds, 64 real estate funds and 3 credit funds.

The positive performance of the financial markets and in particular the growth of mutual funds also benefited fund administration activities, with a portfolio of € 47.7 billion at year-end (+6.7%).

The transfer agent business, now dedicated to the management of mutual funds and closed-end funds, managed more than 2.3 million investors in 2019, registering significant growth of 15.8%, mainly due to the acquisition of a major customer in the first half of the year.

BANKING PAYMENTS

In the payments segment, 2019 was characterised by the implementation of the agreements between Nexi Payments and the Bank, in particular with regard to the areas of cataloguing and delivery of products/services and the related promotion and marketing.

Among the other factors that had a significant impact on banking payments business are: i) mergers of several banking groups (Banco Desio and Popolare di Spoleto and BPER and Unipol, to name the most important), the result of which was to substantially maintain customers, except for a few cases of withdrawal from services; ii) consolidation under the new law on the formation of the two cooperative banking holding companies: ICCREA and Cassa Centrale Banche; iii) the renewal of contracts with primary customers; iv) the postponement of the launch of the instant payments service at the industry-wide level; and v) the repositioning of the initiative of the strategic plan relating to PSD2 services (PIPS and AISP) following the agreements with Nexi Payments.

It should be noted that the 2019 forecasts already included a large part of the aforementioned effects together with the effects of the expansion of digital payments, which made it possible to mitigate the impact of the negative events that occurred, contributing to operating revenues in 2019 of over € 46.5 million, up by approximately 1.4% on the budget and by 7.6% on 2018.

In addition to the efforts at the level of revenues, in 2019 the Banking Payments Business Unit paid particular attention to operating costs, the effects of which made it possible to significantly improve overall margins, without affecting the quality and effectiveness of controls.

The Banking Payments Business Unit provides services in three distinct areas: Processing and Foreign Services, Client Payments and Collections (corporates and government) and Cheques and Bills.

Processing and Foreign Services
The operating structure handled and managed approximately 505 million transactions in 2018, up by approximately 8.6% on 2018. In this market, DEPObank is experiencing significant competitive pressure on processing services from major credit institutions that had never previously focused on this market segment, within a scenario of a natural client loss due to bank mergers or centralisation within cooperative banking holding companies.

DEPObank's renewed willingness to work closely and strategically with the major service centres that offer banking systems and platforms to clients contributed greatly to the segment's stable performance.

The result of the volumes processed in SEPA (SCT and SDD) was up by 6.1% on the previous year, demonstrating the greater propensity for banks to focus on this type of service.

The more mature competitive processing services, such as the Electronic Interbank Fund Transfer Service (SETIF) and international card settlement, continue to perform particularly robustly, with volumes outperforming forecasts by 3.6% and 6.8%, respectively, and up by 14% and 23%, respectively, on the previous year, providing a very important contribution to the overall stability of the revenue base.

In terms of revenue, SEPA services (SCT and SDD) remain in line with the previous year's values, falling short of the forecast by 6.7% due to the withdrawal of a major client at the end of the year and the delayed launch of strategic initiatives such as instant payments and TPP services.

Other settlement services grew by 15.4% on 2018, driven by the SETIF service, reflecting the extensive use by banks of payment instruments based on international debt.

In 2019, the operating model of the new instant payment processing service was consolidated, with the aim of providing PSP clients with a flexible, efficient product with a low technical, operational and economic impact, capable of adapting flexibly to the various needs and different clearing and settlement systems (TIPS, Nexi-BiComp and EBA RT1). The new service offered by DEPObank was favourably received by clients and is still one-of-a-kind in the European landscape with regard to the instant payments processing service.

In addition, efforts were made to inform banks of the changes envisaged in the ECB's Vision 2020 (TIPS and T2-T2S consolidation), for which an offering model is being constructed with the aim of increasing the number of banks in payments processing, treasury and securities settlement.

The SME Guarantee Fund service was affected by the decline in the use of the instrument by companies, as a result of the new legislation launched by lawmakers in March 2019.

Client Payments and Collections
Transactions managed by the segment in 2019 exceeded 57 million, up by 14.4% on the forecasts at the beginning of the year. Compared to the previous

year, there was a significant growth in collection and payment services (+15.4%) due to increased operations by the main clients. Other services, such as INPS Pension Payment and Motorway Services, continued the previous year's trend.

The segment's revenues were up by 22% on the previous year.

Cheques and Bills
In 2019, the segment handled a total of 51 million transactions. While the cashier's cheque service was in line with volume forecasts, bank cheques and bills suffered from a sharper decline on the previous year, exceeding even the figure at the industry-wide level according to data published periodically by the Bank of Italy.

The entry into operation in 2018 of the new cheque exchange and settlement procedure based on the exchange of images of the instruments (cheque image truncation – CIT) led to a need to significantly revise the business model on which the bank had based its cheque processing service, while retaining its large client portfolio (around 100 banks).

The change in the business model also involved the cashier's cheque and cash letters service. This entailed substantial maintenance and stabilisation of revenues, by making them in fact independent of the volumes processed, which are structurally declining, as for the industry as a whole.

In the bills service, volumes and revenues fell due to both the industry-wide downtrend and the strong competitiveness of some competitors such as Intesa Sanpaolo.

LOANS

In 2019, the bank's exposure to credit risk, excluding its SME Lending activities, was characterised by DEPObank's peculiar status as a "second tier" bank, that is, a bank whose *core business* is offering services to the banking and financial system and major *corporate* customers, essentially in the payment systems and administrative custody, administration and securities settlement services. It follows that lending was strictly ancillary to the provision of this type of services and did not constitute *a business* goal unto itself.

The credit risk measurement methodologies adopted and the related control process are characterised by criteria of leanness and simplicity due to the limited number of exposures.

However, credit management guidelines are based on the general principles of prudence, correct and accurate management and compliance with the laws and regulations in force at the time.

Transactions in derivative instruments have not been used to hedge credit risk.

Counterparties to positions with lines of credit are 65% bank supervised intermediaries, 31% UCITS and brokerage firms and 4% corporates (almost exclusively ancillary lines of credit related to the execution of collection orders). During 2019, following the corporate reorganisation plan launched in the second half of 2018, the lines provided to subsidiaries or investees of Nexi S.p.A. were changed to bring them back within the new regulatory limits. In 2019 five positions were also reclassified as unlikely-to-pay, for a total of € 2.66 million, allocating them to stage 3 under IFRS 9, as further specified in the notes to the financial statements.

TREASURY AND FINANCE SERVICES

In 2019 the primary function of the Treasury Service remained the management of liquidity in euro and foreign currency generated by the operations of the Bank's various core business areas, including through the use of financial instruments, in line with company's business model and risk profiles. The service also ensured the offer of financial products (deposits in euros and foreign currencies, fixed income, FX, swaps, repurchase agreements and financing) in response to the needs of the customers of reference (qualified counterparties and professional customers only) and contributed to the smooth functioning of the settlement of transactions generated by the business areas.

The first part of the year, like the last part of the year 2018, was characterised by an increasing level of available liquidity, related to an unusual level of balances held in accounts with the Bank by depositary bank service customers. The total net liquidity balance (liquidity and eligible securities available) peaked at € 12 billion in the central months of the year. Starting in September, in conjunction with the changed perception of country risk, there was a decisive reversal of the trend in the level of the balances of the accounts of depository bank customers. The total net liquidity balance at year-end was restored to levels in line with those recorded in summer 2018, after the reorganisation of the former Nexi banking group, amounting to approximately € 7 billion.

The securities portfolio, held according to the held-to-collect (HTC) model, remained the primary form of use of available liquidity in 2019. In the first part of the year, Italian government bonds were purchased for approximately € 1.0 billion in nominal value, replacing similar bonds maturing during the year. The returns offered by the market allowed the average return on the portfolio to increase.

At year-end, the portfolio of government bonds amounted to € 4.24 billion nominal, 46% of which consisted of fixed-rate bonds with an average maturity of 1.72 years and 54% of which consisted of variable-rate bonds with an average maturity of 4.36 years. To these are added corporate bank bonds with a nominal value of € 50 million, purchased during the year and also included in the HTC portfolio.

The additional available liquidity was managed by the Euro & Currency desk, by holding it in deposits on the management account with the Bank of Italy or using it in repurchase transactions (mainly carried out on the MMF market - brokered by Cassa di Compensazione e Garanzia) and interbank deposits (now carried out mainly over the counter in the absence of volumes on the e-Mid platform).

The desk became fully operational in the Forex segment, including both customer intermediation in the purchase and sale of foreign currencies and investment of liquidity in currencies other than the euro. In order to optimise the use of credit lines, reducing counterparty risk, loans were mainly made through the use of foreign currencies, favouring a more secured approach, and to a lesser extent through the opening of short-term deposits, favouring major Italian banks.

The Institutional Sales Trading desk also operated regularly, supporting and expanding the activities of its customers (own and BU) in fixed income (bonds and government financial instruments, listed and unlisted, on both primary and secondary markets), in pursuit of loyalty and cross selling. The desk provides quotes (request for quote - RFQ) and closes securities trading (without the possibility of taking overnight positions) and repurchase agreements (managing rate risk in conjunction with the Euro & Currency desk).

Below is a table representing the main financial statement indicators at 31 December 2019, for which the comparison with financial year 2018 may be influenced, for some indicators, by the events referred to in the following section on financial statement results.

Highlights and key indicators

Balance sheet highlights (thousands of euro)	2019	2018	Chg. (%)
Loans to customers	4,740,438	5,626,874	- 15.8%
- of which: Government debt securities	*4,354,621*	*5,178,190*	*- 15.9%*
Loans to banks	1,539,311	1,636,141	- 5.9%
Financial assets	38,467	146,538	- 73.7%
- of which: FVTPL	*32,306*	*29,986*	*7.7%*
- of which: FVOCI	*6,161*	*116,552*	*- 94.7%*
Total assets	9,143,312	12,337,788	- 25.9%
Direct deposits from customers	7,493,896	10,366,345	- 27.7%
Indirect funding from customers (assets under administration)	52,709,254	50,064,598	5.3%
Equity	472,588	445,663	6.0%
Income statement highlights (thousands of euro) (*)			
Net interest income	45,389	43,512	4.3%
Net fee and commission income and service revenues	90,156	111,698	- 19.3%
Operating income	138,864	161,355	- 13.9%
Personnel cost	- 30,254	- 54,408	- 44.4%
Operating expenses	- 96,623	- 120,287	- 19.7%
EBT (normalised)	40,750	26,891	51.5%
Profit (loss) for the period	- 29,166	5,165	- 664.6%
Structural ratios (%)			
Loans to customers / Total assets	51.8%	45.6%	
Loans to Banks / Total assets	16.8%	13.3%	
Financial assets / Total assets	0.4%	1.2%	
Direct deposits from customers / Total assets	82.0%	84.0%	
Indirect funding from customers / Total funding from customers	87.6%	82.8%	
Profitability ratios (%)			
Profit / (equity - profit) (ROE)	N/A	1.2%	
Operating expenses / Operating income (Cost-income ratio)	- 69.6%	74.7%	
Credit risk ratios (%)			
Net non-performing loans to customers / Net loans to customers	0.06%	0.01%	
Write-downs/write-backs on loans to customers / Gross exposure to impaired customer assets	52.5%	81.3%	
Total net impaired assets / Equity	0.7%	0.1%	
Productivity indices (thousands of Euro)			
Average number employees **	340	543	- 37.3%
Operating income / Average no. of employees	408	299	36.3%
Normalised EBT / Average no. of employees	120	76	58.3%
Personnel cost / Average no. of employees	89	100	- 11.3%
Capital ratios (%)			
Common Equity Tier 1	369,158	290,412	27.1%
Own funds	369,158	290,412	27.1%
Risk-weighted assets	931,607	1,039,778	- 10.4%
CET 1 / Risk-weighted assets (CET1 capital ratio)	39.63%	27.93%	
Total own funds / Risk-weighted assets (Total capital ratio)	39.63%	27.93%	

(*) The income statement figures may be found in the Income Statement presented in the Report on Operations.
(**) The average number of employees (employees and other contract types) includes employees of other companies on secondment to the company and excludes employees of the company on secondment to other companies. Part-time employees are counted 50% by convention. The average is calculated as a weighted average of employees where the weight is determined by the number of months worked per year.

Shareholders,

FINANCIAL STATEMENT RESULTS

The operating events illustrated are reflected in the results of the Balance Sheet and Income Statement shown below, the comparison of which with the previous year — particularly in the case of the Income Statement — is influenced by the effects of (i) the Reorganisation of the Banking Group, with the resulting sale of the Digital Payments business line and the cessation of the role of Parent Company, effective 1 July 2018, and (ii) of the sale of the "Brokerage and Market Making" business unit, effective 31 May 2018.

Financial highlights for the year ended 31 December 2019 are provided below.

Balance Sheet

Total assets amounted to € 9,143 million at 31 December 2019, compared with € 12,338 million at 31 December 2018, as summarised in the following tables.

ASSETS (figures in € million)	31/12/2019	31/12/2018	Changes
Cash and cash equivalents	2,335	4,338	-2,003
Financial assets measured at fair value through profit or loss	32	30	2
Financial assets measured at fair value through other comprehensive income	6	117	-110
Financial assets at amortised cost	6,280	7,263	-983
a) loans to banks	*1,539*	*1,636*	*-97*
b) loans to customers	*4,740*	*5,627*	*-886*
- of which: Government debt securities	*4,355*	*5,178*	*-823*
Equity investments	9	9	0
Property and equipment	27	9	19
Intangible assets	109	163	-54
Tax assets	67	54	13
Other assets	278	356	-78
Total assets	**9,143**	**12,338**	**-3,194**

LIABILITIES (figures in € million)	31/12/2019	31/12/2018	Changes
Financial liabilities at amortised cost	8,296	11,374	-3,079
a) Due to banks	*802*	*1,008*	*-206*
b) Due to customers	*7,494*	*10,366*	*-2,872*
Financial liabilities held for trading	6	5	1
Tax liabilities	20	30	-10
Other liabilities	322	453	-131
Post-employment benefit provision	3	3	0
Provisions for risks and charges	23	27	-3
Equity	473	446	27
Total liabilities and equity	**9,143**	**12,338**	**-3,194**

An examination of the components of assets indicates the following:

- **"Cash and cash equivalents"** amounted to € 2,335 million, compared with € 4,338 million at the end of the previous year, and was represented by demand deposits with central banks, to which the available marginal liquidity is allocated. The reduction in the item is attributable to the decrease in the balances of the current accounts of depositary bank client funds (classified as Financial liabilities measured at amortised cost, b) due to customers);
- **"Financial assets measured at fair value through profit or loss"** amounted to € 32 million, compared with € 30 million at 31 December 2018. The item consists of financial assets subject to mandatory fair value measurement (units of UCITS) of € 31 million, up from € 27 million at 31 December 2018. They comprise: (i) units of UCITS for a total of € 31.3 million; (ii) the amount due from the FITD Voluntary Scheme of € 0.1 million. These items were subject to total revaluations (recorded in the income statement) of € 2.9 million during the year. The remainder consists of financial assets held for trading for a total of € 0.9 million (foreign exchange swaps) for the management of treasury assets;
- **"Financial assets measured at fair value through other comprehensive income"** amounted to € 6 million, compared with € 117 million at the end of the previous year. The change is attributable to the completion of the sale of equity investments in equensWorldline SE and Fondo Italiano Investimenti SGR, which resulted in gains recorded directly in earnings reserves for a total of € 55.4 million, in line with the option exercised by the bank upon the initial adoption of IFRS 9. There were also total revaluations of € 0.7 million on the remaining financial assets classified to the item;
- **"Financial assets measured at amortised cost"** amounted to € 6,280 million, compared with € 7,263 million at year-end 2018, and consist of:
  - **"Loans to banks"** of € 1,539 million (of which € 801 million of repurchase agreements, € 337 of current accounts and sight deposits, € 173 million of deposits with central banks and € 53 million of debt securities), essentially in line with the previous year (€ 1,636 at 31 December 2018);
  - "**Loans to customers"** amounting to € 4,740 million, compared with € 5,627 at year-end 2018. The item consists of € 4,355 million of debt securities issued by the Italian government, down by € 823 million on the end of 2018, as a result of (i) sales made in September with a nominal value of € 510 million in order to contain the concentration of risk on a single security and (ii) partial replacement of securities maturing with purchases for a total

nominal value of € 1,155 million, against maturities for a total nominal value of € 1,405 million.

The item reflects the refinements to IFRS 9 accounting policy; in particular, a total expected credit loss of € 0.8 million was recorded on the performing loan portfolio;

- **Equity investments** amounted to € 9 million, unchanged on the previous year;
- **"Property and equipment"** amounted to € 27 million, up by € 19 million at year-end 2018 as a result of the initial application of the new accounting standard IFRS 16, which in particular affected the lease contracts for the property home to the Milan office and for cars assigned to personnel on the basis of company policies;
- "**Intangible assets**" amounted to € 109 million, down by € 54 million on the previous year, due in particular to the full write-down of goodwill allocated to the Securities Services CGU (€ 46 million) on the basis of the annual impairment test (the basic assumptions and methodologies of which are detailed in the notes to the financial statements) and the annual amortisation of customer contracts for € 7.7 million. Following the write-down of the goodwill on the Securities Services CGU, goodwill of € 81 million remained on the books, referring to the Banking Payment CGU (the recoverability of which was confirmed by the impairment test); the value of customer contracts is € 23 million;
- **"Tax assets"** (€ 67 million) and **"Other assets"** (€ 278 million) amount to € 345 million, compared to € 410 million at the end of 2018, attributable in particular to changes in the balances of the accounts that record, at the balance sheet date, the amounts to be settled relating to the operations of the business areas.

With regard to liability items, it should be noted that:

- **"Financial liabilities measured at amortised cost"** amounted to € 8,296 million, compared to € 11,374 million at 31 December 2018, and consisted of:
  - "Amounts due to banks" of € 802 million (including € 586 million represented by current accounts and sight deposits), compared to € 1,008 million at 31 December 2018;
  - "Amounts due to customers" of € 7,494 million, compared to € 10,366 million in the previous year. The item includes € 6,845 million of current account balances, referring in particular to accounts held in the name of the funds to which depositary bank service is provided; the decrease in these balances, which in the October 2018 - September 2019 period reached unusually high levels, drove the change in the item compared to the end of the previous year.
- **other liabilities totalling** € 352 million, compared to € 490 million recorded at the end of 2018, are represented by "**Financial liabilities held for trading**" of € 6 million, "**Tax liabilities**" of € 20 million, "Other liabilities" of € 328 million and the "**Post-employment benefit provision**" of € 3 million. The decrease in the item is attributable to lower balances of suspense accounts at 31 December 2019 related to the execution of payment instructions.
- "**Provisions for risks and charges**" amounted to € 23 million, compared to € 27 million recorded at the end of the previous year. The change is mainly attributable to the use of € 2.5 million of the provision for risks carried at 31

December 2018 referring to the portion of Economic Growth Aid (ACE) benefit not eligible for tax relief, as estimated at the time;

- "**Equity**" amounted to € 473 million, compared to € 446 million at 31 December 2018. The change may be broken down as follows:
  - € 55 million net increase in reserves resulting from the sale of the aforementioned interests in equensWorldline SE and Fondo Italiano Investimenti SGR as a combined effect of the increase of € 66 million in earnings reserves and a decrease of € 11 million in valuation reserves;
  - € 0.7 million as a net effect of the adjustment to fair value of investments recorded in the HTCS category;
  - (negative) € 29.2 million due to the "Loss for the year", the formation of which is detailed in the income statement.

The changes in capital resulting from the aforementioned operating events had a positive impact on regulatory capital requirements, increasing own funds (to € 369 million, entirely represented by Common Equity Tier 1 components and instruments), while also reducing risk assets. The individual capital ratios (CET1 ratio and Total Capital ratio), the composition of which is summarised in the following tables, stand at 39.63% (up 11.7 percentage points compared to 31 December 2018), further strengthening and remaining well above regulatory limits and industry averages.

(€/000)	31/12/2019	31/12/2018	Change
Common Equity Tier 1 (CET1)	**369,158**	**290,412**	**78,746**
Total own funds	**369,158**	**290,412**	**78,746**
Credit and Counterparty Risk	50,704	57,454	- 6,750
Market Risk	1,876	1,358	518
Operational Risk	21,948	24,370	- 2,422
Total Prudential Requirements	**74,528**	**83,183**	**- 8,655**
Risk Weighted Assets	931,607	1,039,778	- 108,171
CET 1 ratio	39.63%	27.93%	11.70%
Total capital ratio	**39.63%**	**27.93%**	**11.70%**

Income Statement

The management presentation of the income statement for the year ended 31 December 2019 in use in the company reporting system (set out below) shows an "**EBT (normalised)"** of € 40.8 million, compared to € 20.1 million for the year ended 31 December 2018.

The loss for the period was for € 29.2 million.

As already mentioned, the comparison with the same period of the previous financial year is influenced by changes in the corporate scope that occurred near and at the end of the first half of 2018: (i) Reorganisation of the Banking Group, effective 1 July 2018 (ii) sales of the "Brokerage and Market Making" business unit, effective 31 May 2018 and (iii) sale of the Milan/Assago properties, which took place on 30 June 2018. At the level of the income statement, these transactions entailed:

- the loss of the revenues attributable to the Digital Payments and Brokerage and Market Making lines of business;
- the change in financial margins resulting from the recomposition of the balance sheet items (and in particular the impossibility of continuing to finance the Group's E-money business);
- the loss of dividends collected from the Group Companies;
- the elimination of the costs related to the lines of business sold, the properties disposed of and the corporate centre structure operating serving the Group companies, transferred to the "Payments Hub" with the cessation of the role of Parent Company.

For the above reasons, comparisons between the income statements for the years ended 31 December 2019 and 31 December 2018 may in some cases be of limited utility.

Item	Year 2019 YTD	Year 2018 YTD	Absolute change	Change (%)
Net fee and commission income and service revenues	90,156	111,698	- 21,542	- 19.3%
Net interest income	45,389	43,512	1,877	4.3%
Profits (losses) on trading and hedge account	1,388	3,198	- 1,810	- 56.6%
Dividends on equity investments and AFS	1,931	2,947	- 1,016	- 34.5%
Operating revenue	**138,864**	**161,355**	**- 22,492**	**- 13.9%**
Personnel costs	- 30,254	- 54,408	24,154	- 44.4%
Production expenses	- 18,434	- 16,663	- 1,771	10.6%
ICT expenses	- 30,826	- 43,750	12,924	- 29.5%
Other costs	- 17,109	- 5,466	- 11,643	213.0%
Operating expenses	**- 96,623**	**- 120,287**	**23,664**	**- 19.7%**
Gross operating margin	**42,241**	**41,068**	**1,173**	**2.9%**
Adjustments to financial assets	2,376	- 7,320	9,696	- 132.5%
Adjustments to property and equipment and intangible assets.	- 3,867	- 6,857	2,990	- 43.6%
EBT (normalised)	**40,750**	**26,891**	**13,859**	**51.5%**
Customer contract amortisation	- 7,673	- 9,257	1,583	- 17.1%
Adjustments to goodwill	- 45,914	-	- 45,914	-
Other components	- 5,262	- 4,979	- 283	5.7%
Income taxes	- 11,067	- 7,490	- 3,577	47.8%
Profit (Loss) for the financial year	**- 29,166**	**5,165**	**- 34,332**	**NA**

Examining the components of the loss for the period in detail, the "**Operating revenues**" amount to € 138.9 million, compared to € 161.4 million in 2018. The following should be noted with regard to the components of the item:

- "**Net fee and commission income and service revenues**" amounted to € 90.2 million, down from € 111.7 million in 2018 (- 19.3%). The item, net of approximately € 24 million in income relating to assets sold as part of the reorganisation, was up by approximately € 3 million on the previous year;

- "**Net interest income**" amounted to € 45.4 million, compared to € 43.5 million in 2018 (+ 4.3%). The loss of funding provided to Nexi Payments as a result of the reorganisation of the Group was offset by the higher average volumes of the securities portfolio during the year;
- "**Income on securities and foreign exchange**" amounted to a positive € 1.4 million, compared with € 3.4 million in the previous year (- 58%), due in particular to the sale of the "Brokerage and Market Making" business unit;
- "**Dividends and other income**" amounted to € 1.9 million, down from € 2.9 million recorded in June of last year; the decrease is entirely attributable to the elimination of the dividend distributed by Oasi S.p.A. in connection with the reorganisation of the Group.

"**Operating expenses**" amounted to € 96.6 million in management terms, compared with € 120.2 million for the previous year. The performance of the item and its components is influenced by the changes in scope that occurred at the end of the first half of 2018, including, significantly:

- the contraction of "**Personnel cost**", related to the transfer of staff as part of the corporate transactions;
- the growth in "**Production expenses**" caused by the emergence of new service relationships provided by the companies of the Nexi Group (commercial and payment infrastructure services), only partly offset by the smaller operating scope;
- the contraction of "**ICT expenses**" correlated to the reduced scope of operations;
- the loss, within "**Other expenses"**, of other operating income related to corporate centre services previously provided to the companies of the former Banking Group and to the rental income related to the properties sold.

"**Write-downs on financial assets** amounted to € 2.4 million and included write-backs on government bonds (+ € 4.9 million), write-downs on performing loans (- € 0.8 million) and write-downs on non-performing loans (- € 1.7 million).

"**Depreciation and amortisation**" amounted to € 3.9 million (compared to € 6.9 million in 2018).

The above items result in an EBT (normalised) (the main management indicator of the Bank's core business operating performance) of € 40.8 million (compared to € 26.9 million in 2018).

The following are added to these items:

- "**Customer contract amortisation**" of € 7.7 million;
- "**Write-downs on goodwill**" amounted to € 45.9 million, attributable to the aforementioned write-downs of the goodwill associated with the Securities Services CGU.
- "**Other components**" totalled a negative € 5.2 million and included, among others:
  - One-off costs for drafting and supporting the implementation of the 2019-2023 Business Plan and start-up of the new SME Specialised Lending business for € 6.1 million;

- Net costs for the adjustment of ACE (Economic Growth Aid) benefit deducted for the three-year period 2016 - 2018 for € 4.6 million, following the request for an advance ruling submitted to the Italian Revenue Agency;
- Revaluation of the fair value of the units of UCITS classified as financial assets measured at fair value through profit or loss for € 2.9 million;
- Out-of-period income of € 3.4 million, related to 2016-2017 invoices payable and/or invoices attributable to the businesses sold in 2018.

These amounts, net of "**Income taxes**" of € 11 million, result in the aforementioned "**Loss for the year**" of € 29.2 million.

JOINT BANK OF ITALY/ CONSOB/ISVAP DOCUMENT NO. 4 OF 3 MARCH 2010 AND NO. 2 OF 6 FEBRUARY 2009

Below is information on the Company's business continuity, financial risks, impairment tests and uncertainties in the use of estimates.

BUSINESS CONTINUITY

Considering the following indicators relating to the Bank:

Financial indicators

- there was no balance sheet deficit or negative net working capital situation;
- there are no fixed-term loans nearing maturity without reasonable prospects of extension or repayment; there is no excessive reliance on short-term loans to finance long-term assets;
- there is no indication of withdrawal of financial support by lenders and other creditors;
- there are no actual or forecast financial statements showing negative *cash flows*;
- the main financial performance and financial position indicators are not negative;
- there are no significant operating losses arising from *cash-flow* generating activities;
- the Strategic Plan approved by the Board of Directors on 21 February 2019 calls for commercial initiatives to be funded in part through the estimated earnings for the period over the plan horizon;
- the company has ability to settle its debts at maturity;
- the company has the ability to comply with the terms of its loans.

Performance measures

- no directors or key management personnel were lost without being able to replace them;
- no key markets, distribution contracts, concessions or major suppliers were lost;
- no difficulty was encountered in staffing or in maintaining the normal flow of goods and services from key suppliers.

Other indicators

- capital did not fall below the legal limits and there were no cases of non-compliance with other laws;

- there are no legal and tax disputes that, in the event of an unfavourable outcome, could lead to compensation obligations that the bank is unable to discharge;
- there are no legislative changes or government policies from which adverse effects are expected.

Other information
During 2020, the international scenario was affected by the spread of the coronavirus and the consequent restrictive measures to contain it. Please refer to what is described in the paragraph "Significant events after the reporting period" for the qualitative considerations formulated by the Directors.

The impairment losses recorded on cash-flow generating assets, as further specified in the Report on Operations (Impairment paragraph) and in the Notes (Part B, Section 9), do not give rise to any significant uncertainty, in the foreseeable future, to be faced by the bank in conducting its operations.

Moreover, taking into account the bank's financial position, financial performance and liquidity indicators and the specific business areas in which the it operates, it is believed (even considering the potential impacts of the coronavirus, although they cannot be reliably estimated) that it may be excluded that the bank is in a state of significant uncertainty regarding events or conditions that may lead to the emergence of serious doubts as to the its ability to continue to operate as a going concern.

In view of the above, the Directors confirm the reasonable expectation that the Bank will continue to operate in the foreseeable future and that, consequently, the 2019 financial statements have been prepared on a going concern basis.

IMPAIRMENT OF ASSETS

In line with the indications provided in the joint document, the procedure and the assessment parameters for the impairment testing of goodwill were approved, in line with previous years, by the Board of Directors independently and in advance of the approval of the draft 2019 financial statements. The issue has been discussed by the governing body on several occasions since the meeting of the Board of Directors on 19 December 2019.

The impairment test was conducted on the basis of the indications of the 2019-2023 Strategic Plan, approved by the Board of Directors on 21 February 2019 and updated, in its 2020-2023 financial projections, according to the results in the first year of validity of the Strategic Plan, with reference to both the traditional core businesses (Securities Services and Banking Payments) and the new SME Specialised Lending division ("Vesta Project") (update approved by the Board of Directors on 19 March 2020, hereinafter the "Updated Plan").

Due to the uncertainty as to the development outlook for the new SME Specialised Lending division, as amply described in this Directors' Report on the financial statements, the Directors, without excluding the possible resumption of the Vesta Project, have therefore considered it be more appropriate, in discontinuity from the previous year, including for the purposes of the impairment testing of the intangibles allocated on Banking Payments and Securities Services CGU (cash-generating unit), to adopt a business plan that excludes the expected impacts of the development of the new *asset side strategy*.

For the reasons described in further detail in the Notes to the Financial Statements, without having any impact on the cash flows of the CGUs tested, this decision led to the allocation of more capital to the CGUs concerned, with repercussions for their recoverable amounts.

The goodwill associated with the Securities Services CGU was therefore fully written down (€ 45.9 million) with the loss charged to the income statement.

The Notes set out the information required by the joint document, regarding the process of assessing the assets tested for *impairment* in terms of the underlying assumptions, methodologies and parameters used.

In addition, with regard to disclosure, the Notes also contain fundamental information on the following elements:

- Definition of the cash-generating units (CGUs);
- Allocation of goodwill to the individual CGUs;
- Illustration of the criterion for estimating the recoverable amount, when based on value in use;
- Illustration of the criterion for estimating the recoverable amount, when based on *fair value*;
- Description of the analysis of the sensitivity of *the impairment test* result to changes in the basic assumptions;
- Considerations regarding the possible presence of external indicators of impairment in the absence of write-downs of assets as a result of *the impairment* procedure.

FINANCIAL RISKS

Information on the nature and extent of financial risks to which the Company was exposed in 2019 is provided below.

CREDIT RISK

DEPObank is a "second tier" bank, whose core business is currently the supply of products and services, mainly in payment systems and administrative custody, administration and settlement of securities. Lending is currently mostly ancillary and closely related to the provision of products/services and to the specific Treasury activities (managed through the granting of operating credit limits) and Securities Services activities (mostly managed through the granting of current account overdraft facilities).

The credit risk measurement methodologies adopted and the related process of controlling the performances of the various relationships are characterised by criteria of leanness and simplicity due to the limited number of exposures. Specific organisational rules have been adopted for credit application procedures and periodic reviews involving, in the various phases, the Credit Committee, the Strategic & Financial Committee, the Chief Lending Officer and the Board of Directors.

MARKET RISK

The market risk borne is extremely low as the securities portfolio is almost entirely related to the *banking book* (HTCS and HTC portfolios) and thus does not generate market risk. The portfolio of "Assets measured at fair value through profit or loss " (FVTPL), relating to the *trading book* essentially comprises units of UCITS measured according to the most recent NAV available at the date of preparation of these financial statements. Exposure to exchange rate risk is also very modest, as all foreign exchange transactions that generate a position exposed to exchange rate risk is normally hedged through the execution on the market of a transaction of the opposite sign, and positions exposed to exchange rate risk are allowed only to be maintained within the limits (always amply respected) of maximum overall and single currency exposure and VaR.

LIQUIDITY AND CASH FLOW RISK

The *core* business of DEPObank normally contributes to the generation of demand deposits. In addition, DEPObank may also meet its needs through liquidity deriving from: highly liquid assets, unsecured over-the-counter (OTC) interbank market funding, repurchase agreements, refinancing operations with the European Central Bank (ECB) and inflows from its maturing assets.

The securities portfolio is characterised by the presence of government bonds and (to a residual extent) bank bonds, mostly used as collateral to operate on settlement systems and to raise repurchase agreement business on the market.

Any excess liquidity is used in interbank deposits or repurchase agreements with a maturity not exceeding three months. The structure of the flows, in terms of maturities and amounts, makes it possible to limit liquidity risk through the regular closure of outstanding positions.

The monthly supervisory reports of the Basel 3 LCR liquidity indicator showed constant compliance with the regulatory limit (> 100%).

INTEREST RATE RISK

During 2019, the exposure to interest rate risk (calculated as the impact of a 200 *basis point* rate shock on all maturities) decreased progressively during the year, with the exception of May and November, which saw an increase compared to the previous month, and December, which was stable compared to November. This decrease, which already begun in the second half of 2018, is mainly attributable to the progressive decrease in the duration of the assets in the securities portfolio. It should also be noted that, with effect from the measurements relating to the third quarter, interest rate risk has been monitored using a new methodology that results in a significant increase in the result on all maturities, and thus is even more prudent than its predecessor.

UNCERTAINTY IN THE USE OF ESTIMATES

The notes to the financial statements, "Part A - Accounting policies" set out the decisions taken in the application of accounting principles (e.g. classification of financial instruments to the various portfolios) that have the most significant effects on the amounts recognised in the financial statements.

In the notes to the financial statements, disclosure is provided on the fundamental assumptions regarding the future and the other elements of uncertainty in estimates which could result in a high risk, within the following year, of significant changes to the carrying amounts of assets and liabilities presented in the financial reports.

RATINGS

On 17 January 2020, the rating agency Standard & Poor's confirmed DEPObank's rating of BB- with a stable outlook. DEPObank's risk profile and its role as a niche player with a limited number of customers contributed to this assessment, offset by the limited diversification of its business, the high concentration of revenues by customer and its projected capitalisation level.

SIGNIFICANT EVENTS AFTER THE REPORTING DATE

Between 15 and 20 January 2020, following the authorisation received from the Bank of Italy, and in fulfilment of the contractual commitments entered into at the end of July 2019, the PrestaCap transaction was closed, with the acquisition of 100% of Cara Services GmbH.

The extraordinary meeting of the shareholders of DEPObank was then held on 30 January 2020, approving the amendments to the Articles of Association for the formation of the DEPObank - Banca Depositaria Italiana S.p.A. banking group and the exercise of management and coordination powers over the subsidiary Cara Services GmbH. The aforementioned group was registered in the Register of Banking Groups pursuant to Article 64 of the Consolidated Law on Banking by the Bank of Italy with effect from 20 January 2020.

From an organisational point of view, control functions over Cara Services have been centralised within the Parent Company, along with the main support functions.

On 19 March 2020, the majority shareholder informed the Bank's Board of Directors that negotiations with the company that had submitted an unsolicited offer for the acquisition of DEPObank in October 2019 had ceased due also to developments related to the spread of the COVID-19 pandemic, which led to an unprecedented market situation. As mentioned in the introductory part of this Report, a thorough reflection on the Bank's strategic prospects was therefore initiated, a reflection which, as of the date of preparation of this Report on Operations, was still ongoing.

As is common knowledge, since January 2020 the national and international scenario has been characterised by the spread of the coronavirus and the consequent restrictive measures to contain it, implemented by the government authorities of the countries concerned.

In the light of the sequence of events and the information made available after the reporting date, the COVID-19 emergency is believed to be an event after the reporting date that does not entail any adjustment of the accounts, but does require specific disclosure (i.e., a *"non-adjusting event"*).

It should also be noted that the "Cure Italy" Decree approved on 16 March 2020, in the broader context of measures to combat the effects of the coronavirus, granted companies limited by shares the option to convene the shareholders' meeting for the approval of the financial statements within 180 days of the end of the year. The Board of DEPObank took advantage of this regulatory option by convening the shareholders' meeting on 7 May 2020, as indicated in the initial part of this report.

The Bank is monitoring the situation continuously, seeking to formulate initial estimates of the possible economic and financial impacts of the global COVID-19 emergency, in the knowledge that this exercise is not currently easy and reliably quantifiable. For this reason and in view of the rapid evolution of events, it is not possible to provide quantitative estimates.

The Bank's operating continuity was ensured without any critical situations; the measures adopted were primarily aimed at limiting staff mobility and promoting *flexible working*, extending to about 92% of the workforce at the date of this Report. A Crisis Committee was set up in February to constantly monitor critical activities and processes, assessing potential developments, risks and impacts on business areas.

There were no situations of operating tension to be reported and contacts with IT partners remain ongoing to ensure constant business continuity.

To date, there have not been any liquidity stress situations, owing in part to the bank's capital structure. No items measured at fair value have become significantly impaired. With regard to the Bank's securities portfolio, there are currently no significant impacts with regard to the overall economic result of the portfolio, because, among other reasons, the Bank holds these financial assets within an HTC (held-to-collect) business model.

There have not been any significant increases in credit risk, owing in part to the "second tier" nature of the bank, entailing limited lending activity, typically limited to the short term and mainly ancillary to the core businesses Securities Services and Banking Payments.

On the basis of the initial evidence, the service margin may also suffer from an impact linked to unfavourable financial market performance, which may in turn result in a reduction in the fair value of assets in custody, the main driver of fee and commission income for Securities Services, and the general foreseeable economic slowdown, with potential adverse effects on the payment streams settled by Banking Payments.

There have not yet been any significant increases in operating costs related to the pandemic.

It is not yet possible to predict the impact that the pandemic-induced crisis may have on the basic assumptions considered in estimating the recoverable amounts of the cash-generating units (CGUs) and/or other assets for which recoverable amounts have been estimated. The sensitivity analyses presented in the specific sections of the Notes provide information on the excess recoverable amounts at the reporting date.

Finally, it should be noted that the potential effects of this phenomenon on the bank's financial position will be constantly monitored throughout the year. The extraordinary circumstances, by nature and extent, have in any case created an environment of general uncertainty, the future course and related effects of which cannot be foreseen.

OTHER INFORMATION

Please note that in 2019 the bank was subject to an audit by the Tax Authority focused solely on the 2017 tax period and relating to "withholding agent obligations". The outcome of the audit had no impacts on these financial statements.

DEPObank is not subject to management and coordination by any other company or entity, as defined in Articles 2497-***sexties*** and 2497-***septies*** of the Italian Civil Code.

In 2019 DEPObank did not carry out any research and development.

In the respective sections of its website (www.depobank.it), DEPObank has published, together with the 2019 financial statements, the "State-by-state public disclosure" and "Disclosure pursuant to Regulation (EU) No 575/2013", as required by Circular No. 285, and subsequent updates, published by the Bank of Italy on 17 December 2013.

It should be noted that gender balance within the Board of Directors of DEPObank is ensured in accordance with Article 15 paragraph 1 of the Articles of Association and the applicable supervisory regulations.

In contrast to the previous year, DEPObank did not prepare a 2019 Non-Financial Statement, as it no longer falls within the scope of application of Italian Legislative Decree 254/2016.

DEPObank continues to pursue its ambition to manage the social and environmental impacts associated with its operations with increasing awareness and responsibility.

TREASURY SHARES

There are no treasury shares of the Company.

REGISTERED OFFICE

Via Anna Maria Mozzoni, 1.1 — Milan

BRANCH OFFICES

Via Elio Chianesi, 110 D — Rome

COVERAGE OF THE LOSS FOR THE FINANCIAL YEAR

Shareholders,

The financial statements submitted for your examination, which you are invited to approve, show a loss for the year of € 29,166,152, which it is proposed be covered through the use of available reserves.

Equity reserves, as disclosed in the Notes, Part B, Section 12.4, Liabilities, and in particular the criteria for their use, have been taken into account for the purposes of covering the loss for the year.

The portion of these reserves available to cover losses totals € 459,672,074 and includes the Share premium reserve for € 148,242,172, Earnings reserves for € 300,582,058 and the Law 289/2002 earnings reserve for € 10,847,844.

It is proposed that the loss for the year be covered by attributing it, for € 29,166,152, to the Earnings reserves.

Milan, 6 April 2020

THE BOARD OF DIRECTORS

DEPObank
BANCA DEPOSITARIA ITALIANA

Financial Statements
at 31 December 2019

Balance Sheet

(Figures in €)

Assets		31/12/2019		31/12/2018	
10.	**Cash and cash equivalents**		**2,334,682,951**		**4,337,924,890**
20.	**Financial assets measured at fair value through profit or loss**		**32,305,980**		**29,985,999**
	a) financial assets held for trading	*877,349*		*2,665,773*	
	c) other financial assets subject to mandatory fair-value valuation	*31,428,631*		*27,320,226*	
30.	**Financial assets measured at fair value through other comprehensive income**		**6,160,805**		**116,551,933**
40.	**Financial assets measured at amortised cost**		**6,279,748,597**		**7,263,014,895**
	a) loans to banks	*1,539,310,738*		*1,636,140,787*	
	b) loans to customers	*4,740,437,859*		*5,626,874,108*	
70.	**Equity investments**		**8,564,073**		**8,564,073**
80.	**Property and equipment**		**27,303,419**		**8,518,655**
90.	**Intangible assets**		**109,102,446**		**163,377,677**
	of which: goodwill	*81,017,025*		*126,930,588*	
100.	**Tax assets**		**67,016,782**		**53,906,248**
	a) current	*47,306,025*		*30,969,647*	
	b) deferred	*19,710,757*		*22,936,601*	
120.	**Other assets**		**278,427,299**		**355,943,422**
	Total assets		**9,143,312,352**		**12,337,787,792**

(Figures in €)

	Liabilities and equity	31/12/2019		31/12/2018	
10.	**Financial liabilities measured at amortised cost**		**8,295,788,414**		**11,374,457,908**
	a) due to banks	*801,891,933*		*1,008,112,748*	
	b) due to customers	*7,493,896,481*		*10,366,345,160*	
20	**Financial liabilities held for trading**		**6,247,973**		**4,925,776**
60.	**Tax liabilities**		**20,159,451**		**29,765,808**
	a) current	*15,131,430*		*23,273,442*	
	b) deferred	*5,028,021*		*6,492,366*	
80.	**Other liabilities**		**322,026,783**		**452,733,738**
90.	**Employee severance pay**		**3,130,471**		**3,450,693**
100.	**Provisions for risks and charges**		**23,371,660**		**26,790,409**
	a) commitments and guarantees issued	*6,433*		*-*	
	b) pensions and similar obligations	*329,492*		*813,691*	
	c) other provisions for risks and charges	*23,035,735*		*25,976,717*	
110.	**Valuation reserves**		**-475,693**		**9,805,714**
140.	**Reserves**		**311,429,903**		**239,893,263**
150.	**Share premium**		**148,242,172**		**148,242,172**
160.	**Share capital**		**42,557,370**		**42,557,370**
180.	**Profit (loss) for financial year (+/-)**		**-29,166,152**		**5,164,942**
	Total liabilities and equity		**9,143,312,352**		**12,337,787,792**

Income Statement

(Figures in €)

	Income Statement items	2019		2018	
10.	**Interest income and similar income**		**70,560,334**		**64,654,822**
	of which: interest income calculated according to the effective interest method	*33,611,832*		*23,777,240*	
20.	**Interest expenses and similar charges**		**-38,812,448**		**-29,343,525**
30.	**Net interest income**		**31,747,886**		**35,311,297**
40.	**Fee and commission income**		**111,452,561**		**115,565,824**
50.	**Fee and commission expense**		**-29,337,542**		**-31,633,144**
60.	**Net fee and commission income**		**82,115,019**		**83,932,680**
70.	**Dividends and similar income**		**2,366,062**		**4,034,054**
80.	**Profits (losses) on trading**		**15,695,127**		**11,486,263**
100.	**Profits (losses) on disposal or repurchase of:**		**24,723**		**4,010**
	a) Financial assets measured at amortised cost	*24,723*		*-*	
	b) Financial assets measured at fair value through other comprehensive income	*-*		*4,010*	
110.	**Profits (losses) on financial assets and liabilities measured at fair value through profit or loss:**		**2,930,469**		**3,294,641**
	b) Other financial assets subject to mandatory fair value measurement	*2,930,469*		*3,294,641*	
120.	**Net interest and other banking income**		**134,879,286**		**138,062,945**
130.	**Net losses/recoveries for credit risk associated with:**		**2,375,738**		**-7,319,674**
	a) Financial assets measured at amortised cost	*2,375,738*		*-7,319,674*	
140.	**Utile /perdite da modifiche contrattuali senza cancellazioni**		**-**		**-**
150.	**Net result from banking activities**		**137,255,024**		**130,743,271**
160.	**Administrative costs:**		**-101,588,953**		**-142,717,775**
	a) personnel cost	*-32,423,360*		*-57,096,561*	
	b) other administrative costs	*-69,165,593*		*-85,621,214*	
170.	**Net provisions for risks and charges**		**-892,968**		**-3,530,748**
	a) commitments and guarantees issued	*-6,433*		*-*	
	b) other net provisions	*-886,535*		*-3,530,748*	
180.	**Net write-downs/write-backs on property and equipment**		**-2,043,653**		**-1,351,996**
190.	**Net write-downs/write-backs on intangible assets**		**-10,822,828**		**-14,761,538**
200.	**Other operating income/expenses**		**10,490,475**		**39,993,451**
210.	**Operating expenses**		**-104,857,927**		**-122,368,606**
240.	**Goodwill impairment**		**-45,913,562**		**-**
250.	**Profits (losses) on disposal of investments**		**-**		**4,280,246**
260.	**Profit (loss) from continuing operations before taxes**		**-13,516,465**		**12,654,911**
270.	**Income taxes for the financial year on continuing operations**		**-15,649,687**		**-7,489,969**
280.	**Profit (loss) from continuing operations after taxes**		**-29,166,152**		**5,164,942**
300.	**Profit (loss) for the financial year**		**-29,166,152**		**5,164,942**

The income statement presented above is not fully comparable with the previous financial year as it is influenced (i) by the effects of the reorganisation of the Banking Group, effective 1 July 2018, and (ii) by the sale of the Brokerage and Market Making business unit, effective 31 May 2018.

Statement of Comprehensive Income

(Figures in €)

	Items	2019	2018
10.	**Profit (loss) for the financial year**	**-29,166,152**	**5,164,942**
	Other comprehensive income, net of taxes, without recycling to the income statement		
20.	Equity instruments measured at fair value through other comprehensive income	677,658	11,279,571
30.	Financial liabilities measured at fair value through profit or loss (changes in creditworthiness)		0
40.	Hedging of equity instruments measured at fair value through other comprehensive income		
50.	Property and equipment		71,208
60.	Intangible assets		0
70.	Defined-benefit plans	(29,572)	71,208
80.	Non-current assets and disposal groups		
90.	Share of valuation reserves for equity investments measured at equity		
100.	Income taxes on other comprehensive income without recycling to the income statement		
	Other comprehensive income, net of taxes, with recycling to the income statement		
110.	Hedging of foreign investments:		
120.	Foreign exchange differences:		
130.	Cash flow hedges:		
140.	Hedging instruments:[undesignated elements]		
140.	Financial assets (other than equity instruments) at fair value through other comprehensive income	-	(14,331,471)
160.	Non-current assets held for sale and disposal groups:		
170.	Share of valuation reserves for equity investments measured at equity:		
170.	**Total other comprehensive income, net of taxes**	**648,086**	**(2,980,692)**
180.	**Comprehensive income (Item 10 + 170)**	**-28,518,066**	**2,184,250**

The statement of comprehensive income presented above does not incorporate the effects of the disposals of the equity instruments designated at FVOCI during the year for a total of € 55,443,006.

Statement of Changes in Equity at 31.12.2018

(Figures in €)

				Allocation of profit/loss for the previous year		Changes in the year								
							Equity transactions							
	Balances as at 31.12.2017	Change in opening balances	Balances as at 1.1.2018	Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Comprehensive income 2018	Equity as at 31.12.2018
Share capital:														
a) ordinary shares	42,557,370		42,557,370											42,557,370
b) other shares														-
Share premium	148,242,172		148,242,172											148,242,172
Reserves:														
a) retained earnings	1,681,646,439	-617,374	1,681,029,065	51,487,000		-1,503,471,446								229,044,618
b) other	10,847,844	-	10,847,844			-								10,847,844
Valuation reserves	60,530,875	-1,525,626	59,005,249			-46,218,536							-2,981,000	9,805,714
Equity instruments														-
Treasury shares	-32,000		-32,000			32,000								-
Profit (loss) (+/-) for the period	89,490,653		89,490,653	-51,487,000	-38,003,653	-							5,164,942	5,164,942
Equity	**2,033,283,353**	**-2,143,000**	**2,031,140,353**	**-**	**-38,003,653**	**-1,549,657,982**	**-**	**-**	**-**	**-**	**-**	**-**	**2,183,942**	**445,662,660**

Statement of Changes in Equity at 31.12.2019

(Figures in €)

	Balances as at 31.12.2018	Change in opening balances	Balances as at 1.1.2019	Allocation of profit/loss for the previous year		Changes in the year							Comprehensive income 2019	Equity as at 31.12.2019
							Equity transactions							
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary distribution of dividends	Change in equity instruments	Derivatives on treasury shares	Stock options		
Share capital:														
a) ordinary shares	42,557,370		42,557,370											42,557,370
b) other shares														-
Share premium	148,242,172		148,242,172											148,242,172
Reserves:														
a) retained earnings	229,044,618		229,044,618	5,164,942		66,372,499								300,582,058
b) other	10,847,844		10,847,844											10,847,844
Valuation reserves	9,805,714		9,805,714			-10,929,493							648,086	-475,693
Equity instruments														-
Treasury shares														-
Profit (loss) (+/-) for the period	5,164,942		5,164,942	-5,164,942									-29,166,152	-29,166,152
Equity	**445,662,660**		**445,662,660**	**-**	**-**	**55,443,006**	**-**	**-**	**-**	**-**	**-**	**-**	**-28,518,066**	**472,587,600**

Statement of Cash Flows (indirect method)

(Figures in €)

A. OPERATING ACTIVITY	2019	2018
1. Cash flow from operations	**34,942,001**	**112,753,931**
- profit/loss for the year (+/-)	-29,166,152	5,164,942
- gains/losses on financial assets held for trading and other financial assets measured at fair value through profit or loss (+/-)	429	-3,340
- gains/losses on hedging operations (+/-)	-	-
- net adjustments/recoveries for credit risk (+/-)	-2,375,738	7,319,674
- net adjustments/recoveries on property and equipment and intangible assets (+/-)	58,780,043	16,113,534
- net allocations to provisions for risks and charges and other costs/income (+/-)	892,968	3,530,748
- taxes, duties and tax credits, unpaid (+/-)	15,649,687	7,489,969
- net adjustments/recoveries on discontinued operations, net of the tax effect (+/-)	-	-
- other adjustments (+/-)	-8,839,237	73,138,403
2. Cash flow generated/absorbed by financial assets	**1,220,871,802**	**-1,987,953,240**
- financial assets held for trading	1,787,995	4,472,614
- financial assets at fair value	-	-
- other financial assets subject to mandatory fair value measurement	-1,177,936	-3,109,273
- financial assets measured at fair value through other comprehensive income	170,214,119	62,626
- financial assets measured at amortised cost	985,642,036	-1,973,475,511
- Other assets	64,405,589	-15,903,695
3. Cash flow generated/absorbed by financial liabilities	**-3,255,240,808**	**2,990,237,218**
- financial liabilities measured at amortised cost	-3,092,235,369	2,095,164,108
- financial liabilities held for trading	1,322,197	-744,930
- financial liabilities carried at fair value	-	-
- other liabilities	-164,327,636	895,818,040
Net cash generated/absorbed by operating activity A (+/-)	**-1,999,427,006**	**1,115,037,908**
B. INVESTING ACTIVITY		
1. Cash flows generated by	**-**	**-**
- sales of equity investments	-	1,522,966
- dividends collected on equity investments	-	-
- sales of property and equipment	-1,353,774	67,185,702
- sales of intangible assets	-	-
- disposals of business units	-	-41,159,015
2. Cash flows absorbed by	**-**	**-**
- purchases of equity investments	-	0
- purchases of property and equipment	-	-919,617
- purchases of intangible assets	-2,461,159	-8,980,763
- purchases of business units	-	-
Net cash generated/absorbed by investing activity B (+/-)	**-3,814,933**	**17,649,273**
C. FINANCING ACTIVITY		
- Issue/purchase of treasury shares	-	-
- Issue/purchase of equity instruments	-	-
- Distribution of dividends and other purposes	-	-38,003,653
Net cash generated/absorbed by financing activity C (+/-)	**-**	**-38,003,653**
NET CASH GENERATED/ABSORBED DURING THE FINANCIAL YEAR D=A+/-B+/-C	**-2,003,241,939**	**1,094,683,528**

Reconciliation

(Figures in €)

Balance Sheet items	2019	2018
Cash and cash equivalents at start of financial year	4,337,924,890	3,243,241,362
Total net cash generated/absorbed during the financial year	-2,003,241,939	1,094,683,528
Cash and cash equivalents: effect of changes in exchange rates		
Cash and cash equivalents at end of financial year G=E+/-D+/-F	**2,334,682,951**	**4,337,924,890**

Key
(+) generated
(-) absorbed

DEPObank
BANCA DEPOSITARIA ITALIANA

Explanatory Notes

Part A – ACCOUNTING POLICIES

A.1 – GENERAL CRITERIA

SECTION 1 – DECLARATION OF COMPLIANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

In accordance with the provisions of Regulation (EC) No 1606 of 19 July 2002, the Bank has prepared these financial statements in compliance with the International Accounting Standards (IASs) and International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Boards (IASB), as endorsed by the European Commission and transposed by the Italian Legislator with Legislative Decree 38/2005.

In preparing these financial statements, the IASs/IFRSs in force as at 31 December 2019 have been applied.

In order to better guide the application of the accounting standards, reference has been made to the interpretations provided by the International Financial Reporting Interpretations Committee (IFRIC), as well as to the documents on the application of IASs/IFRSs in Italy prepared by the Italian Accounting Organisation (OIC) and to the interpretative documents prepared by the Italian Banking Association (ABI). There were no derogations from the IASs/IFRSs.

These financial statements have been prepared on the basis of Bank of Italy Circular No. 262 of 22 December 2005 and the following updates and interpretative clarifications provided by the Bank of Italy. In particular, the sixth update of 30 November 2018 has been taken into account.

SECTION 2 – GENERAL BASIS OF PREPARATION

The Financial Statements comprise the mandatory statements set out in IAS 1 (i.e. the Balance Sheet, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity and Cash Flows) and the Notes. They are also accompanied by the Directors' Report on operations, on the economic results achieved and on the financial position and cash flows. In particular, the information required for the Report on Operations in the Bank of Italy Circular No. 262/2005, as updated, is contained in the Report on Operations.

All information required by law and the supplementary disclosures deemed necessary to give a true and fair view of the bank's situation are provided in the Notes. These financial statements are prepared assuming that the company is a going concern, there being no uncertainty about the Bank's ability to continue to operate. The mandatory tables and the details required by the Bank of Italy are separately identified according to the numbering established by the supervisory authority. The financial statements as at 31 December 2019 have been prepared using the euro as the functional currency; the amounts in the financial statements are expressed in euro, while the figures in the Notes are expressed in thousands of euro, unless otherwise specified.

The financial statements as at 31 December 2019 are based on the requirements of the international accounting standards endorsed by the European Commission. They also reflect the general assumptions of the IASB Systematic Framework for the preparation and presentation of financial statements.

Measurement criteria have been adopted according to the going concern assumption and comply with the principles of accrual basis accounting, relevance and materiality of accounting information and the precedence of economic substance over legal form.

The Financial Statements and the Notes also present, in addition to the amounts relating to the reporting period, the corresponding comparative data referring to 31 December 2018.

In accordance with the provisions of the new accounting standard IFRS 16, entities that opt for the use of the "modified retrospective" approach are not required to restate the comparative data. Consequently, the balance sheet and income statement figures at 31 December 2019 are not fully comparable with those relating to the comparison periods since the latter were determined in application of IAS 17, in force in the reporting period. Moreover, the balance sheet and income statement data as at 31/12/2019 are not fully comparable with those of the previous year as they are influenced (i) by the reorganisation of the Banking Group with the consequent loss of the role of Parent Company, effective 1 July 2018 and (ii) by the sale of the Brokerage and Market Making business unit, effective 31 May 2018.

CONTENT OF THE FINANCIAL STATEMENTS

Balance sheet, income statement and statement of comprehensive income.

The consolidated balance sheet, income statement and statement of comprehensive income consist of items, sub-items and additional details. In the income statement, revenues have been presented without sign, whereas costs are preceded by a minus sign.

Statement of changes in equity

The statement of changes in equity, which presents movements in equity during the reporting period, is broken down into share capital, capital reserves, earnings and valuation reserves and profit or loss. No equity instruments other than ordinary shares have been issued.

Statement of cash flows

The statement of cash flows during the reporting year and previous year was prepared on the basis of the indirect method, according to which the cash flows from operations are represented by the results for the period, adjusted by the effects of non-monetary operations.

The cash flows are divided between those generated by operations, those generated by investment activities and those generated by funding activities.

Given that cash and cash equivalents include cash and cash equivalents at central banks, the movements for the year are represented exclusively by financial movements.

In the statement, the cash flows generated during the year are indicated without sign, while cash absorbed is preceded by a minus sign.

CONTENT OF THE NOTES

The Notes contain the information deemed necessary to give a true and fair view of financial performance and financial position.

The measurement criteria described below have been adopted in determining all information contained in these financial statements.

SECTION 3 – EVENTS AFTER THE REPORTING DATE

On 6 April 2020, the Board of Directors of DEPObank S.p.A. examined these draft financial statements and authorised their publication. In referring to the paragraph of the report on operations entitled "Significant events after the reporting period" for a general discussion on developments after the reporting period, it is reported that after 31 December 2019 and until the date of approval of this report no circumstances or events occurred that would require any adjustments to the financial statements as at 31 December 2019.

However, under IAS 10 the declaration of an international emergency due to the coronavirus epidemic constitutes a significant event that does not entail any adjustments to the financial statements, since this event and its consequences occurred after the reporting date.

SECTION 4 – OTHER ASPECTS

IFRS ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLIED WITH EFFECT FROM 1 JANUARY 2019

IFRS 16 - ***Leases***

The provisions of the Standard

The new Standard requires determining whether a contract is (or contains) a lease, based on the concept of control of the use of an identified asset for a certain period of time; it follows that lease, rental, lease or loan agreements may also fall within the scope of the new rules.

In the light of the above, significant changes are made to the accounting of lease transactions in the lessee/user's financial statements, involving the introduction of a single model for accounting for lease contracts by lessees, on the basis of rights of use. In detail, the main change is the elimination of the distinction, provided for in IAS 17, between operating and financial leases: all leases are therefore to be accounted for in the same way, with the recognition of an asset and a liability. The accounting model involves recognising the right of use of the leased asset and a liability consisting of the lease payments still to be made to the lessor, in contrast to the requirements of the standards in force at 31 December 2018. The accounting treatment in the income statement has also been modified: whereas under IAS 17 lease payments were represented solely in the item relating to administrative expenses, under IFRS 16 amortisation of the right of use and interest expense on the liability are also recognised.

It should also be noted that according to the requirements of IFRS 16 and the clarifications provided by IFRIC (document "Cloud Computing Arrangements" of September 2018), software is excluded from the scope of IFRS 16; it is therefore accounted for in accordance with IAS 38 and the related requirements.

Effective 1 January 2019, the effects of the application of IFRS 16 on the financial statements of lessees can be identified – without any impact on profitability and final cash flow – as an increase in assets (the leased assets), an increase in liabilities (the lease liabilities), a reduction in administrative expenses (the lease payments) and a simultaneous increase in financial expenses (interest on the debt contracted) and amortisation (of the rights of use). At the level of the income statement, considering the entire term of the contracts, the impact does not change over the lease horizon when either the previous IAS 17 or the new IFRS 16 is applied; rather, it is distributed differently in time.

In 2018 the Bank launched a specific project to implement IFRS 16 – *Leases*, in order to identify and explore its qualitative and quantitative impacts. From a procedural standpoint, a specific tool was implemented to determine values according to IFRS 16.

Contract scope – lessees

As previously mentioned, the Standard applies to all types of contracts containing a lease and to contracts that provide the lessee with the right to control the use of an identified asset for a certain period of time (period of use) in exchange for consideration. The logic of the Standard is that control over an asset requires that the asset be identified, for example when it is explicitly specified in the contract, or if it is implicitly specified when it is available for use by the customer. An asset is not specified if the supplier has the substantial right to replace it, or if the supplier is able in practice to replace the asset with alternative assets throughout the period of use and derives economic benefits from exercising that right.

Once it has been determined that the underlying of the contract is an identified asset, it must be assessed whether the entity has the right to control it because the entity has both the right to obtain substantially all the economic benefits from the use of the asset and the right to decide the use of the identified asset.

For the Bank, the analysis of the contracts within the scope of application of the Standard extended in particular to the following cases: (i) real estate and (ii) cars. Real estate lease contracts represent the most significant implementation impact area as these contracts represent (at FTA) 99% of the value of rights of use. On the other hand, although more significant in terms of number, the impact of cars is negligible in terms of the amount of the right of use.

The real estate lease contract includes the property intended for office use. It has a term of over 12 months and renewal and termination options that can be exercised by the lessor and lessee according to specific contractual and legal provisions. The contract does not include a purchase option at the end of the lease or restoration costs for the Bank.

Car lease contracts refer to long-term rentals of either cars for mixed personal and business use or for the organisational departments of the various companies. Lease terms are for multiple years, without renewal options, and the contracts do not include an option to purchase the asset.

The Bank's choices

It will be appropriate to illustrate some choices of a “general” nature made by the Bank with reference to the methods of representing the effects of the initial application of the Standard and some rules to be applied when accounting for lease contracts.

The Bank has chosen to implement the first-time adoption (FTA) of IFRS 16 according to a modified retrospective approach, which allows the cumulative effect of the application of the Standard to be recognised on the date of initial application and the comparative figures not to be restated in the financial statements of the initial application of IFRS 16. Therefore, the figures in the 2019 financial statements are not fully comparable with reference to the measurement of rights of use and the corresponding lease liabilities. Upon initial application, the Bank adopted some practical expedients provided for in the Standard - paragraphs C10 ***et seq.***; in particular, contracts with a residual lease term of 12 months or less (“short term”) were excluded. There are no provisions for onerous leases measured in accordance with IAS 37 and recognised in the Financial Statements at 31 December 2018. Even following initial application, the Bank has decided not to apply the new Standard to contracts with a total *lease term* of 12 months or less or to contracts with a value of the underlying asset, when new, of € 5,000 or less *(“low value”).* In this case, the payments for these leases are expensed - as in the past – on a straight-line basis over the term of the lease.

Contract term

The term of a lease is determined by reference to the non-cancellable period during which the bank is entitled to use the underlying asset, including the period covered by the extension option, if the lessee is reasonably certain to exercise the option. On the transition date and on the inception date of each contract entered into after 1 January 2019, the Bank has set the term of each lease according to the facts and circumstances as at that date that have an impact on the reasonable certainty of exercising the options included in the lease contracts. With specific reference to real estate leases, for the existing contract (FTA date) and future contracts the Bank considered only the first renewal period as reasonably certain. In view of the characteristics of Italian lease contracts and the provisions of Italian Law 392/1978, if a new lease agreement with a contractual term of six years is signed, with an option for automatic renewal of the contract from one six-year period to the next, the total term of the lease will be at least twelve years. This general rule is disregarded if there are new elements or specific situations within the contract. For car lease contracts, renewals have not been considered, on the basis of the specific characteristics of the existing contracts.

Discount rate

The Bank intends to use the implicit interest rate, where available, as the discount rate, as provided for in the new Standard. When accounting for lease contracts from the point of view of the lessee, in some cases – such as that of the real estate lease contract – it cannot always be determined promptly without resorting to estimates and assumptions (the lessee does not have sufficient information on the unsecured residual value of the leased asset). In such cases, the Bank has decided to use a secured rate curve based on the Bank's credit rating at the transition date. This rate, equal to 3.21%, takes into account the creditworthiness of the lessee, the term of the lease, the nature and quality of the collateral provided and the economic environment in which the transition takes place and is therefore in line with the requirements of the Standard.

Leasing and non-leasing components

It should be noted that, in line with the provisions of the Standard, the bank has not considered the service components when estimating the expected cash flows for both the real estate and car lease contracts.

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

The adjustment of the opening financial statements due to the application of IFRS 16 according to the modified retrospective approach resulted in an increase in assets owing to the recognition of new rights of use totalling € 14,014 thousand and financial liabilities totalling € 10,539 thousand (the two figures are not aligned due to the reclassification to rights of use of a prepayment on the real estate lease contract, referring to the advance of three years of the contractual rent recognised in the last financial statements at 31 December 2018, amounting to € 3,475 thousand). The initial application of the Standard therefore has not had any impact on equity since, as a result of the decision to adopt *the modified approach* (option B), at initial application the values of the assets and liabilities coincide, net of the reclassification of the prepayments relating to contracts.

The categories of rights of use identified for property and equipment are shown in detail below. In particular, lease rights of use relating to real estate contracts are presented under sub-item "(b) buildings" and those relating to car lease contracts under sub-item “(e) other”, consisting entirely of non-investment property and equipment.

(thousands of euro)

Lease rights of use	01.01.2019
Property and equipment with functional use	**14,014**
a) land	
b) buildings	13,828
c) furniture and fittings	
d) electronic systems	
e) others	186

Assets, liabilities and equity as at 1 January 2019

Assets

(thousands of euro)

Assets	31.12.2018 published	Effect of transition to IFRS 16	01.01.2019 IFRS 16
10. Cash and cash equivalents	4,337,925		4,337,925
20. Financial assets measured at fair value through profit or loss	29,986		29,986
30. Financial assets measured at fair value through other comprehensive income	116,552		116,552
40. Financial assets measured at amortised cost	7,263,015		7,263,015
70. Equity investments	8,564		8,564
80. Property and equipment	8,519	14,014	22,533
90. Intangible assets	163,378		163,378
100. Tax assets	53,906		53,906
120. Other assets	355,943	-3,475	352,469
Total assets	**12,337,792**	**10,539**	**12,348,331**

Liabilities and shareholders' equity

(thousands of euro)

Liabilities and equity	31.12.2018 published	Effect of transition to IFRS 16	01.01.2019 IFRS 16
10. Financial liabilities measured at amortised cost	11,374,458	10,539	11,384,997
a) Due to banks	1,008,113		1,008,113
b) Due to customers	10,366,345	10,539	10,376,884
c) debt securities issued	-		-
20. Financial liabilities held for trading	4,926		4,926
60. Tax liabilities	29,766		29,766
80. Other liabilities	452,734		452,734
90. Employee severance pay	3,451		3,451
100. Allowances for risks and charges	26,790		26,790
110. Valuation reserves	9,806		9,806
140. Reserves	239,893		239,893
150. Share premium	148,242		148,242
160. Share capital	42,557		42,557
180. Profit (loss) for financial year(+/-)	5,165		5,165
Total of liabilities and net equity	**12,337,792**	**10,539**	**12,348,331**

Other IFRS accounting standards, amendments and interpretations applied with effect from 1 January 2019

On 12 October 2017, the IASB published an amendment to IFRS 9 *Prepayment Features with Negative Compensation*. This document specifies that instruments that provide for early repayment may pass the solely payments of principal and interest ("SPPI") test even if the "reasonable additional compensation" to be paid in the event of early repayment is "negative compensation" for the lender. The adoption of this amendment had no effect on the Bank's Financial Statements at 31 December 2019.

On 7 June 2017 the IASB published the interpretation *Uncertainty over Income Tax Treatments* (IFRIC Interpretation 23). The Interpretation deals with the issue of uncertainties regarding the tax treatment to be applied to income taxes. In particular, the Interpretation requires an entity to analyse the uncertain tax treatments (individually or as a whole, depending on their characteristics) while always assuming that the tax authority will examine the tax position in question, with full knowledge of all relevant information. Where the entity considers it unlikely that the tax authority will accept the tax treatment adopted, the entity must reflect the effect of the uncertainty in measuring its current and deferred income taxes. Furthermore, the document does not contain any new disclosure obligation, but underlines that the entity will have to establish whether it will be necessary to provide information on the considerations made by the management and relating to the uncertainty inherent in accounting for taxes, in accordance with the provisions of IAS 1. The new Interpretation has been applied with effect from 1 January 2019. There are no impacts on the Financial Statements as at 31 December 2019.

On 12 December 2017 the IASB published the "Annual Improvements to IFRSs 2015-2017 Cycle" document, which incorporates the changes to some standards as part of their annual improvement process. The main changes concern:

IFRS 3 *Business Combinations* and IFRS 11 *Joint Arrangements*: the amendment clarifies that when an entity gains control of a business that represents a joint operation, it must remeasure the interest previously held in that business. However, this process does not apply if joint control is obtained.

IAS 12 *Income Taxes*: the amendment clarifies that all tax effects related to dividends (including payments on financial instruments classified within equity) should be accounted for in a manner consistent with the transaction that generated the profits concerned (income statement, OCI or equity).

IAS 23 *Borrowing Costs*: the amendment clarifies that in the case of loans that remain in place even after the qualifying asset is ready for use or sale, they become part of the set of loans used to calculate the borrowing costs.

The adoption of these amendment had no effect on the Bank's Financial Statements as at 31 December 2019.

On 7 February 2018 the IASB published the document "Plant Amendment, Curtailment or Settlement" (amendments to IAS 19). The document clarifies how an entity should recognise a change (i.e. a curtailment or settlement) to a defined-benefit plan. The changes require an entity to update its assumptions and remeasure the net liability or asset arising from the plan. The amendments clarify that after the occurrence of such an event, an entity is to use updated assumptions to measure the current service cost and interest for the remainder of the reporting period following the event. The adoption of this amendment had no effect on the Bank's Financial Statements as at 31 December 2019.

On 22 October 2018 the IASB published the document "Definition of a Business" (amendments to IFRS 3). The document provides clarification regarding the definition of business for the correct application of IFRS 3. In particular, the amendment clarifies that while a business usually produces an output, the presence of an output is not strictly necessary to identify a business in the presence of an integrated set of activities/processes and assets. However, to satisfy the definition of a business, an integrated set of activities/processes and assets must include, at a minimum, a substantial input and process that together contribute significantly to the ability to create output. To this end, the IASB has replaced the term "ability to create output" with "ability to contribute to the creation of output" to clarify that a business can exist even without the presence of all the inputs and processes necessary to create an output. The amendment also introduces a concentration test, optional for the entity, to determine whether a set of activities/processes and assets purchased is not a business. If the test is passed, the set of activities/processes and assets purchased does not constitute a business and the Standard does not require further verification. If the test is failed, the entity will need to conduct further analysis of the activities/processes and assets purchased to identify the presence of a business. To this end, the amendment adds several illustrative examples to IFRS 3 in order to understand the practical application of the new definition of a business in specific cases. The amendments apply to all business combinations and acquisitions of assets after 1 January 2020, but early application is allowed. This amendment, where applicable, will be taken into account when drawing up the next financial statements as at 31 December 2020.

On 31 October 2018 the IASB published the document "Definition of Material" (amendments to IAS 1 and IAS 8). That document introduced changes to the definition of "material" contained in IAS 1 - *Presentation of Financial Statements* and IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors*. Its aim was to make the definition of "material" more specific, and to introduce the concept of "obscured information" alongside the concept of omissions or misstatements, which were already present in the two amended standards. The amendment clarifies that information is "obscured" if it has been described in such a way that produces, for the primary readers of financial statements, an effect similar to that which would have occurred if that information had been omitted or misstated. The amendments introduced by the document apply to all transactions after 1 January 2020.

On 11 September 2014 the IASB published an amendment to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*. The document was published to resolve the current conflict between IAS 28 and IFRS 10. Under IAS 28, the gain or loss resulting from the sale or contribution of a non-monetary asset to a joint venture or associate in exchange for an equity interest in it are limited to the interest held in the joint venture or associate by the other investors uninvolved in the transaction. In contrast, IFRS 10 provides for the recognition of the entire gain or loss in the event of loss of control of a subsidiary, even if the entity continues to hold a non-controlling interest in it, including in this case the sale or contribution of a subsidiary to a joint venture or associate. The amendments introduced provide that in a sale/contribution of an asset or subsidiary to a joint venture or associate, the amount of the gain or loss to be recognised in the financial statements of the seller/contributor depends on whether the assets or subsidiary sold/contribute constitute a business, as defined in IFRS 3. If the assets or subsidiary sold/contributed qualify as a business, the entity is to recognise the gain or loss on the entire interest previously held; otherwise, the portion of the gain or loss relating to the portion still held by the entity is to be derecognised. The IASB has suspended the application of this amendment.

There were no other aspects worthy of note to be reported, including with reference to the Bank of Italy/Consob/IVASS Document No. 6 of 8 March 2013.

A.2 MAIN FINANCIAL STATEMENTS ITEMS

The accounting standards adopted in preparing the Bank's financial statements as at 31 December 2019 are presented below.

1 – Financial assets measured at fair value through profit or loss (FVTPL)

Classification criteria

This category includes financial assets other than those classified as financial assets measured at fair value through other comprehensive income or as financial assets measured at amortised cost. In particular this item includes:
- financial assets held for trading;
- financial assets with a mandatory fair value valuation that do not meet the requirements for valuation at amortised cost or at fair value with an impact on comprehensive income. These are financial assets the contractual terms of which do not provide solely for payments of principal and interest or that are not held within a business model the aim of which is to hold assets to collect the contractual cash flows (a “held-to-collect” business model) or the aim of which is to collect the contractual cash flows and sell the financial assets (a “held-to collect-and-sell” business model);
- financial assets measured at fair value, namely financial assets which are thus designated upon initial recognition, where the requirements are met. In such cases, an entity can irrevocably designate, upon recognition, a financial asset as measured at fair value through profit and loss if and only if by so doing it would eliminate or significantly reduce an inconsistency in measurement.

This item therefore includes:
- debt instruments and loans that are included in an other/trading model (therefore not related to the "held-to-collect” or “held-to-collect-and-sell" business models) or that fail the contractual characteristics test (SPPI test);
- equity instruments - which cannot be qualified as controlling or connected - for which the designation at fair value through comprehensive income has not been made upon initial recognition;
- units of UCIs.

The item also includes derivatives, recognised among financial assets held for trading, which are represented as assets if the fair value is positive.

In general, IFRS 9 does not allow reclassifications to other categories of financial assets except where the entity changes its business model with regard to the management of financial assets (the exception being equity securities, for which no reclassifications are permitted). In such cases, which are expected to be extremely infrequent, the financial assets may be reclassified from the category measured at fair value through profit or loss to one of the other two IFRS 9 categories (Financial assets measured at amortised cost or Financial assets measured at fair value through other comprehensive income). The transfer value is represented by the fair value at the time of reclassification and the effects of reclassification operate on a forward-looking basis, from the date of reclassification. In this case, the effective interest rate of the reclassified asset is determined on the basis of its fair value on the reclassification date. That date is taken to be the date of first recognition, for stage assignment for impairment purposes.

Recognition criteria

The initial recognition of financial assets takes place on the date of settlement for debt instruments and equity instruments, on the date of disbursement for loans, and on the date of subscription, for derivatives.

Financial assets measured at fair value through profit or loss are initially recognised at fair value, normally represented by the price of the transaction, without considering transaction costs or income directly attributable to the instrument itself.

Measurement criteria

After first recognition, financial assets valued at fair value affecting profit and loss are valued at fair value. The effects of applying this valuation principle are charged to the income statement. Market prices are used to determine the fair value of financial instruments quoted on an active market. In the absence of an active market, commonly adopted estimation and valuation models are used. These take into account all the risk factors related to the instruments and are based on observable market data such as: the valuation of listed instruments with similar characteristics, discounted cash flow calculations, option pricing models, the recorded values of recent comparable transactions, etc. For equity instruments and derivatives not quoted on an active market, the cost criterion is used to estimate the fair value only on a residual basis and in limited number of circumstances, namely if none of the above valuation methods can be applied or if there is a wide range of possible fair value valuations, within which the cost is the most significant estimate. For more information on the criteria for determining fair value see Section “A.4 Information on fair value”.

Derecognition criteria

Financial assets or parts of financial assets are derecognised if and only if disposal entails the substantial transfer of all the related risks and benefits.

In particular, financial assets sold are derecognised when the entity retains the contractual rights to receive the cash flows of the asset but enters into a simultaneous obligation to pay those cash flows and only those cash flows to third parties, without significant delays.

2– Financial assets measured at fair value through other comprehensive income

Classification criteria

This category includes financial assets that meet both the following conditions:
- the asset is held within a "held-to-collect-and-sell" business model; and
- the contractual conditions of the financial asset provide for cash flows on certain dates which consist only of payments of capital and interest on the amount of the principal to be repaid.

This category also includes equity instruments not held for trading for which, at the time of first recognition, the option for designation at fair value through other comprehensive income has been exercised.

In particular this item includes:
- debt instruments that are attributable to a held-to-collect-and-sell model which have passed the contractual characteristics test (SPPI test);
- equity interests that cannot be qualified as in subsidiaries, associates or joint ventures, which are not held for trading purposes, and for which an option for designation at fair value through comprehensive income has been exercised.

Reclassifications to other categories of financial assets are only permitted if the entity changes its business model with regard to the management of financial assets. In such cases, which are expected to be very infrequent, the financial assets may be reclassified from the category of assets valued at fair value through comprehensive income to one of the other two categories permitted by IFRS 9 (Financial assets measured at amortised cost or Financial assets measured at fair value through profit or loss). The transfer value is represented by the fair value at the time of reclassification and the effects apply on a prospective basis from that date, with the following impacts:
- in the case of reclassification from this category to the amortised cost category, the cumulative profit or loss recognised in the revaluation reserve is carried as an adjustment to the fair value of the financial asset on the date of reclassification;
- in the case of reclassification into the category of fair value through profit or loss, the profit or loss that was previously recognised in the revaluation reserve is reclassified from equity to the profit or loss for the year.

Recognition criteria

The initial recognition of financial assets takes place on the settlement date for debt and equity instruments.

Assets are initially recognised at *fair value* inclusive of the transaction costs or income directly attributable to the instrument.

Measurement criteria

After initial recognition, assets classified at fair value through other comprehensive income other than equity instruments are measured at fair value and the impacts of application of amortised cost are taken to the income statement together with the effects of impairment and any foreign exchange effect, while the other gains or losses due to changes in fair value are taken to a specific equity reserve until the financial asset is derecognised.

Upon total or partial disposal, the gain or loss in the revaluation reserve is recycled, in full or in part, to on the income statement.

Equity instruments that have been classified in this category by election are measured at fair value and amounts taken to equity must not then be recycled to the income statement, even in the case of disposal.

The only component relating to the equity instruments in question that is recorded on the income statement is dividends.

Financial assets measured at fair value through other comprehensive income are subject to testing for a significant increase in credit risk (impairment) under IFRS 9 and the resulting impairment for expected losses is taken to the income statement. More specifically, on instruments classified to stage 1 (i.e. on financial assets at origination and on instruments for which there has been no significant increase in credit risk compared to the date of initial recognition), an expected loss of one year is recorded on the date of initial recognition and on each subsequent reporting date.

For instruments classified in stage 2 (performing exposures for which there has been a significant increase in credit risk compared to the initial recognition date) and stage 3 (non-performing exposures), an expected loss is recognised over the remaining life of the financial instrument.

Conversely, equity instruments are not subjected to the impairment process. Financial assets are derecognised if and only if the disposal has resulted in the substantial transfer of all the risks and benefits connected to the assets.

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

Derecognition criteria

Financial assets or parts of financial assets are derecognised if and only if disposal entails the substantial transfer of all the related risks and benefits.

In particular, financial assets sold are derecognised when the entity retains the contractual rights to receive the cash flows of the asset but enters into a simultaneous obligation to pay those cash flows and only those cash flows to third parties, without significant delays.

3 – Financial assets measured at amortised cost

Classification criteria

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

- the asset is held within a "held-to-collect" business model; and
- the contractual conditions of the financial asset provide for cash flows on certain dates which consist only of payments of capital and interest on the amount of the principal to be repaid.

In particular this item includes:

- loans to banks in the different technical forms that meet the requirements of the preceding paragraph;
- loans to customers in the different technical forms that meet the requirements referred to in the previous paragraph;
- debt instruments that meet the requirements set out in the preceding paragraph.

Reclassifications to other categories of financial assets are only permitted if the entity changes its business model with regard to the management of financial assets. In such cases, which are expected to be very infrequent, the financial assets may be reclassified from the category of assets valued at fair value through comprehensive income to one of the other two categories permitted by IFRS 9 (Financial assets valued at amortised cost or Financial assets valued at fair value affecting profit or loss). The transfer value is represented by the fair value at the time of reclassification and the effects of reclassification operate on a forward-looking basis, from the date of reclassification. The profits or losses resulting from the difference between the amortised cost of the financial asset and its relative fair value are recognised on the income statement in the case of reclassification among Financial assets designated at fair value through profit or loss and Shareholders' equity, in the relevant revaluation reserve, in the case of reclassification among Financial assets designated at fair value through other comprehensive income.

Recognition criteria

The initial recognition of the financial assets takes place on the date of settlement for debt instruments and on the date of disbursement for loans. At the time of first recognition, the assets are recognised at fair value inclusive of the transaction costs or income directly attributable to the instrument.

With reference to loans in particular, the date of disbursement is usually the date on which the contract is signed. If this is not the case, when the contract is signed a commitment will be included to disburse funds, and this commitment ends on the date the loan is drawn down.

The loan is recognised on the basis of its fair value, equal to the amount lent including the costs or income directly linked to the individual loan.

Measurement criteria

After initial recognition these financial assets are measured at amortised cost according to the effective interest rate method. This method is not used for assets measured at historical cost whose short duration makes the effect of discounting negligible, for those without a defined maturity or for revocable credit lines.

The measurement criteria are closely connected to the inclusion of these instruments in one of the three stages of credit risk provided for in IFRS9, the last of which (stage 3) includes non-performing assets, whereas the others (stages 1 and 2) include performing assets.

With reference to the presentation of these measurement effects, the value adjustments referring to this type of asset are recorded on the income statement:
- at the time of first recognition, for an amount equal to the loss expected at 12 months;
- at the time of subsequent valuation, if the credit risk has not increased significantly compared to the initial recognition, based on the amounts of the adjustments due to expected losses over the successive twelve months;
- at the time of subsequent valuation, if the credit risk has significantly increased compared to initial recognition, based on the recognition of write-downs for expected losses over the entire residual contractual life of the asset;
- upon subsequent measurement, if – after there has been a significant increase in the credit risk compared to initial recognition – the materiality of that increase no longer exists in relation to the change in cumulative value adjustments to take into account the transition from a loss over the asset's lifetime, to one over twelve months.

If the financial assets in question are performing, they are subjected to a valuation intended to define the value adjustments to be taken from the financial statements for each loan account (or "tranche" of the security), based on the risk parameters: probability of default (PD), loss given default (LGD) and exposure at default (EAD). If, together with a significant increase in the credit risk there is also objective evidence of a loss in value, the amount of the loss is measured as the difference between the book value of the asset – classified as impaired, in the same way as all the other relations with the same counterparty – and the current value of the estimated future cash flows, discounted at the original effective interest rate.

The amount of the loss recorded on the income statement is defined according to a detailed valuation process, or is determined for identical categories and therefore, is attributed in detail to each position. Impaired assets include financial instruments that have been given non-performing status, unlikely to pay or overrun/past-due for more than 90 days according to the Bank of Italy regulations, in line with the IAS/IFRS and supervisory regulations. The expected cash flows take into account the expected recovery times and the presumed realisation value of any guarantees.

The effective original rate of each asset remains unchanged over time, even if there has been a restructuring of the account that led to the change in the contractual rate, and even if the account is not, in practice bearing contractual interest. If the reasons for the impairment cease to apply as a result of a subsequent event occurring after the recognition of the change in value, write-backs are made and allocated to the income statement.

The write-back may not exceed the amortised cost that the financial instrument would have had without such adjustments having been made. Write-backs connected to the passage of time are posted in the interest margin. In some cases, during the life of the financial assets in question and of the loans in particular, the original contractual conditions are then modified by the parties to the contract.

If the contractual terms are modified during the life of an instrument, there is a need to check whether the original asset is still to be recognised or needs to be de-recognised, and a new financial instrument recognised in its place. In general, changes to a financial asset lead to its de-recognition and the entry of a new asset, if the changes are substantial.

Considerations about whether the changes substantial are based on qualitative and quantitative factors.

The analyses intended to define the substance of the contractual changes made to a financial asset must therefore consider:

- the reasons why the changes were made: for example, renegotiations for commercial reasons and concessions due to financial difficulties of the counterparty;
  - commercial reasons, designed to “retain” the customer, involve a debtor that is not in a situation of financial difficulty. This type of case includes any renegotiation designed to adapt the burden of the debt to the market conditions. These operations involve a change to the original contractual conditions, usually requested by the debtor, and relate to the onerousness off the debt resulting in an economic benefit to the debtor.

    In general it is considered that whenever the Bank renegotiates to avoid losing the customer, the renegotiations must be considered as substantial because if they did not take place, the customer could obtain finance from another bank, and the Bank would see a decline in its expected future revenue;
  - the second type of renegotiation, which is done for credit risk reasons (forbearance measures), relates to the Bank’s attempt to maximise the recovery of cash flows from the original loan. The underlying risks and benefits after the changes are not usually substantially transferred, and therefore the accounting presentation that gives the most relevant information to the reader of the financial statements is “modification accounting” – which implies the recognition on the income statement of the difference between the book value and the discounted value of the modified cash flows, discounted at the original interest rate – and not through derecognition;
- the presence of objective elements or triggers that affect the characteristics and/or contractual flows of the financial instrument (including change of currency, or changes to the type of risk the Bank is exposed to) which the derecognition is expected to involve considering their significant impact on the original contractual flows.

Derecognition criteria

Financial assets or parts of financial assets are derecognised if and only if disposal entails the substantial transfer of all the related risks and benefits.

In particular, financial assets sold are derecognised when the entity retains the contractual rights to receive the cash flows of the asset but enters into a simultaneous obligation to pay those cash flows and only those cash flows to third parties, without significant delays.

Section 5 – Equity investments

Classification criteria

Companies in which the Bank holds the power to determine administrative, financial and management choices and in which it normally holds more than half of the voting rights are considered subsidiaries. Companies in which the Bank holds 20% or more of the voting rights and companies for which the administrative, financial and management choices are considered to be subject to significant influence are considered to be associates, due to the legal and factual links.

In establishing the existence of control over subsidiaries and significant influence over associates, there are no situations to report in which it was necessary to carry out particular assessments or make significant assumptions.

Recognition criteria

Investments in subsidiaries and associates are recorded in the financial statements at cost, equal to the fair value of the consideration paid, adjusted for impairment.

Measurement criteria

At each balance sheet date for the investments in subsidiaries and associates, the existence of objective evidence that the carrying amount of the assets may not be fully recoverable is verified. The impairment testing process requires checking for impairment indicators and determining the impairment loss, where applicable.

Impairment indicators may essentially be divided into two categories:
- qualitative indicators such as losses or a significant deviation from the budget targets or the targets in long-term plans announced to the market, the announcement/start of insolvency proceedings or restructuring plans, or the a rating downgrade by a specialised company of more than two notches;
- quantitative indicators, represented by a reduction in fair value below book value, by a book value of the equity investment in the separate financial statements that exceeds the book value in the consolidated financial statements of the net assets and goodwill of the subsidiary or by the distribution by a subsidiary of a dividend in excess of its total income.

The presence of impairment indicators implies the recognition of a write-down to the extent that the recoverable value is less than the carrying amount. The recoverable value is the greater of the fair value net of costs to sell and value in use. The value in use is the present value of the expected cash flows from the asset; it reflects the estimate of the expected cash flows from the asset, the estimate of possible changes in the amount and/or timing of the cash flows, the time value of money, the price to remunerate the risk of the asset and other factors that may influence the appreciation by market participants of the expected cash flows from the asset.

6 – Property and equipment

Classification criteria

Property and equipment include land, non-investment property, technical installations, furniture, fittings and equipment of all kinds.

With effect from 1 January 2019, the item also includes rights of use of property and equipment acquired on lease (for lessees), assets granted on operating leases (for lessors) and improvements and incremental expenses incurred on owned assets and rights of use of property and equipment lease contracts.

Improvements and incremental expenses incurred on third-party assets deriving from leasing contracts pursuant to IFRS16 from which future benefits are expected to flow are recorded:

- if they may be separately and distinctly identified, under item "80. Property, plant and equipment", in the most suitable category;
- if they may not be separately and distinctly identified, under item "80. Property and equipment", as an increase in the right of use, recognised under IFRS16, to which they refer.

Improvements and incremental expenses incurred on leased assets, other than those referred to in the previous paragraph, are recorded:

- if they may be separately and distinctly identified, under item "80 Property and equipment", in the most suitable category;
- if they may not be separately and distinctly identified, under item "120 Other assets".

Non-investment property is considered to include properties that are owned (or leased under a finance leasing contract) and are used in the production and provision of services or for administrative purposes, with a useful life exceeding one year.

Recognition criteria

Property and equipment purchased on the market are recognised when the main risks and rewards related to the asset are transferred. Initial recognition takes place at cost, meaning both the purchase price and any ancillary charges directly attributable to the purchase and commissioning of the asset.

Land is also recognised separately when purchased together with the building using a component approach. The value of the land and the building are determined on the basis of external appraisals.

Extraordinary maintenance costs that lead to an increase in future economic benefits are accounted for as an increase in the value of the assets, whereas other ordinary maintenance costs are expensed to the income statement.

Measurement criteria

Property and equipment (including both investment and non-investment properties) with finite useful lives are subsequently measured at cost adjusted for accumulated depreciation and any impairment losses and recoveries.

The depreciable value of property, plant and equipment, equal to the cost of assets since the residual value at the end of the depreciation process is considered insignificant, is systematically divided into constant portions over the estimated useful life according to a distribution criterion that reflects the technical and economic duration and the residual possibility of use of the individual elements.

The useful lives of the main categories of fixed assets are as follows:
- furniture and furnishings: 8 years;
- non-investment properties: 33 years;
- investment properties: 33 years.

Land is not depreciated, as it has an indefinite useful life, nor are works of art, as their useful lives cannot be estimated and their value will normally increase over time.

At each reporting date, the Bank assesses whether there is any indication that property and equipment may have become impaired. Where there is evidence of impairment, the carrying amount of the asset is compared to its recoverable amount, defined as the greater of fair value and value in use.

Property and equipment represented by the right of use of assets under lease contracts

Under IFRS 16, a lease is a contract, or part of a contract, that, in exchange for consideration, transfers the right to use an asset (the underlying asset) for a period of time. A financial lease essentially transfers to the lessee (user) all the risks and rewards arising from ownership of the asset. Otherwise, the contract is classified as an operating lease. The inception of a lease is the date from which the lessee is authorised to exercise his right to use the leased asset; it coincides with the date of initial recognition of the lease and also includes rent-free periods, i.e. contractual periods in which the lessee uses the asset free of charge. At the inception of a contract, the lessee recognises:
- an asset consisting of the right of use of the asset underlying the lease contract. The asset is recognised at cost, calculated as the sum of:
  - the lease liability;

  - lease payments made on or before the effective date of inception of the lease (net of lease incentives already received);
  - initial direct costs, and
  - any (estimated) costs to dispose of or restore the asset underlying the lease;
- a financial liability arising from the leasing contract (lease liability) corresponding to the current value of payments due for the leasing. The discount rate used is the implicit interest rate, if determinable; otherwise, the marginal financing interest rate of the lessee is used.

Where a lease contract contains “non-leasing components” (for example, the provision of services, such as routine maintenance, to be accounted for in accordance with IFRS 15), the lessee must separately account for "leasing components” and “non-leasing components” and distribute the contract price between the various components on the basis of the respective prices.

The lessee may choose to recognise lease payments:
- directly by expensing them to the income statement, on a straight-line basis throughout the term of the lease contract;
- according to another systematic method representative of the way in which the economic benefits are received, in the case of short-term leases (equal to or less than 12 months) that do not include an option for the lessee to purchase the leased asset and of leases in which the underlying asset is of low value.

The lease term is determined taking into account:
- periods covered by an extension option, where the exercise of the extension option is reasonably certain;
- periods covered by an option to terminate the lease, if the exercise of the termination option is reasonably certain.

During the term of the lease contract, the lessee must:
- measure the right of use at cost, net of accumulated depreciation and accumulated value adjustments determined and accounted for in accordance with the provisions of IAS 36 – *Impairment of Assets*, adjusted to take account of any restatement of lease liabilities;
- increase the liability arising from the lease transaction following the accrual of interest expense calculated at the implicit interest rate of the lease, or alternatively, at the marginal financing rate and reduce it for payments of principal and interest.

In the event of changes in lease payments, the liability must be restated; the impact of the restatement of the liability is accounted for with a contra-entry to the right of use asset.

Derecognition criteria

Property and equipment are derecognised when they are disposed of or when no future economic benefits are expected to flow from use or disposal.

The right of use deriving from lease contracts is derecognised at the end of the lease term.

7 – Intangible assets

Classification criteria

Intangible assets are identifiable non-physical non-monetary assets that can generate future economic benefits that can be controlled by the company.

Recognition criteria

Intangible assets are recognised at the acquisition cost, adjusted for any ancillary costs, when the main risks and benefits related to the asset are transferred, if and only if the related future economic benefits are likely to be realised and the cost can be reliably measured. Otherwise, the cost of an intangible asset is expensed to the income statement in the year in which it is incurred.

Measurement criteria

All intangible assets recognised other than goodwill are considered to have a finite useful life and are therefore amortised considering the costs and useful lives of the individual assets.

In particular:

- Intangible assets based on technology, such as application software acquired under an indefinite user license and software development costs, are amortised according to their expected technological obsolescence and in any case over no more than five years. In particular, costs incurred for the development of software projects are recognised as intangible assets if and only if all of the following conditions are met:
  I. the cost attributable to the development activity is reliably determinable,
  II. there entity has the intention, the financial resources and the technical capacity to make the asset available for use or sale, and
  III. it can be demonstrated that the asset is capable of generating future economic benefits. Capitalised software development costs include only the costs incurred that can be directly attributed to the development process;
- Intangible assets relating to depositary bank contracts, recognised following the acquisition of contracts or business units, have an estimated useful life of ten years, taking into account the contractual parameters.

The residual value of the various assets is assumed to be zero.

The Bank assesses, on an annual basis, whether there is any indication that intangible assets may have become impaired. Where there is evidence of impairment, the carrying amount of the asset is compared to its recoverable amount, defined as the greater of fair value and value in use.

Derecognition criteria

An intangible asset is derecognised when it is disposed of or when no future economic benefit is expected to flow from its use or disposal.

Goodwill

Goodwill arising from business combination transactions is represented by the difference between the purchase cost, inclusive of ancillary charges, and *the acquisition date fair value* of the acquiree's assets and liabilities. If positive, it is recognised as an asset at cost (goodwill), since it represents a payment made by the acquirer in view of future economic benefits deriving from assets that cannot be identified individually and recognised separately. If negative, it is expensed directly to the income statement (badwill).

Goodwill is recognised in the financial statements at cost, net of any accumulated impairment, and is not subject to amortisation.

Even if there are no impairment indicators, goodwill is tested for impairment annually.

Goodwill arising from a business combination is allocated to cash generating units ("CGUs") or groups of CGUs that are expected to benefit from the synergies of the combination. The recoverable value of an asset or CGU is the greater between its value in use ("VIU") and its fair value less costs of disposal ("FVLCD"). Impairment is recognised if the carrying amount of the CGU exceeds its recoverable value. Impairment of goodwill is taken to the income statement and is not recovered in subsequent years.

Adjustments in value of goodwill are recorded in the income statement under item 240. "Goodwill impairment" and are not reversed in subsequent periods even in the event of a recovery.

9 – Current and deferred taxes

Income taxes, calculated in accordance with national tax laws, are accounted for as a cost according to the accruals principle, in line with the method of recognition of the costs and revenues that generated them. They therefore represent the balance of current and deferred taxation relating to income for the year.

Current tax assets and liabilities include the net balance of the Bank's tax positions in respect of the tax authorities. In particular, these items include the net balance of current tax liabilities for the year, calculated on the basis of a prudent forecast of the tax burden due for the year, according to current tax laws, and current tax assets (prepayments, other tax credits for taxes withheld and other tax credits from previous years that the Bank has applied to set off against taxes from subsequent years).

Current taxes not yet paid at the reporting date, in full or in part, are included among the tax liabilities in the balance sheet. If the current tax payment for the current or previous years exceeds the related tax liability, the excess must accounted for as an asset on the balance sheet.

Current tax assets also include tax credits for which the Bank has requested a refund from the competent tax authorities.

Current and deferred taxes are taken to the income statement under item 270 “Income taxes for the financial year on continuing operations”, with the exception of those relating to transactions taken directly to equity without affecting the income statement (such as the measurements of financial instruments through other comprehensive income and actuarial gains and losses), changes in the value of which are taken directly to valuation reserves.

Deferred tax assets and liabilities are recognised in open balances without set-offs, the former being included in item 100 “Tax assets” and the latter in item 60 “Tax liabilities”.

Deferred tax assets and liabilities are calculated on the basis of the temporary differences between the values attributed to an asset or liability for financial reporting and tax purposes. The bank recognises a deferred tax asset (item 110.b) for the deductible temporary differences and past tax losses that will be reversed in the coming years, as it considers it likely that it will realise taxable income over this period, on the basis of the strategic plans, against which this asset can be used.

Deferred tax liabilities are calculated on all temporary taxable differences, with the sole exception of reserves subject to tax suspension, as, considering the amount of available reserves already subject to taxation, it is considered that there will be no transactions that will result in their being taxed.

Deferred tax assets and liabilities are determined according to the tax rates that are expected to be applicable in the year in which the tax asset will be realised or the tax liability will be settled, based on current tax legislation.

Deferred tax assets and liabilities are systematically assessed to take into account any changes in the rules or rates, as well as any different subjective situations of the bank.

10 – Provisions for risks and charges

Provisions for risks and charges relating to commitments and guarantees issued

This item includes the provisions for credit risk recognised in respect of commitments to disburse funds and guarantees issued that fall within the scope of the impairment rules in accordance with IFRS 9. In such cases, the same allocation methods between credit risk stages are adopted, along with the same calculation of the expected losses as presented with reference to financial assets measured at amortised cost or at fair value through other comprehensive income.

Provisions for post-employment benefits and similar obligations

Provisions for post-employment benefits are set up to reflect company agreements and are classified as defined-benefit plans. The liabilities relating to these plans and the pension cost associated with current workers are determined according to actuarial assumptions, applying the actuarial method known as the "Projected Unit Credit Method", which projects the future expenditure based on historical statistical analysis, the demographic curve, and the financial discounting of these cash flows based on the market interest rate. The contributions paid in each year are considered as separate units and are identified and valued individually for the purposes of determining the final obligation. The discount rate used is determined according to the market returns recognised on the valuation date, for the obligations of leading companies taking into account the liability's average residual life. The current value of the obligation on the reporting date is also adjusted by the fair value of any assets servicing the plan.

Actuarial gains and losses (i.e., the changes in the present value of the obligation deriving from changes in the actuarial assumptions and adjustments based on past experience) are presented in the statement of comprehensive income.

Other provisions

Provisions for risks and charges are liabilities the amounts or dates of which are uncertain but which are recognised because:

- the Bank has a present obligation (legal or constructive) as a result of a past event;
- the outlay of financial resources is probable, to fulfil the obligation;
- the probable future expenditure can be reliably estimated.

Such provisions include accruals for presumed losses in litigation brought against the Bank.

If the time factor is significant, the provisions are discounted at current market rates. The accrual and increases due to the time factor are taken to the income statement. In particular, in cases where the present value of the provision has been recognised, the increase in the value of the provision recorded in the financial statements in each year to reflect the passage of time is accounted for among interest expense.

The provisions recognised, as well as the potential liabilities, are reviewed on each reporting date and are adjusted to reflect the best current estimate. If it is no longer probable that resources will need to be expended to discharge the obligation, the provision is released to the income statement.

11 – Financial liabilities measured at amortised cost

Classification criteria

A financial instrument issued is classified as a liability when, on the basis of the substance of the contractual agreement, there is a contractual obligation to deliver money or another financial asset to another entity.

Amounts due to banks and customers refer to the funding raised on the interbank market and from customers, including through repurchase agreements and the placement of bonds and certificates of deposit.

Amounts payable recognised as lessee under finance lease transactions are also included.

Recognition criteria

Transactions with banks are accounted for on the date the contract is signed, which normally coincides with the receipt of the sums collected or the issue of the debt instruments.

Financial liabilities are initially measured at *fair value,* which normally coincides with the amount received or the issue price, adjusted for any directly attributable costs/income. Internal administration costs are excluded.

Measurement criteria

Except for sight and short-term items, after initial recognition financial liabilities are measured at amortised cost according to the effective interest rate method.

Interest is taken to item 20 “Interest expenses and similar charges” of the income statement.

Derecognition criteria

Financial liabilities, or parts of financial liabilities, are derecognised when they are settled, or when the obligation is discharged, cancelled or expires.

12 – Financial liabilities held for trading

Financial liabilities held for trading include derivative contracts held for trading with negative values and liabilities related to technical overdrafts on securities.

All trading liabilities are measured at *fair value* through profit or loss.

The measurement and recognition criteria are similar to those described with reference to “Financial assets classified as held for trading”.

14 – Foreign currency transactions

Initial recognition

Transactions in foreign currency are converted, upon initial recognition, into the functional currency by applying the exchange rate in force on the date of the transaction to the amount in foreign currency.

Subsequent measurement

- At each balance sheet date, items in foreign currency are measured as follows: monetary items are converted at the current exchange rate at the balance sheet date;
- non-monetary items measured at historical cost are converted at the exchange rate on the transaction date;
- non-monetary items measured at *fair value* are converted using the exchange in effect on the date *fair value* was determined.

Exchange rate differences deriving from the settlement of monetary elements or from the conversion of monetary elements at rates other than those of initial conversion, or of conversion of previous financial statements, are taken to the income statement for the period in which they arise, whereas those relating to non-monetary elements are taken to equity or to the income statement depending on the approach to recognising the gains or losses that include such a component.

Costs and revenues in foreign currencies are recognised at the exchange rate when they are accounted for or, where in the process of accruing, at the exchange rate in effect at the reporting date.

15 – Other information

Allowances for employee severance pay

A severance indemnity is a form of remuneration for personnel deferred beyond the end of the contract. It accrues in proportion to the duration of the relationship, constituting an additional element of personnel cost.

After the supplementary pension reform, pursuant to Italian Legislative Decree no. no. 252 of 5 December 2005, employee severance pay accruing from 1 January 2007 is determined without applying any actuarial methodology, since the burden borne by companies is limited to the contribution payable by them per the Italian Civil Code (defined-contribution plan according to IAS 19).

The severance pay accruing with effect from 31 December 2006 continues to be accounted for as a defined-benefit plan in accordance with IAS 19. Accordingly, the related liability is determined according to actuarial assumptions, applying the actuarial method known as the “Projected Unit Credit Method”, which projects the future expenditure based on historical statistical analysis, the demographic curve, and the financial discounting of these cash flows based on the market interest rate.

The rate used to discount post-employment benefit obligations (whether funded or unfunded) varies according to the country of allocation of the liability and is determined according to the market yields on the reporting date of the bonds of leading companies with average durations in line with that of the liability concerned.

More precisely, the amount recognised as a liability under item 90.a) is equal to the net total amount of the present value of the obligation on the reporting date, the sum of any actuarial gains or losses, less any pension costs relating to past work not yet recognised and the present value on the reporting date of assets servicing the programme, if any, which will serve to directly settle the obligations.

With effect from the 2013 financial statements, in application of the amendments to IAS 19, actuarial gains and losses are accounted for in statement of comprehensive income.

Treasury shares

The Bank does not hold any treasury shares.

Determining the fair value of financial instruments

The fair value of financial instruments has been determined by using the market prices, in the case of instruments quoted in active markets, or by using internal assessment models for the other financial instruments.

For further details, refer to section A.4. Information on fair value.

For receivables and payables recognised at cost or amortised cost, the fair value shown in the Notes is determined according to the following methodology:
- for medium-to-long term fixed-rate assets and liabilities: discounting of future cash flows at a market rate adjusted to include credit risk;
- for floating-rate, sight or short-term assets, the carrying amount net of the individual and collective impairment is considered a good approximation of fair value as it incorporates the change in rates and the measurement of the counterparty's credit risk;
- for floating-rate and short-term fixed-rate liabilities, the carrying amount is considered a good approximation of fair value for the reasons indicated above;
- for medium-to-long term fixed-rate liabilities: discounting of future cash flows at a market rate. The change in credit spread is not taken into account, given its limited relevance.

Impairment testing of goodwill

Goodwill is generally tested for impairment according to the discounted cash flow method, and in particular the excess capital variant of the dividend discount model.

Income statement

Revenues

Revenues are the gross flows of economic benefits deriving from the company's ordinary business, when these flows result in increases in equity other than increases deriving from the contribution of shareholders.

Revenue deriving from contractual obligations with customers is recognised if and only if all of the following criteria are met:

a. the parties to the contract have approved the contract and committed to fulfilling their respective obligations;
b. the entity may identify the rights of either party with respect to the goods or services to be transferred;
c. the entity may identify the terms of payment for the goods or services to be transferred;
d. the contract has a commercial substance (i.e. the risk, timing or amount of the entity's future cash flows are destined to change as a result of the contract); and
e. it is likely that the entity will receive the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In assessing the likelihood of receiving the amount of the consideration, an entity shall only consider the customer's ability and intention to pay the amount of the consideration when it is due.

INTEREST INCOME AND EXPENSE

Interest income and expenses and similar income and expenses relate to cash and cash equivalents, non-derivative financial assets and liabilities held for trading, measured at fair value through profit or loss and measured at amortised cost.

Interest income and expenses are taken to the income statement for all instruments measured at amortised cost according to the effective interest method.

FEES AND COMMISSIONS

Fees and commissions are recognised on an accruals basis.

In particular, trading commissions on transactions in securities are recognised when the service is provided.

Commissions included in amortised cost when calculating the effective interest rate, which are recognised under interest, are excluded.

DIVIDENDS

Dividends are taken to the income statement when distribution is approved.

OTHER INCOME AND CHARGES

Other income and charges are recognised on an accruals basis.

Costs

Costs are recognised when they are incurred in compliance with the criterion of the correlation between costs and revenues that derive directly and jointly from the same transactions or events. Costs that cannot be associated with revenues are taken immediately to the income statement.

Costs directly attributable to financial instruments measured at amortised cost and determinable from the outset, regardless of when they are settled, flow to the income statement in application of the effective interest rate.

Losses are taken to the income statement in the year in which they are recognised.

Use of estimates and assumptions in preparing the financial statements

Line items are measured according to the principles set out above.

The application of these principles sometimes entails the use of estimates and assumptions capable of having a significant impact on the values recognised in the balance sheet and income statement and on the disclosures regarding contingent assets and liabilities in the financial statements.

It bears reiterating that the use of reasonable estimates is an essential part of preparing the financial statements, without affecting their reliability; the main cases requiring the use of subjective assessments by management are reported below:

- the quantification of losses due to impairment in the value of receivables and of other financial assets;
- measurement of financial assets not quoted in active markets;
- measurement of intangible assets – including goodwill and other intangible assets with finite useful lives – and equity investments;
- the quantification of provisions for risks and charges;
- estimates and assumptions on the recoverability of deferred tax assets.

It should also be noted that an estimate may be adjusted due to changes in the circumstances on which it was based, new information or greater experience. Any changes in the estimates are applied prospectively and therefore result in an impact on the income statement in the year which the change occurs as well as that for future years.

The main factors of uncertainty that could affect the bank's future operating scenarios include the possible direct and indirect consequences for the global and Italian economy of the coronavirus (COVID-19) epidemic, the impacts of which currently cannot be estimated. The information and sensitivity analyses provided with reference to the main financial statement items subject to estimation are believed to be capable of reflecting the impacts related to the elements of uncertainty that may be assumed at the reporting date.

The reporting year is not characterised by significant changes in the estimation criteria previously applied for the preparation of the financial statements at 31 December 2018 except as required by IFRS 9 with reference to the determination of the expected loss on receivables, securities, guarantees given and commitments. It is based on forward-looking information including, in particular, the evolution of the macroeconomic scenarios used in calculating value adjustments. The evolution and weighting of these scenarios are subject to periodic evaluation with any resulting updates.

A.3 TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

A.3.1 Reclassified financial assets: change in business model, book value and interest income

Type of financial instrument (1)	Portfolio of origin (2)	Target portfolio (3)	Reclassification date (4)	Book value reclassified (5)	Interest income recorded during the year (before taxes) (6)
Debt securities	Financial assets measured at fair value through other comprehensive income	Financial assets measured at amortised cost	31/12/2018	3,328,473	21,014

(Figures in thousands of €)

There were no business model changes in 2019.

A.3.2. Reclassified financial assets: change of business model, fair value and effects on comprehensive income

The table below shows the information required by IFRS 7.12, and in particular the impact that reclassified assets would have had on the financial statements in the absence of reclassification.

Type of financial instrument (1)	Portfolio of origin (2)	Target portfolio (3)	Fair value on 31.12.2019 (4)	Gains/losses in the absence of transfer to the income statement (before taxes)		Gains/losses in the absence of transfer to equity (before taxes)	
				31/12/2019	31/12/2018	31/12/2019	31/12/2018
Debt securities	Financial assets measured at fair value through other comprehensive income	Financial assets measured at amortised cost	3,334,087			5,614	-177,094

(Figures in thousands of €)

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

With reference to the information required by IFRS 7 para. 12b l. b and para. 12c l. a, refer to the section "Transition to International Accounting Standard IFRS9" in Accounting policies, section A.1 General part.

The average internal rate of return for 2019 is 0.58% compared to 0.43% in 2018.

A.4 – INFORMATION ON FAIR VALUE

IASs/IFRSs require that financial instruments classified as "Financial assets measured at fair value through profit or loss", "Financial assets measured at fair value through comprehensive income" and "Financial liabilities held for trading" be measured at fair value.

The fair value is the price that would be received for a sale of an asset or which would be paid for the transfer of a liability in a normal operation between market operators (in other words, not a forced liquidation or sale below cost) on the valuation date. The fair value is a market valuation criterion, not specific to the entity. An entity needs to assess the fair value of an asset or liability by adopting the assumptions that the market operators would use when determining the price of the asset or liability, assuming that the market operators act to satisfy their own economic interests in the best possible way.

In determining the fair value of a financial instrument, IFRS 13 establishes a hierarchy of criteria in terms of the reliability of the fair value according to the degree of discretion applied by entities, giving priority to the use of observable market parameters that reflect the assumptions that market participants would use in valuing (pricing) an asset/liability.

Three different input levels are identified:

- **Level 1**: inputs represented by (unmodified) quoted prices on active markets for identical assets or liabilities, which can be accessed on the measurement date;
- **Level 2**: inputs other than quoted prices included in Level 1 that are observable, directly (as in the case of prices) or indirectly (i.e. as derived from prices), for the assets or liabilities to be measured;
- **Level 3**: unobservable inputs for the asset or liability.

The choice between the aforementioned methodologies is not optional, since they must be applied in hierarchical order: absolute priority is given to the official prices available on active markets for the assets and liabilities to be measured (level 1) or for assets and liabilities measured using valuation techniques based on observable market parameters other than the prices of the financial instrument (level 2), and lower priority is given to assets and liabilities whose fair value is calculated using valuation techniques based on parameters that are not observable on the market and are therefore more discretionary (level 3).

In compliance with the rules described above, the market price recorded at the end of the reporting period is used for instruments quoted in active markets (Level 1).

The *fair value* of financial instruments not listed on active markets has been determined by using valuation techniques based mainly on the discounting of cash flows. The valuation techniques used incorporate all the factors considered by the market when setting the price and are based mainly on observable market inputs (Level 2). In particular:

- bonds are measured by discounting the future cash flows provided for in the contractual plan of the security, using the market rates adjusted for the counterparty risk for this purpose;
- derivative contracts, consisting of overnight interest rate swaps (OISs), are measured on the basis of market valuation models using market rates as the prevailing parameters, adjusted for counterparty risk. This risk includes, where relevant, both changes in the counterparty's creditworthiness and changes in the issuer's creditworthiness (own credit risk);
- for equities, there is a hierarchy and an order of application of valuation methods that considers, first of all, any transactions in the security recorded over a sufficiently short period of time compared to the valuation period, comparable transactions of companies operating in the same sector and the application of analytical financial, income-based and equity-based valuation methods.

The measurement method for a financial instrument is adopted on a continuing basis, and is only changed if there are significant variations in the market or subjective conditions of the issuer of the financial instrument.

The Bank does not hold Level 3 financial instruments, except for an immaterial amount.

Qualitative information

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

With reference to Level 2 financial instruments, mainly represented by swaps and loans to customers and to banks measured at amortised cost, the valuations as at 31 December 2019 have been based on interest rates and volatility factors derived from the market.

In the case of swaps, the valuations as at 31 December 2019 have been based on interest rates and volatility factors derived from the market. In view of the bank's limited dealings in the over-the-counter derivatives segment and its dealings mainly with the most relevant counterparties based on risk-mitigating collateralisation agreements, the adjustments made to the measurement of Level 2 instruments to incorporate counterparty risk were not significant.

With reference to units of UCIs, classified in level 2 of the hierarchy, it is determined using the official NAV.

The only instrument classified in level 3 is the amount due from the Interbank Deposit Protection Fund's voluntary scheme.

A.4.2 Processes and sensitivity of valuations

As highlighted above, the only instrument classified to level 3 is the amount due from the Interbank Deposit Protection Fund's voluntary scheme. The fair value estimate prepared by a major consulting firm, obtained on 14 January 2020, has been adopted.

A.4.3 Fair value hierarchy

Transfers between fair value levels are based on empirical observation of the intrinsic phenomena of the instrument considered or of the markets in which it is traded.

The transfer from Level 1 to Level 2 is a consequence of the loss of an adequate number of contributors, i.e. the limited number of investors holding the outstanding free floating shares.

Conversely, securities with limited liquidity when issued and a large number of trades – classified as Level 2 – are transferred to Level 1 when there is found to be an active market.

A.4.4 Other information

The Bank has not exercised the option under IFRS 13.48 to measure net positions for groups of assets and liabilities managed on a net basis.

The Bank also does not hold assets the current use of which differs from their maximum and best use.

Quantitative information

A.4.5 Fair value hierarchy

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

Financial assets/liabilities measured at fair value	31/12/2019			31/12/2018		
	L1	L2	L3	L1	L2	L3
1. Financial assets measured at fair value through profit or loss			-			-
a) financial assets held for trading	8	869	-	10	2,656	-
b) financial assets designated at fair value				-	-	-
c) other financial assets mandatorily measured at fair value	-	31,322	107	-	27,085	235
2. Financial assets measured at fair value through other comprehensive income	156	6,005	-	169	6,249	110,134
3. Hedging derivatives						
4. Property and equipment						
5. Intangible assets						
Total	**164**	**38,196**	**107**	**178**	**35,990**	**110,369**
1. Financial liabilities held for trading	-	6,248	-	-	4,926	-
2. Financial liabilities designated at fair value						
3. Hedging derivatives						
Total	**-**	**6,248**	**-**	**-**	**4,926**	**-**

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

There were no transfers of assets or liabilities between Level 1 and Level 2 during the year.

Taking into account the limited dealings of DEPObank in the OTC derivatives segment, in any case essentially consisting of dealings with Italian institutional counterparties, the fair value indicated above is not significantly influenced by correction factors for counterparty risk (credit value adjustment and/or debit value adjustment). It should also be noted that the counterparty risk for the above transactions is mitigated by the presence of collateral.

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

	Financial assets measured at fair value through profit or loss				Financial assets measured at fair value through other comprehensive income	Hedging derivatives	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 subject to mandatory fair-value measurement				
1. Opening balance	**235**	**-**	**-**	**235**	**110,134**	**-**	**-**	**-**
2. Increases								
2.1. Purchases								
2.2. Gains taken to:								
2.2.1. Income statement								
- of which capital gains								
2.2.2 Equity		X	X	X	-			
2.3. Transfers from other levels								
2.4. other increases					57,855			
3. Decreases								
3.1. Sales					167,989			
3.2. Redemptions								
3.3. Losses attributed to:								
3.3.1. Income statement								
- of which capital losses	128			128				
3.3.2. Equity		X	X	X				
3.4. Transfers from other levels								
3.5. Other decreases								
D. Closing balances	**107**	**-**	**-**	**107**	**-**	**-**	**-**	**-**

Key:
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: composition by fair value levels

Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	31/12/2019				31/12/2018			
	BV	L1	L2	L3	BV	L1	L2	L3
1. Financial assets measured at amortised cost	6,279,749	4,406,061	2,287,048		7,263,016	5,012,848	2,080,134	
2. Property and equipment held for investment	-				-			
3. Non-current assets and groups of assets held for disposal	-				-			
Total	**6,279,749**	**4,406,061**	**2,287,048**	**-**	**7,263,016**	**5,012,848**	**2,080,134**	**-**
1. Financial liabilities measured at amortised cost	8,295,787	X	X	X	11,374,458	X	X	X
2. Liabilities linked to assets held for sale	-				-			
Total	**8,295,787**	**-**	**-**	**-**	**11,374,458**	**-**	**-**	**-**

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

A.5 Information on day-one profit/loss

With reference to paragraph 28 of IFRS7, in some cases, an entity does not recognise gain or loss upon the initial recognition of a financial asset or financial liability because fair value is not based on a price quoted in an active market for an identical asset or liability (i.e. a Level 1 input) nor on a valuation technique that uses only observable market data (see paragraph B5.1.2 A of IFRS 9). In such cases, for each class of financial asset or liability, an entity must disclose:

a) the accounting principles it uses when recognising in profit or loss the difference between the fair value at initial recognition and the transaction price to reflect a change in the factors (including time) that market participants would take into account when determining the price of the asset or liability (see paragraph B5.1.2 A (b) of IFRS 9);
b) the total difference still to be recognised in profit or loss at the beginning and end of the year and the reconciliation of changes in the balance of that difference;
c) the reason why the entity concluded that the transaction price was not the best evidence of fair value, including a description of the evidence supporting fair value.

There are no transactions attributable to this case.

Part B – INFORMATION ON THE BALANCE SHEET

Assets

SECTION 1 - CASH AND CASH EQUIVALENTS – ITEM 10

1.1 Cash and cash equivalents: composition

	31/12/2019	31/12/2018
a) Cash	216	375
b) Demand deposits with central banks	2,334,467	4,337,550
Total	**2,334,683**	**4,337,925**

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

2.1 Financial assets held for trading: composition

Items/values	31/12/2019			31/12/2018		
	L1	L2	L3	L1	L2	L3
A. On-balance-sheet assets						
1. Debt securities	7	-	-	9	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	7	-	-	9	-	-
2. Equity securities	-	-	-	1	-	-
3. Units of UCIs	1	-	-	-	3	-
4. Loans	-	1	-	-	-	-
4.1 Repurchase agreements	-	1	-	-	-	-
4.2 Others	-	-	-	-	-	-
Total A	**8**	**1**	**-**	**10**	**3**	**-**
B. Derivatives						
1. Financial derivatives:	-	868	-	-	2,653	-
1.1 for trading	-	868	-	-	2,653	-
1.2 connected to the fair value option	-	-	-	-	-	-
1.3 others	-	-	-	-	-	-
2. Credit derivatives:	-	-	-	-	-	-
2.1 for trading	-	-	-	-	-	-
2.2 connected to the fair value option	-	-	-	-	-	-
2.3 others	-	-	-	-	-	-
Total B	**-**	**868**	**-**	**-**	**2,653**	**-**
Total (A+B)	**8**	**869**	**-**	**10**	**2,656**	**-**

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

1.2 Financial assets held for trading: composition by debtor/issuer/counterparty

Items/values	31/12/2019	31/12/2018
A. On-balance-sheet assets		
1. Debt securities		
a) Central banks	-	-
b) Public administrations	4	4
c) Banks	3	6
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
2. Equity securities	**-**	
a) Banks	-	-
b) Other financial companies:	-	-
of which: insurance companies	-	-
c) Non-financial companies	1	1
d) Other issuers	-	-
3. Units of UCIs	**1**	**3**
4. Loans	**-**	**-**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total A	**9**	**13**
B. Derivatives		
a) Central counterparties	-	-
b) Others	868	2,653
Total B	**868**	**2,653**
Total (A + B)	**877**	**2,666**

2.5 Other financial assets subject to mandatory fair value measurement: composition

Items/values	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 securities						
3. Units of UCIs		**31,322**			**27,085**	
4. Loans						
4.1 Repurchase agreements						
4.2 Others			107			235
Total	**-**	**31,322**	**107**	**-**	**27,085**	**235**

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

"Units of UCIs" are mainly represented by assets managed by Fondo Italiano di Investimento SGR and to a lesser extent (€ 1 million) by the interests held by the bank in the Atlante Fund.

The item "Loans – Others" is represented by amounts due from the Interbank Deposit Protection Fund Voluntary Scheme.

Given the extremely uncertain situation, it does not appear possible to quantify the potential impact of the COVID-19 health emergency on the value of financial assets assigned to fair value levels 2 and 3.

2.6 Other financial assets subject to mandatory fair value measurement: compositor by debtor/issuer

	31/12/2019	31/12/2018
1. Equity securities		
of which: banks		
of which: other financial companies		
of which: other non-financial companies		
2. Debt securities		
a) Central banks		
b) Public administrations		
c) Banks		
d) Other financial companies		
of which: insurance companies		
e) Non-financial companies		
3. Units of UCIs	**31,322**	**27,085**
4. Loans		
a) Central banks		
b) Public administrations		
c) Banks		
d) Other financial companies		
of which: insurance companies		
e) Non-financial companies	107	235
f) Households		
Total	**31,429**	**27,320**

SECTION 3 - FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - ITEM 30

3.1 Financial assets measured at fair value through other comprehensive income: composition

Items/values	**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 securities	**156**	**6,005**	**-**	**169**	**6,249**	**110,134**
3. Loans			**-**	**-**	**-**	**-**
Total	**156**	**6,005**	**-**	**169**	**6,249**	**110,134**

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

The decrease during the year was due to the sale of investments in Equens Worldline and Fondo Italiano di Investimento SGR.

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

Items/values	31/12/2019	31/12/2018
1. Debt securities		
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
2. Equity securities	**-**	
a) Banks	308	321
b) Other issuers:		116,231
- other financial companies	5,586	5,830
of which: insurance companies		-
- non-financial companies	266	110,400
- other		-
3. Loans		
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**6,161**	**116,552**

SECTION 4 – FINANCIAL ASSETS MEASURED AT AMORTISED COST – ITEM 40

4.1 Financial assets measured at amortised cost: composition of loans to banks

Type of operations/ Values	31/12/2019						31/12/2018					
	Book value			Fair value			Book value			Fair value		
	Stage one and Stage two	Stage three	of which: purchased or originated impaired	L1	L2	L3	Stage one and Stage two	Stage three	of which: purchased or originated impaired	L1	L2	L3
A. Due from central banks												
1. Time deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Reserve requirements	173,273	-	-	X	X	X	213,442	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Others	-	-	-	X	X	X	-	-	-	X	X	X
B. Loans to banks	**-**	**-**	**-**									
1. Loans	-	-	-									
1.1 Current accounts and on demand deposits	337,059	-	-	X	X	X	242,727		-	X	X	X
1.2 Time deposits	12,284	-	-	X	X	X	41,960	-	-	X	X	X
1.3. Other loans:	-	-	-									
- Reverse repurchase agreements	801,172	-	-	X	X	X	892,923	-	-	X	X	X
- Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
- Others	161,895	-	-	X	X	X	235,738	-	-	X	X	X
2. Debt securities	-	-	-									
2.1 Structured securities	14,892	-	-	14,900	-	-	4,959	-	-	4,868	-	-
2.2 Other debt securities	38,734	-	-	34,290	4,788	-	4,392	-	-	-	4,660	-
Total	**1,539,311**	**-**	**-**	**49,190**	**4,788**		**1,636,140**	**-**	**-**	**4,868**	**4,660**	

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

The item "Due from central banks - Minimum reserves" also includes the amounts deposited to meet the reserve requirement on behalf of client banks, to which DEPObank provides the service of indirect compliance with reserve requirements.

The item "Loans to banks – Repurchase agreements" refers to contracts governed by global master repurchase agreements (GMRAs).

“Loans to banks – Other” consist mainly of operating receivables, i.e. receivables for transactions connected to the provision of services, and in particular (€ 137 million) of daily positions connected to the provision of payment cards settlement services.

The bank had no subordinated securities as at 31/12/2019.

4.2 Financial assets measured at amortised cost: composition of loans to customers

Type of operations/ Values	31/12/2019						31/12/2018					
	Book value			Fair value			Book value			Fair value		
	Stage one and Stage two	Stage three	of which: purchased or originated impaired	L1	L2	L3	Stage one and Stage two	Stage three	of which: purchased or originated impaired	L1	L2	L3
1. Loans												
1.1 Current accounts	20,446	3,073	-	X	X	X	54,337	391		X	X	X
1.2 Reverse repurchase agreements	232,615	-	-	X	X	X	260,367	-	-	X	X	X
1.3 Mortgages	-	-	-	X	X	X	-	-	-	X	X	X
1.4 Credit cards and personal loans, including salary assignment loans	1,220	-	-	X	X	X	1,806	-	-	X	X	X
1.5 Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
1.6 Factoring	-	-	-	X	X	X	-	-	-	X	X	X
1.7 Other loans	128,463	-	-	X	X	X	131,784		-	X	X	X
2. Debt securities	**-**	**-**	**-**									
2.1 Structured securities	-	-	-	-			-	-	-	-		
2.2 Other debt securities	4,354,621	-	-	4,391,161	-	-	5,178,190	-	-	5,007,980	-	-
Total	**4,737,365**	**3,073**	**-**	**4,391,161**	**-**	**-**	**5,626,484**	**391**	**-**	**5,007,980**	**-**	**-**

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

Current account credit facilities are represented by the use of lines of credit, functional to service needs, granted to funds and asset management companies to which depositary bank services are rendered (as part of the services offered by the Securities Services business unit) or by corporate customers to whom collection and payment services are provided (as part of the services provided by the Banking Payments Department).

The item "Loans - Repurchase agreements” is represented by exposures arising in relation to contracts with customers regulated by the global master repurchase agreements (GMRAs).

The item "Other loans" consists mainly (€ 108 million) of security deposits functional to settlement activities related to the typical operations of the Securities Services and Banking Payments business areas.

“Debt securities” are entirely represented by securities issued by the Italian Republic.

The decrease refers to the partial replacement of maturing securities with purchases for a total nominal value of € 1,155 million, against maturities for a total nominal value of € 1,405 million, as well as the reduction of € 510 million nominal in government bonds in order to contain the concentration of risk on a single security.

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

Type of operations/Values	31/12/2019			31/12/2018		
	Stage one and Stage two	Stage three	of which: purchased or originated impaired assets	Stage one and Stage two	Stage three	of which: purchased or originated impaired assets
1. Debt securities						
a) Public administrations	4,354,621	-	-	5,178,190	-	-
b) Other financial companies	-	-	-	-	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	-	-	-	-	-	-
2. Loans to:						
a) Public administrations	1	-	-	-	-	-
b) Other financial companies	188,231	3,073	-	282,389	391	
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	193,201	-	-	163,773	-	-
d) Households	1,311	-	-	2,132	-	-
Total	**4,737,365**	**3,073**	**-**	**5,626,484**	**391**	**-**

4.4 Financial assets measured at amortised cost: gross amount and total adjustments

	Gross amount				Total value adjustments			Total partial write-offs*
	Stage one	of which: Instruments with low credit risk	Stage two	Stage three	Stage one	Stage two	Stage three	
Debt securities	4,410,687	4,410,687	-	-	2,440	-	-	-
Loans	1,866,941	1,033,813	2,239	6,470	787	16	3,398	-
Total 31/12/2019	**6,277,680**	**5,444,500**	**2,239**	**6,470**	**3,228**	**16**	**3,398**	**-**
Total 31/12/2018	**7,253,668**	**7,235,305**	**16,275**	**2,088**	**7,320**	**-**	**1,697**	**-**
of which: purchased or originated impaired financial assets	X	X	-	-	X	-	-	-
Total	**6,277,680**	**5,444,500**	**2,239**	**6,470**	**3,228**	**16**	**3,398**	**-**

The methods for calculating adjustments to loans are described in Section E of these Notes.

SECTION 7 – EQUITY INVESTMENTS – ITEM 70

7.1 Equity investments: information on shareholding relationships

Name	Registered office	Operational headquarters	Shareholding %	Votes held %
C. Companies subject to significant influence				
1. Unione Fiduciaria	Milan	Milan	24	24

7.2 Significant shareholdings: book values, fair values and dividends received

Name	Book value	Fair value	Dividends received
1. Unione Fiduciaria	8,564	X	363
Total	**8,564**		**363**

7.3 Significant shareholdings: accounting information

Name	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues	Net interest income	Value adjustments/write-backs on material and intangible assets	Profit (loss) from continuing operations before taxes	Profit (loss) from continuing operations after taxes	Profit (loss) from discontinued operations after taxes	Profit (loss) for the financial year (1)	Other income components, after taxes (2)	Comprehensive income (3) = (1) + (2)
C. Companies subject to significant influence														
3. Unione Fiduciaria*	10,939	1,094	62,797	-	74,830	27,823	-	2,956	1,679	1,679	-	1,679	-508	1,170
Total	**10,939**	**1,094**	**62,797**	**-**	**74,830**	**27,823**	**-**	**2,956**	**1,679**	**1,679**	**-**	**1,679**	**-508**	**1,170**

* The figures refer to the financial statements as at 31/12/2018.

In accordance with IAS 36, the tests conducted on the recoverability of the book value did not indicate the presence of any trigger events.

7.5 Equity investments: annual changes

	31/12/2019	31/12/2018
A. Opening balances	**8,564**	**1,794,701**
B. Increases		
B.1 Purchases	-	-
B.2 Write-backs		
B.3 Revaluations		
B.4 Other changes	-	145,044
C. Decreases		
C.1 Sales	-	1,523
C.2 Write-downs	-	-
C.3 Other changes	-	1,929,658
D. Closing balances	**8,564**	**8,564**
E. Total revaluations		
F. Total write-downs		

SECTION 8 – PROPERTY AND EQUIPMENT – ITEM 80

8.1 Non-investment property and equipment: composition of assets measured at cost

Assets/Values	31/12/2019	31/12/2018
1. Owned assets		
a) land	2,640	2,640
b) buildings	5,075	5,342
c) furniture and fittings	273	33
d) electronic systems	-	-
e) others	639	504
2. Lease rights of use	**-**	**-**
a) land	-	-
b) buildings	18,418	-
c) furniture and fittings	-	-
d) electronic systems	-	-
e) others	258	-
Total	**27,303**	**8,519**
of which: obtained by enforcement of guarantees received	-	-

Owned buildings and land refer to the property in Rome – Via Elio Chianesi 110/d, home to the Bank's Rome headquarters.

The leased buildings refer to the property in Milan – Via Anna Maria Mozzoni 1.1, home to the Bank's registered office and to its Milan management and operational headquarters.

The change compared with the previous year was due to the recognition of the right to use the leased buildings, as required by IFRS 16.

8.6 Non-investment property and equipment: annual changes

	Land	Buildings	Furnishings	Electronic systems	Others	Total
A. Gross opening balances	**3,136**	**13,534**	**4,048**	**-**	**32,676**	**53,394**
A.1 Total net write-downs	496	8,192	4,015	-	32,171	44,874
A.2 Net opening balances	2,640	5,342	33	-	504	8,519
B. Increases						
B.1 Purchases	-	-	248	-	273	521
B.2 Capitalised expenditure on improvements	-	832	-	-	-	832
B.3 Write-backs						
B.4 Increases in fair value through:						
a) equity						
b) the income statement						
B.5 Positive exchange differences						
B.6 Transfers from properties held for investment purposes						
B.7 Other changes	-	19,134	-	-	340	19,475
C. Decreases	**-**	**-**	**-**	**-**	**-**	**-**
C.1 Sales	-	-	-	-	-	-
C.2 Depreciation	-	1,816	7	-	221	2,044
C.3 Impairment losses charged to:						
a) equity						
b) the income statement						
C.4 Decreases in fair value charged to:						
a) equity						
b) the income statement						
C.5 Negative exchange differences						
C.6 Transfers to:						
a) investment plant and equipment						
b) non-current assets held for sale and disposal groups						
C.7 Other changes	-	-	-	-	-	-
D. Closing net balances	**2,640**	**23,493**	**273**	**-**	**897**	**27,303**
D.1 Total net write-downs	496	10,008	4,022	-	32,392	46,918
D.2 Gross closing balances	3,136	33,501	4,295	-	33,289	74,221
E. Measurement at cost						

"Other changes" refer mainly to the recognition of the right to use leased buildings, as required by IFRS 16.

SECTION 9 – INTANGIBLE ASSETS – ITEM 90

9.1 Intangible assets: composition by type of asset

Assets/Values	31/12/2019		31/12/2018	
	Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life
A.1 Goodwill	**x**	**81,017**	**-**	**126,931**
A.2 Other intangible assets	**28,085**	**-**	**36,447**	**-**
A.2.1 Assets measured at cost:	-	-	-	-
a) Intangible assets created internally	-	-	-	-
b) Other assets	28,085	-	36,447	-
A.2.2 Assets measured at fair value:	-	-	-	-
a) Intangible assets created internally	-	-	-	-
b) Other assets	-	-	-	-
Total	**28,085**	**81,017**	**36,447**	**126,931**

The goodwill recorded as at 31 December 2019 refers to the Banking Payments cash-generating unit (CGU). The change compared to the previous financial year is due to the full write-down of goodwill previously attributed to the Securities Services CGU, as further detailed in the following section "*9.3 Intangible assets: other information*".

Other assets are represented for € 23.1 million by "Customer contracts", intangible assets with a finite useful life, arising from the acquisitions, between 2011 and 2014, of business units relating to depository bank and ancillary activities, originally recognised at the price paid less the unit's net assets and amortised over a period of ten years.

In accordance with IAS 38, the tests conducted on the recoverability of the book value did not indicate the presence of any trigger events for customer contracts. Subsequent tests carried out in accordance with IAS 36 on the recoverable value of these assets confirmed the sustainability of the carrying amount, as further detailed in the following section "*9.3 Intangible assets: other information*".

9.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: internally generated		Other intangible assets: others		Total
		FIN	INDEF	FIN	INDEF	
A. Opening balances	**126,931**			**145,347**		**272,278**
A.1 Total net write-downs	-			108,900		108,900
A.2 Net opening balances	126,931			36,447		163,378
B. Increases						
B.1 Purchases	-			2,461		2,461
B.2 Increases in internal intangible assets	x			-		-
B.3 Write-backs	x			-		-
B.4 Increases in fair value	-			-		-
- equity	x			-		-
- income statement	x			-		-
B.5 Positive foreign exchange differences	-			-		-
B.6 Other changes	-			-		-
C. Decreases						
C.1 Sales	-	-	-	-	-	-
C.2 Write-downs	-	-	-	-	-	-
- Amortisation	x	-	-	10,823	-	10,823
- Write-downs	-	-	-	-	-	-
+ equity	x	-	-	-	-	-
+ income statement	45,914	-	-	-	-	45,914
C.3 Decreases in fair value	-	-	-	-	-	-
- equity	x	-	-	-	-	-
- income statement	x	-	-	-	-	-
C.4 Transfer to non current assets held for sale	-	-	-	-	-	-
C.5 Negative foreign exchange differences	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
D. Closing net balances	**81,017**	**-**	**-**	**28,085**	**-**	**109,103**
D.1 Total net write-downs	45,914	-	-	119,723	-	165,636
E. Closing gross balances	**126,931**	**-**	**-**	**147,808**	**-**	**274,739**
F. Measurement at cost						**-**

Key
FIN = finite useful life
INDEF = indefinite useful life

9.3 Intangible assets: other information

Impairment testing

In accordance with IAS 36 – *Impairment of Assets*, DEPObank carried out the annual impairment test on intangible assets with an indefinite useful life (goodwill) at the balance sheet date by determining each asset's recoverable value and comparing it with the asset's book value.

Scope of analysis and book value of the CGUs

At 31 December 2019, the CGUs ("cash-generating units") were as follows, and were unchanged from the assessment carried out with reference to the financial statements as at 31 December 2018:

CGUs*	**CGU carrying amount (€ million)**	**of which: Intangible assets with indefinite useful lives - Goodwill (€ million)**	**of which: Intangible assets with finite useful lives - Customer contracts (€ million)**
Banking Payments CGU	81.0	81.0	--
Securities Services CGU	69.0	45.9	23.1
Total	**150.0**	**126.9**	**23.1**

* values before impairment test results

The CGUs are represented by the Bank's business units identified by the Strategic Plan, as identifiable in the company organisation and represented in the Bank's management reports, and operating in the following areas:

- The “Securities Services” Business Unit is responsible, in an integrated manner, for (i) activities related to fund services (Depository Bank, Fund Accounting and Transfer Agent) and (ii) activities related to the custody and administration of securities;
- The “Banking Payments” Business Unit, which is responsible, in integrated form, for payment services of a banking nature and related back-office services for banks, companies and institutions.

The book value of each CGU corresponds to the value of goodwill attributable to it, as recorded in the company accounts (and financial statements), to which is added, in the case of Securities Services CGU, the book value of the depository bank "customer contracts” (intangible assets with a finite useful life, arising from the acquisitions, between 2011 and 2014, of business units relating to depository bank and ancillary activities, originally recognised at the price paid less the unit’s net assets and amortised over a period of ten years).

Since the capital underlying the book value of the CGU is assumed to be zero, an initial capital deficit (equal to the regulatory minimum capital initially required for the CGU's operations) is taken into account in determining the recoverable value.

Determination of recoverable value of the CGUs

Below is an illustration of the underlying assumptions and methodologies used for the impairment test conducted according to the applicable international accounting standard, IAS 36.

In line with the indications provided in the joint Bank of Italy/Consob/ISVAP document no. 4 of 3 March 2010, the procedure and the assessment parameters for the impairment testing of goodwill were approved, in line with previous years, by the Board of Directors independently and in advance of the approval of the draft 2019 financial statements.

In accordance with international accounting standards, the amount of any impairment loss is determined by the difference between the carrying amount of the CGU and its recoverable amount, where lower. The recoverable value is defined as the greater of:

- value in use, i.e. the present value of future cash flows that are expected to be generated by the continuous use of a specific asset or by a CGU;
- fair value, less costs to sell, i.e. the amount obtainable from the sale of an asset or CGU, in a free transaction between informed, independent parties.

The impairment test was conducted by first preparing financial projections for each CGU underlying the 2019-2023 Strategic Plan, approved by the Board of Directors on 21 February 2019 and updated, in its 2020-2023 financial projections, according to the results in the first year of validity of the Strategic Plan, with reference to both the traditional core businesses (Securities Services and Banking Payments) and the new SME Specialised Lending division (update approved by the Board of Directors on 19 March 2020, hereinafter the "Updated Plan").

In view of the supervening uncertainty as to the prospective development of the new SME Specialised Lending division ("Vesta Project"), as thoroughly described in the Board of Directors' report on the financial statements, without excluding the resumption of the Vesta Project, the Board of Directors has decided – on a prudential basis, in discontinuity with the impairment test for the previous year – not to consider for impairment testing purposes the effects of this development initiative on the company's forecast financial performance. While this decision did not have any impact on the income streams of the CGUs tested, it did lead to a significant increase in the minimum regulatory capital allocated to these CGUs, as further specified below.

To determine the recoverable value of both CGUs, both the value in use and fair value have been determined.

The value in use of the CGUs has been determined by applying the Dividend Discount Model (DDM) methodology in the Excess Capital version, developed from the economic and financial projections for the 2020-2023 period of the Updated Plan. This method establishes that the economic value of a company (W) subject to capital constraints of a binding nature is given by the discounting of a flow of dividends determined on the basis of income capacity and compliance with the minimum capital constraints imposed by the relevant supervisory authority. This method is based on the following evaluation formula:

$$W = {}_{DIV\,a} + TV_a$$

where

DIV_a = the present value of the maximum theoretical distributable dividends (or capital deficits) (DIV) in the explicit forecast period, based on the following formula

$$\sum_{t=0}^{n} \frac{DIVt}{Ke}$$

TV_a = the present value of the terminal value (TV), calculated as a perpetual income of the long-term distributable dividend, based on the following formula

$$TV = \frac{DIV\,t+1}{(Ke-g)}$$

where

DIV_{t+1} = normalised dividend (sustainable average at the end of the explicit forecast horizon), calculated on the basis of supervisory requirements

K_e = Cost of equity

g = long-term growth rate

The cost of equity (K_e) was estimated separately for the two CGUs according to the Capital Asset Pricing Model ("CAPM"), according to which the return on a risky activity is equal to the sum of a risk-free rate (R_f) and an equity risk premium (ERP), determined taking into account the specific risk of the activity (β), according to the following formula

$K_e = R_f + \beta \times ERP$

The formula parameters were determined as follows:

- Risk-free rate: 12-month average of the gross yield of Italian 10-year BTPs observed at 31 December 2019 (incorporating "country risk");
- Beta: median value of monthly observations for a sample of comparable companies over an observation period of 5 years from 31 December 2019;
- Equity Risk Premium: in line with international best assessment practices (Source: A. Damodaran) – Average 12 months.

It should be noted that it was deemed appropriate to consider the 12-month average of both the risk-free rate and the Equity Risk Premium, instead of the precise observation taken as a reference in the impairment test for the financial statements ended 31 December 2018, as they were considered more representative of the long-term macroeconomic context. Spot observation of these parameters, like the others, would have resulted in a cost of equity for the Banking Payments and Securities Services CGUs of 6.7% and 7.7%, respectively.

The following was considered with reference to the estimation of the terminal value:

- a prudential (add-on) increase of 1.00% of the cost of equity (K_e) for the Banking Payments CGU, in continuity and parity with the previous year;
- a prudential (add-on) increase of 0.50% of the cost of equity (K_e) for the Securities Services CGU, compared to a value of 1.00% used in the previous year. The change in the parameter incorporates the estimated value of the (positive) impacts expected in relation to the return to a scenario of money market rates above zero, envisaged in the updated Plan at a time point beyond the end of the explicit forecast period (2023), compared to the previous forecast that placed it within the explicit forecast period;
- a long-term growth rate (g) of 2.00% for both CGUs, in line with the European Central Bank's long-term inflation expectations for the Euro area.

The following table summarises the formation and measurement of the cost of equity used in the impairment test for the year 2019.

	Banking Payments CGU	**Securities Services CGU**
Risk-free rate (R_f)	1.90%	1.90%
Beta (β)	1.02	1.21
Equity Risk Premium (ERP)	5.62%	5.62%
Cost of equity (K_e) Explicit period	**7.61%**	**8.68%**
Cost of equity (K_e) Terminal Value	**8.61%**	**9.18%**

The potentially distributable dividends during the explicit forecast period and for the terminal value were determined considering:

- income flows referring to the CGU based on the projections of the Updated Plan (substantially unchanged compared to those of the Strategic Plan);
- a minimum capital requirement determined on the basis of the Leverage parameter, more stringent at the company level, equal to the minimum prospective regulatory requirement (CRR2) of 3.0%, plus a buffer, variable from year to year, equal on average to about 0.5%, to take into account the possible volatility of total assets (induced in particular by funding in the form the accounts held by depository bank customers).

The determination of the minimum capital requirement on the basis of the Leverage parameter represents a change from the impairment test conducted in the previous year, in which the most stringent business parameter, in the perspective of the plan, was that deriving from the CET1 ratio (calculated on the RWAs at 14.0%). This different perspective was determined in particular by the exclusion, for impairment purposes, of the prospective development of the new SME Specialised Lending business line.

In fact, the Bank, in its current configuration, presents an atypical (compared to ordinary banks) "sensitivity" to the aforementioned regulatory requirements, due to a low *RWA density* (calculated as the ratio of Risk Weighted Assets to Total Exposure), equal to about 10%, which makes the CET 1 ratio unrepresentative of the company's minimum regulatory capital requirements, with Leverage being much more stringent than that proportionate to RWAs. This situation is destined to remain unchanged in the absence of an *asset side strategy* other than that presently adopted (such as that represented by the development of SME Specialised Lending) that allows a more efficient use of the minimum capital necessary for the operation of the current business of the company.

In continuity with the impairment test of the previous year, fair value was determined by applying the market multiples method, based on the analysis of the stock prices of a selected sample of (comparable) companies operating in the reference sector of the Banking and Securities Services CGUs and on the subsequent application of multiples resulting from this analysis to the corresponding amounts of the CGU being valued.

The multiple selected is price/earnings, calculated as the ratio of the market capitalisation of the comparable companies selected for the Banking Payments and Securities Services CGUs to their respective projected profits. This multiple is a commonly accepted and used indicator both nationally and internationally and is in line with professional practice when assessing institutions subject to capital requirements. The average value and median value of the market multiples obtained from the analysis of the comparison samples were applied to the profits of the CGUs in the corresponding year. The reference year was 2021, considered, among those for which multiple markets are available, to best express the value of the CGUs to be tested for impairment. With regard to the Securities Services CGU, the 2021 profit was appropriately adjusted to take into account income components present in the reference year, but not representative of the "normal" profitability of the CGU (in particular customer contract amortisation charges).

The values of the multiples used are presented in the table below.

	Banking Payments CGU	**Securities Services CGU**
Average	19.8x	12.1x
Median	19.9x	12.2x

The fair value of each CGU was then determined as the average of the fair values identified by applying the average market multiple and the median market multiple, taking into account the initial capital requirement (deficit) calculated on the basis of the same assumptions and parameters illustrated when determining value in use.

Summary of results

Based on the underlying assumptions and methodologies illustrated, the impairment test as at 31 December 2019:

- did not determine the need to recognise any write-down of goodwill allocated to the Banking Payments CGU, as the recoverable value of the CGU was higher than its carrying amount;
- highlighted the need for a full write-down of the goodwill of the Securities Services CGU (€ 45.9m) and provided an indication of trigger events affecting the depository bank customer contracts.

In view of the aforementioned indication of potential impairment of customer contracts, in accordance with IAS 38 (which does not require that property and equipment with a finite useful life be tested for impairment on an annual basis, but whenever there is evidence of potential impairment), the recoverable value of the aforementioned assets was then determined.

The assessment of the recoverable value of the customer contracts (conducted, in accordance with IAS 36, on the narrower scope of such contracts, according to the same underlying assumptions and methodologies used for the Securities Services CGU, of which they are part and to which they contribute forming) confirmed the recoverability of the carrying amounts.

Sensitivity analysis

In accordance with IAS 36, for the Banking Payments CGU, which continues to include an asset with an indefinite useful life (goodwill) following the impairment test, a sensitivity analysis of the recoverable amount was carried out in order to assess the variability of the recoverable amount due to reasonable changes in the underlying assumptions.

In particular, the data shown in the tables below represent the difference (in absolute value and percentage) between the recoverable value and the reference book value, assuming an increase or decrease in the growth rate (g) and/or the cost of equity (K_e) compared to the rates actually used. Specifically, the tables show the level that the "K_e" rate would have to take to eliminate the positive delta between the recoverable value and the book value, assuming that the "g" growth rate is kept constant at 2.00%.

Banking Payments CGU
Terminal value grow rates "g"/ Cost of equity "Ke"
(difference between recoverable amount and reference value in millions of euros)
(as a percentage of value in use)

		Ke (TV Ke)			
		7.61% (8.61%)		9.30% (10.30%)	
g	1.5%	+ 30.8	+38.0%	- 4.5	- 5.6%
	2.0%	+ 38.9	- 48.0%	0.0	0.0%
	2.5%	+ 48.3	+ 59.6%	+ 5.2	+ 6.4%

Recognition of the impairment loss on the Securities Services CGU

In accordance with IAS 36, some additional information is provided below (beyond that already provided in the first part of this disclosure) on the facts and circumstances that led to the recognition of the impairment loss on the Securities Services CGU, with particular reference to the comparison between the underlying assumptions and valuation methodologies used in this estimate and in the estimate conducted with reference to the financial statements as at 31 December 2018.

The following table shows the comparison between the underlying assumptions, methodologies and results relating to impairment tests conducted to verify the sustainability of goodwill allocated to Securities Services CGU for the years ended 31 December 2019 and 2018.

Securities Services CGU impairment test parameters		
Book value	**31 December 2019**	**31 December 2018**
CGU carrying amount[1]	69.0	76.6
Scenario	Strategic Plan "Without SME SL"	Strategic Plan
Explicit forecast	Years 2020-2023	Years 2019-2023

Determination of Value in Use		
Methodology	**DDM Excess Capital**	**DDM Excess Capital**
Final income flow	28.5	29.0
Initial allocated capital	265.3	103.3
Capital requirement	Leverage	RWAs
Rf[2]	1.90%	2.73%
Ke	8.68%	8.75%
TV add-on	0.50%	1.00%
TV Ke	9.18%	9.75%
g	2.00%	2.00%

Determination of fair value		
Methodology	**Price/Earnings Multiples**	**Price/Earnings Multiples**
Year of reference	**Year 2021**	**Year 2020**
Normalised profit	22.5	20.1
Multiples Average	12.1x	12.6x
Multiples Median	12.2x	12.7x

Recoverable amount	**Fair value**	**Value in use**

Monetary figures in EUR/million

(1) The book value includes the value (residual to date) of the customer contracts, € 21.3 million at 31 December 2019 and € 30.7 million at 31 December 2018.

(2) Spot observation as at the reporting date for 2018; average for the 12 months prior average to reporting date for 2019

The table shows that, without any change in valuation methodologies or any significant changes in prospective income and valuation parameters, the different recoverable value recorded in the two years is essentially attributable to the different amount of minimum capital allocated to the CGU, as a consequence of the change of perspective adopted in the impairment test with reference to the inclusion of the synergistic effects of the different corporate asset side strategy (represented in the Strategic Plan by the launch of the new SME Specialised Lending division).

SECTION 10 – TAX ASSETS AND TAX LIABILITIES – ITEM 100 OF ASSETS AND ITEM 60 OF LIABILITIES

10.1 Deferred tax assets: composition

	31/12/2019	31/12/2018
IRAP		
Goodwill alignment	817	854
Amortisation	1,399	1,324
Others	237	700
IRES		
Goodwill alignment	4,034	4,217
Provisions	3,373	3,721
Amortisation	7,772	9,698
Others	2,079	2,422
Total	**19,711**	**22,937**

10.2 Deferred tax liabilities: composition

	31/12/2019	31/12/2018
IRAP		
Valuation reserves	178	1,296
Goodwill	623	585
Others		
IRES		
Valuation reserves	44	654
Goodwill	3,078	2,887
Others	1,104	1,071
Total	**5,028**	**6,492**

10.3 Changes in advance taxes (contra entry on the income statement)

	31/12/2019	31/12/2018
1. Initial amount	**22,460**	**34,657**
2. Increases		
2.1 Deferred tax assets recognised during the year		
a) related to previous years		
b) due to changes in accounting criteria		
c) write-backs		
d) others	1,114	4,894
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases		
3.1 Deferred tax assets derecognised during the year		
a) reversals	4,501	17,091
b) write-downs of non-recoverable items		
c) changes in accounting criteria		
d) others		
3.2 Reductions in tax rates		
3.3 Other decreases		
a) conversion into tax credits, Italian Law 214/2011		
b) others		15,520
4. Final amount	**19,073**	**22,460**

10.3 bis Changes in deferred tax assets pursuant to Italian Law no. 214/2011

	31/12/2019	31/12/2018
1. Initial amount	**14,800**	**28,894**
2. Increases	**1,012**	**1,670**
3. Decreases		
3.1 Reversals	702	243
3.2 Conversion into tax credits		
a) deriving from loss for the year		
b) deriving from tax losses		
3.3 Other decreases	1,196	15,520
4. Final amount	**13,915**	**14,800**

10.4 Changes in deferred taxes (through the income statement)

	31/12/2019	31/12/2018
1. Initial amount	**5,101**	**21,015**
2. Increases		
2.1 Deferred taxes recognised during the year		
a) related to previous years		
b) due to changes in accounting criteria		
c) others	263	230
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases		
3.1 Deferred taxes derecognised during the year		
a) reversals	558	16,144
b) due to changes in accounting criteria		
c) other		
3.2 Reductions in tax rates		
3.3 Other decreases		
4. Final amount	**4,806**	**5,101**

10.5 Changes in advance taxes (contra entry of net equity)

	31/12/2019	31/12/2018
1. Initial amount	**476**	**590**
2. Increases		
2.1 Deferred tax assets recognised during the year		
a) related to previous years		
b) due to changes in accounting criteria		
c) others	161	
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases		
3.1 Deferred tax assets derecognised during the year		
a) reversals		1
b) write-downs of non-recoverable items		
c) due to changes in accounting criteria		
3.2 Reductions in tax rates		
3.3 Other decreases		113
4. Final amount	**637**	**476**

10.6 Changes in deferred taxes (through equity)

	31/12/2019	31/12/2018
1. Initial amount	**1,392**	**7,800**
2. Increases		
2.1 Deferred taxes recognised during the year		
a) related to previous years		
b) due to changes in accounting criteria		
c) others	4,216	995
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases		
3.1 Deferred taxes derecognised during the year		
a) reversals	5,386	7,403
b) due to changes in accounting criteria		
c) others		
3.2 Reductions in tax rates		
3.3 Other decreases		
4. Final amount	**222**	**1,392**

SECTION 12 – OTHER ASSETS – ITEM 120

12.1 Other assets: composition

Assets/Values	31/12/2019	31/12/2018
Receivables from the Tax Authorities for withholdings related to interest to customers and other receivables from the Tax Authorities	34,440	34,236
Negotiated cheques to be settled	229	2,831
Correspondents for past-due securities and coupons to be collected	7,107	242
Commissions and other income to be charged	48,945	54,610
BI-REL, credit transfers, Setif flows, messages received, e-money	156,858	224,357
Sundry and residual items	30,848	39,669
Total	**278,427**	**355,943**

In bank payment processing, the suspense accounts relating to the item "BI-REL, credit transfers, Setif flows, messages received", include settlement that was suspended and then completed in the first business days after the reporting date of these financial statements.

Liabilities

SECTION 1 – FINANCIAL LIABILITIES MEASURED AT AMORTISED COST – ITEM 10

1.1 Financial liabilities measured at amortised cost: composition of amounts due to banks

Type of operations/Values	31/12/2019				31/12/2018			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Due to central banks	**3,448**	**x**	**x**	**x**	**1,338**	**x**	**x**	**x**
2. Amounts due to banks		**x**	**x**	**x**		**x**	**x**	**x**
2.1 Current accounts and on demand deposits	586,092	x	x	x	797,624	x	x	x
2.2 Time deposits	205,355	x	x	x	118,041	x	x	x
2.3 Loans								
2.3.1 Repurchase agreements	5,113	x	x	x	9,548	x	x	x
2.3.2 Others	-	x	x	x	-	x	x	x
2.4 Liabilities in respect of commitments to repurchase own equity instruments	-	x	x	x	-	x	x	x
2.5 Lease liabilities	-	x	x	x	-	x	x	x
2.6 Other payables	1,883				81,561			
Total	**801,891**		**801,891**		**1,008,112**		**1,008,112**	

Time deposits are mainly related to the deposits required for the services rendered to client banks, such as indirect compliance with compulsory reserve requirements.

1.2 Financial liabilities measured at amortised cost: composition of amounts due to customers

Type of operations/Values	31/12/2019				31/12/2018			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Current accounts and on-demand deposits	**6,844,825**	**x**	**x**	**x**	**9,702,758**	**x**	**x**	**x**
2. Time deposits	**99**	**x**	**x**	**x**	**99**	**x**	**x**	**x**
3. Loans	-							
3.1 Repurchase agreements	92,852	x	x	x	122,293	x	x	x
3.2 Others	-	x	x	x	-	x	x	x
4. Liabilities in respect of commitments to repurchase own equity instruments	-	x	x	x	-	x	x	x
5. Lease liabilities	13,566							
6. Other payables	542,555	x	x	x	541,196	x	x	x
Total	**7,493,896**		**7,493,896**		**10,366,346**		**10,366,346**	

Current accounts balances mainly refer to operating accounts, i.e. accounts opened in favour of customers (funds, asset management companies, corporate customers and institutions) in connection with the core service range (depositary bank and collection and payment services).

Other payables are mainly represented (€ 485 million) by outstanding cashier's cheques, issued as part of the service that allows affiliated banks provide their customers with a credit instrument issued by DEPObank under a mandate agreement.

1.6 Lease liabilities

Type of operations/Values	31/12/2019 Book value	31/12/2018 Book value
Lease liabilities	13,565,875	-

SECTION 2 – FINANCIAL LIABILITIES HELD FOR TRADING – ITEM 20

Section 2.1 Financial liabilities held for trading: composition

Operations/values	31/12/2019					31/12/2018				
	NV	Fair value			FV*	NV	Fair value			FV*
		L1	L2	L3			L1	L2	L3	
A. On-balance sheet liabilities										
1. Amounts due to banks	-	-	-	-	-	-	-	-	-	-
2. Amounts due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	-	-	-	-	-	-
3.1. Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	X	-	-	-	-	X
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Others	-	-	-	-	X	-	-	-	-	X
Total (A)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Derivatives										
1. Financial derivatives										
1.1 For trading	X	-	6,248	-	X	X	-	4,926	-	X
1.2 Connected to the fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Others		-	-	-			-	-	-	
2. Credit derivatives		-	-	-			-	-	-	
2.1 For trading	X	-	-	-	X	X	-	-	-	X
2.2 Connected to the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Others	X	-	-	-	X	X	-	-	-	X
Total (B)	**X**	**-**	**6,248**	**-**	**X**	**X**	**-**	**4,926**	**-**	**X**
Total (A + B)	**X**	**-**	**6,248**	**-**	**X**	**X**	**-**	**4,926**	**-**	**X**

Key
NV = nominal or notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3

SECTION 6 – TAX LIABILITIES – ITEM 60

Refer to Section 10 of Assets.

SECTION 8 – OTHER LIABILITIES – ITEM 80

8.1 Other liabilities: composition

	31/12/2019	31/12/2018
Tax payables, withholding taxes payable and other payables	2,144	4,071
Cheques, cheques truncation flows to be credited	9,688	11,250
Securities transactions, foreign exchange and premiums paid for options, to be credited	63	430
Payables to employees	33,270	40,548
Other payables for expenses and interest commissions payable	48,192	51,385
Currency haircuts on portfolio transactions	21,173	8,380
BI-REL, credit transfers, payment flows to be credited and e-money	189,464	306,418
Sundry and residual items	18,032	30,252
Total	**322,027**	**452,734**

SECTION 9 – EMPLOYEE SEVERANCE PAY – ITEM 90

9.1 Post-employment benefits: annual changes

	31/12/2019	31/12/2018
A. Opening balances	**3,451**	**8,070**
B. Increases		
B.1 Provision for the year	64	147
B.2 Other changes	501	-
C. Decreases		
C.1 Payments made	361	1,059
C.2 Other changes	524	3,707
D. Closing balances	**3,131**	**3,451**
Total	**3,131**	**3,451**

9.2 Other information

Main demographic and actuarial assumptions for the assessment of the post-employment benefit provision as at 31 December 2019

Probability of death of pensioners due to retirement or old age	Probabilities relative to the Italian population by age and gender, as determined by ISTAT in 2000
Probability of death of pensioners due to total, permanent disability	Probabilities based on the disability tables currently used in reinsurance practice by age and gender
annual frequency of advances	1.76%
annual frequency of turnover	1.86%
Probability of retirement	Upon reaching the first retirement requirement valid for Mandatory General Insurance
Inflation rate	1.20%
Annual discount rate	0.77%, based, in accordance with para. 83 of IAS 19, on the Iboxx Corporate AA index with a duration of 10+ as recorded on the assessment date.

Sensitivity analysis

As required by IAS 19, a sensitivity analysis of the post-employment benefit obligation has been carried out in relation to the actuarial assumptions considered most significant, aimed at showing how the balance sheet liability would vary in relation to the reasonably possible fluctuations in each of these actuarial assumptions. In particular, the following table provides evidence of the change in the post-employment benefit provision, assuming an increase or decrease in the main parameters used.

Sensitivity test for the main assessment criteria

Turnover rate	+0.50%	3,118,736
Turnover rate	-0.50%	3,142,760
Discount rate	+0.50%	2,980,390
Discount rate	-0.50%	3,291,345
Mortality rate	+0.25%	3,318,465
Mortality rate	-0.25%	3,321,911

SECTION 10 – ALLOWANCES FOR RISKS AND CHARGES – ITEM 100

10.1 Provisions for risks and charges: composition

Items/Components	31/12/2019	31/12/2018
1. Provisions for credit risk relating to commitments and financial guarantees given	6	-
2. Provisions for other commitments and guarantees issued		
3. Post-employment benefits and similar commitments	330	814
4. Other Provisions for risks and charges	23,036	25,977
Total	**23,372**	**26,790**

10.2 Provisions for risks and charges: annual changes

Items/Components	Provisions for other commitments and guarantees issued	Pension/ retirement funds	Other Provisions for risks and charges	Total
A. Opening balances	**-**	**814**	**25,977**	**26,790**
B. Increases				
B.1 Provision for the year	6	56	1,670	1,732
B.2 Changes due to the passage of time				-
B.3 Changes due to variations in the discount rate				-
B.4 Other changes			-	-
C. Decreases				
C.1 Utilisations for the year		33	4,279	4,312
C.2 Changes due to variations in the discount rate				-
C.3 Other changes		507	332	839
D. Closing balances	**6**	**330**	**23,036**	**23,372**

10.3 Provisions for credit risk relating to commitments and financial guarantees given

	Provisions for credit risk relating to commitments and financial guarantees given			
	Stage one	**Stage two**	**Stage three**	**Total**
Commitments to disburse funds				
Financial guarantees	6			6
Total	**6**			**6**

10.5 Defined-benefit pension funds

1. Illustration of the characteristics of the provisions and the related risks
The defined-benefit company pension fund consists of the provisions made in respect of the post-employment benefit obligations assumed by DEPObank. The estimated liability as at 31 December 2019 is € 0.3 million.

2. Changes in net defined-benefit liabilities (assets) and redemption rights during the year
The present value of the defined-benefit obligation amounted to € 0.8 million as at 31 December 2018. During the year, benefits totalling € 0.03 million were disbursed and provisions of € 0.5 million were released due to the cessation of the obligation following the death of the beneficiaries.

10.6 Provisions for risks and charges – Other provisions

Other provisions mainly refer to claims/lawsuits for which payment is considered likely. The item also includes provisions for charitable expenses.

There are no contingent liabilities as at 31/12/2019.

SECTION 12 – EQUITY – ITEMS 110, 130, 140, 150, 160, 170 AND 180

12.1 Capital and treasury shares: composition

Items/values	**31/12/2019**	**31/12/2018**
1. Share capital	42,557	42,557
2. Share premium	148,242	148,242
3. Reserves	311,431	239,893
4. Treasury shares (-)	-	-
5. Valuation reserves	-476	9,805
6. Equity instruments	-	-
6. Profit (loss) for the financial year	-29,166	5,165
Total	**472,588**	**445,662**

12.2 Capital – Number of shares: annual changes

Items/Type	**Ordinary**	**Others**
A. Shares as of the beginning of the year		
- fully paid-up	14,110,599	
- not fully paid-up		
A.1 Treasury shares (-)		
A.2 Shares outstanding: initial balance	**14,110,599**	
B. Increases		
B.1 New issues		
- against payment:		
- business combinations		
- bonds converted		
- warrants exercised		
- others		
- free:		
- for employees		
- for directors		
- others		
B.2 Sales of treasury shares		
B.3 Other changes		
C. Decreases		
C.1 Cancellation		
C.2 Purchase of treasury shares		
C.3 Disposal of companies		
C.4 Other changes		
D. Shares outstanding: closing balance	**14,110,599**	
D.1 Treasury shares (+)		
D.2 Shares existing at the end of the year	14,110,599	
- fully paid-up	14,110,599	
- not fully paid-up		

Outstanding shares, all fully paid-up, amount to 14,110,599.

12.4 Earnings reserve: Other information

Details of usability of equity reserves

Description	31/12/2019	31/12/2018	Usability	Summary of the amounts used in the past two years	
				to cover losses	For other reasons
Share premium reserve	**148,242**	**148,242**	**a,b,c**		
Earnings reserves:	**300,582**	**229,045**			
- of which legal	20,000	20,000	a		
- of which, other earnings reserves	279,836	208,299	a.b.c		-1,549,658(*)
- of which free treasury shares reserve	746	746	a,b,c		
Earnings reserves pursuant to Italian Law 289/2002	**10,848**	**10,848**	**a,b,c**		
Valuation reserve	**-476**	**9,755**			
- of which valuation reserve (no IAS 19)	770	10,972	d		
- of which IAS 19 valuation reserve	-1,246	-1,216			
Total reserves	**459,196**	**397,891**			

b = distribution to shareholders
c = share capital increase
d = not distributable until realised
(*) The use refers to the extraordinary demerger transaction that took effect on 1 July 2018.

Shareholders,

The financial statements submitted for your examination, which you are invited to approve, show a loss for the year of € 29,166,152, which it is proposed be covered through the use of available reserves.

Equity reserves, as disclosed in the Notes, Part B, Section 12.4, Liabilities, and in particular the criteria for their use, have been taken into account for the purposes of covering the loss for the year.

The portion of these reserves available to cover losses totals € 459,672,074 and includes the Share premium reserve for € 148,242,172, Earnings reserves for € 300,582,058 and the Italian Law 289/2002 earnings reserve for € 10,847,844.

It is proposed that the loss for the year be covered by attributing it, for € 29,166,152, to the Earnings reserves.

12.6 – Other information

	Balances	
	31/12/2019	31/12/2018
Legal reserve	20,000	20,000
Reserves provided for by the Articles of Association		
Other reserves	291,431	219,893
Total	**311,431**	**239,893**

The increase in the earnings reserve refers to the sale of the investments designated at FVOCI in Equense Wordline and Fondo Italiano di Investimento SGR.

Other information

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

	Notional value of commitments and financial guarantees given				
	Stage one	Stage two	Stage three	31/12/2019	31/12/2018
Commitments to disburse funds					
a) Central banks	-	-	-	-	-
b) Public administrations	-	-	-	-	-
c) Banks	288,385	978	-	289,363	225,541
d) Other financial companies	950,583	123,467	-	1,074,050	1,076,254
e) Non-financial companies	21,200	-	-	21,200	21,200
f) Households	115	-	-	115	1,150
Financial guarantees	**-**	**-**	**-**	**-**	**-**
a) Central banks	-	-	-	-	-
b) Public administrations	263	-	-	263	263
c) Banks	-	-	-	-	2,421
d) Other financial companies	49	72	-	120	2,620
e) Non-financial companies	714	-	-	714	752
f) Households	-	-	-	-	-

3. Assets given as collateral for own liabilities and commitments

Portfolios	31/12/2019	31/12/2018
1. Financial assets measured at fair value through profit or loss	-	-
2. Financial assets measured at fair value through other comprehensive income	-	-
3. Financial assets measured at amortised cost	1,311,563	1,298,793
4. Property and equipment		
of which: Property and Equipment held as inventories		

The assets pledged as collateral consist mainly of government bonds securing the bank's dealings in its core businesses of reference.

4. Administration and brokerage for third parties

Type of service	31/12/2019	31/12/2018
1. Execution of orders for customers		
a) Purchases		
1. settled	-	9,559,847
2. not settled		
b) Sales		
1. settled	-	8,317,311
2. not settled		
2. Individual portfolio management		
3. Custody and administration of securities		
a) third-party securities held in deposit: relating to depositary bank activities (excluding portfolio management)	49,062,507	46,900,130
1. Instruments issued by reporting bank	-	-
2. Other securities	49,062,507	46,900,130
b) Third party securities deposited (excluding portfolio management): others	83,672,176	71,794,729
1. Instruments issued by reporting bank	39,694	39,694
2. Other securities	83,632,482	71,755,034
c) Third party securities deposited with third parties	117,681,252	102,851,680
d) Proprietary securities deposited with third parties	4,218,619	5,107,462
4. Other transactions	**-**	**1,943,874**

Part C – INFORMATION ON THE INCOME STATEMENT

SECTION 1 – INTEREST – ITEMS 10 AND 20

1.1 Interest income and similar revenues: composition

Items/Technical forms	Debt securities	Loans	Other transactions	Total 31/12/2019	Total 31/12/2018
1. Financial assets measured at fair value through profit or loss:					
1.1 Financial assets held for trading	1	-	-	1	167
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets subject to mandatory fair value measurement	-	-	-	-	-
2. Financial assets measured at fair value through other comprehensive income:	-	-	X	-	11,303
3. Financial assets measured at amortised cost					
3.1 Due from banks	563	8,585	X	9,149	11,194
3.2 Loans to customers	32,980	1,314	X	34,294	24,405
4. Hedging derivatives	X	X	-	-	-
5. Other assets	X	X	1,125	1,125	827
6. Financial liabilities	X	X	X	25,992	16,758
Total	**33,544**	**9,899**	**1,125**	**70,560**	**64,654**
of which: interest income on impaired assets					
of which: interest income on finance leasing					

1.3 Interest expense and similar charges: composition

Items/Technical forms	Debt	Securities	Other transactions	31/12/2019	31/12/2018
1. Financial liabilities measured at amortised cost					
1.1 Amounts due to central banks	-	X	-	-	-
1.2. Amounts due to banks	1,827	X	-	1,827	1,814
1.3. Amounts due to customers	12,021	X	-	12,021	10,692
1.4. Debt securities issued	X	-	-	-	-
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities designated at fair value	-	-	-	-	-
4. Other liabilities and provisions	X	X	374	374	44
5. Hedging derivatives	X	X	-	-	-
6. Financial assets	X	X	X	24,590	16,794
Total	**13,848**	**-**	**374**	**38,812**	**29,344**
of which: interest expense relative to leasing liabilities				**347**	

SECTION 2 – FEES AND COMMISSIONS – ITEMS 40 AND 50

2.1 Fee and commission income: composition

Type of service/amounts	**31/12/2019**	**31/12/2018**
a) guarantees given	7	161
b) credit derivatives	-	-
c) management, brokerage and advisory services:	-	-
1. securities trading	1,485	4,680
2. currency trading	-	-
3 asset management	-	-
3.1 individual	-	-
3.2 collective	-	-
4. custody and administration of securities	5,597	5,257
5. custodian bank	42,530	44,319
6. placement of securities	-	983
7. reception and transmission of orders	-	978
8. advisory services	189	189
8.1. related to investments		
8.2. related to financial structure	189	189
9. distribution of third party services	-	-
9.1. portfolio management	-	-
9.1.1. individual	-	-
9.1.2. collective	-	-
9.2. insurance products	-	-
9.3. other products	-	-
d) collection and payment services	57,564	54,176
e) servicing of securitisation transactions	-	-
f) factoring services	-	-
g) tax collection services	-	-
h) management of multilateral trading facilities	-	-
i) current account keeping and management	-	-
j) other services	4,080	4,823
Total	**111,453**	**115,566**

The change compared to 2018 was due to the sale of the "Brokerage and Market Making" unit completed in May 2018.

2.2 Fee and commission income by distribution channel

Channel/amounts	31/12/2019	31/12/2018
a) at own branches:		
1. portfolio management		
2. placement of securities		
3. distribution third-party services and products		
b) off-site:		
1. portfolio management		
2. placement of securities		
3. distribution third-party services and products		
c) other distribution channels:		
1. portfolio management		
2. placement of securities	-	983
3. distribution third-party services and products		

2.3 Commission payable: composition

Services/Sectors	31/12/2019	31/12/2018
a) guarantees received	45	61
b) credit derivatives	-	-
c) management and brokerage services:		-
1. securities trading	-	235
2. currency trading	17	162
3. portfolio management:	-	-
3.1. proprietary	-	-
3.2. delegated to third parties	-	-
4. custody and administration of securities	4,691	5,466
5. placement of financial instruments	-	921
6. off-site distribution of financial instruments, products and services	-	-
7. off-site distribution of financial instruments, products and services	-	-
d) collection and payment services	19,659	18,531
e) other services	4,926	6,257
Total	**29,338**	**31,633**

SECTION 3 – DIVIDENDS AND SIMILAR INCOME – ITEM 70

3.1 Dividends and similar income: composition

Items/income	31/12/2019		31/12/2018	
	Dividends	Similar revenue	Dividends	Similar revenue
A. Financial assets held for trading	6		1	
B. Other financial assets subject to mandatory fair value measurement	55			
C. Financial assets measured at fair value through other comprehensive income	1,942		2,161	
D. Equity investments	363		1,872	
Total	**2,366**	**-**	**4,034**	**-**

The decrease is entirely attributable to the loss, in connection with the Group's restructuring, of the dividend distributed by Oasi S.p.A.

SECTION 4 – PROFITS (LOSSES) ON TRADING – ITEM 80

4.1 Net trading result: Composition

Transaction/Income item	Capital gains (A)	Profits from trading (B)	Capital losses (C)	Losses from trading (D)	Net profit/ loss [(A+B) '- (C+D)]
1. Financial assets held for trading					
1.1 Debt securities	-	1,178	-	-	1,178
1.2 Equity instruments	-	4	-	-	4
1.3 UCITS units	-	-	-	-	-
1.4 Loans	-	-	-	-	-
1.5 Others					
2. Financial liabilities held for trading					**-**
2.1 Debt securities	-	-	-	-	-
2.2 Payables					-
2.3 Others					-
3. Other financial assets and liabilities: exchange differences					**14,513**
4. Derivatives					
4.1 Financial derivatives:					
- On debt securities and interest rates					-
- On equity securities and share indices	-	-	-	-	-
- On currencies and gold	X	X	X	X	-
- Others	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedging related to the fair value option	X	X	X	X	
Total	**-**	**1,182**	**-**	**-**	**15,695**

The item "Other financial assets and liabilities: exchange differences" includes the margin relating to currency swaps functional to treasury management, in particular funding from banks and customers in foreign currency.

SECTION 6 - PROFITS (LOSSES) ON DISPOSALS/REPURCHASES – ITEM 100

6.1 Gains (Losses) on disposals/repurchases: composition

Item/Income item	31/12/2019			31/12/2018		
	Profit	Loss	Net profit/ loss	Profit	Loss	Net profit/ loss
Financial assets						
1. Financial assets measured at amortised cost						
1.1 Loans to banks						
1.2 Loans to customers	25		25	7	3	4
2. Financial assets measured at fair value through other comprehensive income						
2.1 Debt securities						
2.2 Loans						
Total assets (A)	**25**	**-**	**25**	**7**	**3**	**4**
Financial liabilities measured at amortised cost						-
1. Amounts due to banks						
2. Amounts due to customers						
3. Debt securities issued						
Total liabilities (B)	**-**	**-**	**-**	**-**	**-**	**-**

SECTION 7 – PROFIT (LOSS) ON OTHER FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS – ITEM 110

7.2 Net change in the value of other financial assets and liabilities measured at fair value through profit or loss: composition of other financial assets subject to mandatory fair-value measurement

Transaction / Income item	Capital gains (A)	Realised gains (B)	Capital losses (C)	Losses on disposal (D)	Net profit/ loss [(A+B)-(C+D)]
1. Financial assets					
1.1 Debt securities					
1.2 Equity instruments					-
1.3 UCITS units	3,224		166		3,058
1.4 Loans			128		- 128
2. Foreign currency financial assets: foreign exchange differences	**X**	**X**	**X**	**X**	
Total	**3,224**	**-**	**294**	**-**	**2,930**

SECTION 8 – NET WRITE-DOWNS/WRITE-BACKS FOR CREDIT RISK – ITEM 130

8.1 Net write-downs for credit risk relating to financial assets measured at amortised cost: composition

Transaction / Income item	Write-downs (1)			Write-backs (2)		31/12/2019	31/12/2018
	Stage one and Stage two	Stage three		Stage one and Stage two	Stage three		
		Write-offs	Others				
A. Loans and receivables with banks							
- Loans	372					-372	-32
- Debt securities	69			26		-44	
of which: impaired credits purchased or originated							
B. Loans to customers							
- Loans	431		1,700			-2,131	-
- Debt securities	557			5,480		4,923	-7,288
of which: impaired credits purchased or originated							
C. Total	**1,430**	**-**	**1,700**	**5,506**	**-**	**2,376**	**-7,320**

SECTION 10 – ADMINISTRATIVE EXPENSES – ITEM 160

10.1 Personnel cost: composition

Type of expense/Amounts	31/12/2019	31/12/2018
1) Employees	31,251	55,890
a) wages and salaries	22,632	40,535
b) social security contributions	5,768	10,339
c) provision for employee severance pay	152	244
d) pension costs	50	82
e) provision for post-employment benefits	47	88
f) provision for pensions and similar obligations:	-	-
- defined contribution	-	-
- defined benefits	-	-
g) payments to external pension funds:		
- defined contribution	1,509	3,146
- defined benefits	-	-
h) costs related to share-based payments	-	-
i) other employee benefits	1,093	1,456
2) Other personnel in service	17	28
3) Directors and statutory auditors	1,754	1,241
4) Early retirement costs	-	-
5) Recoveries of costs of employees seconded to other companies	-779	-2,801
6) Reimbursement of costs of third-party employees seconded to the company	180	2,738
Total	**32,423**	**57,096**

The decrease in the item "wages and salaries" compared to the previous year is attributable to the different corporate scope, following the sale of the "Payments Unit" in the second half of 2018 and the sale of the "Brokerage Unit" in May 2018.

10.2 Average no. of employees per category

Employees	31/12/2019	31/12/2018
a) managers	13	28
b) middle managers	137	257
c) other employees	212	298
Total	**340**	**583**

10.3 Defined-benefit pension funds: costs and revenues

The defined-benefit company fund is currently active only with reference to terminated employees because the company pension fund for all existing employees is defined-contribution.

The costs of the defined-benefit fund recognised in the income statement during the year refer to financial expenses of € 56 thousand and the release of the provision of € 507 thousand.

There are no plan assets.

10.5 Other administrative expenses: composition

Type of expenditure	31/12/2019	31/12/2018
- data processing	15,263	24,030
- postal, transport of securities and couriers	294	599
- external services	17,248	13,146
- interbank network traffic	1,512	2,614
- telematic connections and costs for automation	2,854	3,970
- market access	91	1,007
- expenses for professional services	14,462	15,802
- agent commissions	-	467
- blank cashier's cheque forms	128	86
- maintenance and lease costs	3,978	11,343
- common area, rent, heating and lighting costs	1,316	3,581
- stationery and printing	78	170
- Insurance companies	543	420
- telegraph, telephone and telex	107	326
- card processing	-	-
- outsourced back office	-	-
- membership fees	1,209	1,520
- local security and office cleaning	182	351
- other expenses	7,252	4,560
- taxes and duties	2,649	1,629
Total	**69,166**	**85,623**

The decrease on the previous year is attributable to the different corporate scope, following the sale of the “Payments Unit” in the second half of 2018 and the sale of the "Brokerage Unit" in May 2018.

The following table shows the details of the fees invoiced in 2019 by the auditing firm entrusted with the audit assignment pursuant to Italian Legislative Decree no. 39 of 27.1.2010:

Type of service	Service provided by	Euro/000
Accounting audit	DELOITTE & TOUCHE S.P.A.	125
Total		**125**

SECTION 11 – NET PROVISIONS FOR RISKS AND CHARGES – ITEM 170

11.1 Net provisions for credit risk relating to commitments to disburse funds and financial guarantees given: composition

Type of expenditure	31/12/2019	31/12/2018
Provisions for other risks and charges	- 6	
Other provisions	-	
Total	**- 6**	

11.3 Other net provisions for risks and charges: composition

Type of expenditure	31/12/2019	31/12/2018
Provisions for other risks and charges	- 887	-3,531
Other provisions	-	-
Total	**- 887**	**- 3,531**

The net provision refers to: litigation for € 335 thousand, out-of-court cases for € 626 thousand, bonuses for € 360 thousand and releases due to termination of beneficiaries for € 506 thousand.

SECTION 12 – NET WRITE-DOWNS/WRITE-BACKS ON PROPERTY AND EQUIPMENT – ITEM 180

12.1 Net write-downs/write-backs on property and equipment: composition

Asset/Income item	Amortisation (a)	Value adjustments for impairment (b)	Value write-backs (c)	Net profit/ loss (a + b – c)
A. Property and equipment				
1. Non-investment				
- Owned	413			413
- Lease rights of use	1,631			1,631
2. Held for investment				
- Owned				-
- Lease rights of use				-
3. Balances	X			
Total	**2,044**			**2,044**

SECTION 13 – NET WRITE-DOWNS/WRITE-BACKS ON INTANGIBLE ASSETS– ITEM 190

13.1 Net write-downs/write-backs on intangible assets: composition

Asset/Income item	Amortisation (a)	Value adjustments for impairment (b)	Value write-backs (c)	Net profit/ loss (a + b – c)
A. Intangible assets				
A.1 Owned				
- Generated internally by the company				
- Others	10,823			10,823
A.2 Finance leases rights of use				
Total	**10,823**			**10,823**

The write-downs refer for € 7,673 thousand to the amortisation of customers contracts, as defined intangible assets with useful lives.

SECTION 14 – OTHER OPERATING EXPENSES/INCOME – ITEM 200

14.1 Other operating expenses: composition

	31/12/2019	31/12/2018
Other charges	295	2,066
Fee expenses	-	-
Services revenue rebates	-	1,604
Total	**295**	**3,670**

14.2 Other operating income: composition

	31/12/2019	31/12/2018
Rental income	1,056	1,231
Service revenues	5,572	39,786
Recovery of duty stamps from customers and postal charges	140	147
Other income	4,018	2,499
Total	**10,786**	**43,663**

The item "Service revenues " refers mainly to processing fees, income related to the connection of the “ACH” network and recoveries of Abe Clearing processing costs.

The change compared to the previous financial year is due to the sale of the "Payments Units” that entered into effect in the second half of 2018.

SECTION 17 – GOODWILL IMPAIRMENT – ITEM 240

17.1 Goodwill Impairment: composition

Income items/Amounts	31/12/2019	31/12/2018
Securities Services	45,914	-
Total	**45,914**	**-**

For the information required by IAS 36, paragraphs 126 (a), 130 (a), (c), (d), (e), (f), (g), 133, 134 (d), (e), (f) and 135 (c), (d) and (e), see Part “B” Section 9 of these Notes.

SECTION 18 – PROFITS (LOSSES) ON DISPOSAL OF INVESTMENTS – ITEM 250

18.1 Profits (losses) on disposal of investments: composition

Income items/Amounts	31/12/2019	31/12/2018
A. Properties		
- Gains on disposal		8,427
- Losses on disposal		4,920
B. Other assets		-
- Gains on disposal		900
- Losses on disposal		127
Net profit/loss	**-**	**4,280**

SECTION 19 – INCOME TAXES FOR THE YEAR ON CONTINUING OPERATIONS – ITEM 270

19.1 Income taxes for the year on continuing operations: composition

Income items/Amounts	31/12/2019	31/12/2018
1. Current tax (-)	-15,131	-24,860
2. Adjustment to current tax of prior years (+/-)	-3,423	-1,151
3. Reduction of current tax for the year (+)		
3. bis Reduction in current tax for the year due to tax credits (Italian Law n.214/2011) (+)		
4. Change in deferred tax assets (+/-)	3,183	2,377
5. Change in deferred tax liabilities (+/-)	-278	16,144
6. Income taxes accrued during the financial year (-)	-15,650	-7,490

19.2 Reconciliation of theoretical tax charge and actual tax charge

IRES	31/12/2019	31/12/2018
Reconciliation between theoretical and effective rates:		
theoretical rate	27.50%	27.50%
exempt revenues and other decreases	19.52%	-28.95%
non-deductible costs	-147.22%	39.20%
effective rate	-100.20%	37.75%

The difference between the effective rate and the theoretical rate mainly refers to the adjustment of the ACE (Economic Growth Aid) benefit of the previous years of € 4.3 million and the write-down of goodwill of approximately € 45.9 million.

19.3 Reconciliation of theoretical tax charge and effective tax charge- IRAP (Regional Business Tax)

IRAP	31/12/2019	31/12/2018
Reconciliation between theoretical and effective rates:		
theoretical rate	5.57%	5.57%
exempt revenues and other decreases	-10.25%	-1.20%
non-deductible costs	8.03%	-0.06%
effective rate	3.35%	4.31%

Part D – COMPREHENSIVE INCOME

STATEMENT OF COMPREHENSIVE INCOME

	Items	2019	2018
10.	Profit (loss) for the financial year	-29,166	5,165
	Other comprehensive income without recycling to the income statement		
20.	Equity instruments measured at fair value through other comprehensive income		
	a) Fair value changes	54,870	12,274
	b) Transfers to other equity items	-55,443	-
70.	Defined-benefit plans	-126	106
80.	Non-current assets held for sale and disposal groups		
90.	Share of valuation reserves for equity investments measured at equity		
100.	Income taxes on other comprehensive income without recycling to the income statement	1,347	- 1,029
	Other comprehensive income with recycling to the income statement		
150.	Financial assets (other than equity instruments) at fair value through other comprehensive income		
	a) fair value changes	-	-21,413
	b) recycling to the income statement		
	- adjustments for credit risk		
	- profits/losses on disposals		
	c) other changes		
180.	Income taxes on other comprehensive income without recycling to the income statement	-	7,081
190.	**Total other income components**	**648**	**-2,981**
200.	**Comprehensive income (Item 10 + 190)**	**-28,518**	**2,184**

PART E – INFORMATION ON RISKS AND RELATED HEDGING POLICIES

With regard to the spread of the coronavirus and its consequences, a general slowdown in the economy cannot be excluded, with potential effects – which as at 6 April 2020 cannot yet be determined – on the Bank to be constantly monitored throughout 2020.

Strategy and governance

DEPObank attaches great importance to risk management and control, as conditions for ensuring reliable, sustainable creation of value in an environment of a controlled risk.

The risk management strategy aims at a complete, coherent view of risks, considering both the macroeconomic scenario and the bank's risk profile, stimulating the growth of a risk culture and strengthening a transparent, accurate representation of the risk of the bank's portfolios.

The Internal Control System is a process aimed at providing reasonable assurance on the achievement of the company's objectives of effectiveness and efficiency of business processes, safeguarding the value of assets and protection against losses, reliability and integrity of accounting and management information and compliance with the laws and regulations in force.

The Internal Control System is structured into different levels of control, such as:

- line controls, aimed at ensuring the correct conduct of operations; these are therefore hierarchical controls carried out by the production units themselves, generally incorporated in the procedures themselves or carried out in back office activities;
- risk management controls – aimed at defining the risk measurement methodologies, verifying compliance with the limits assigned to the various operational functions (level II controls) and checking the consistency of the operations of the individual production areas with the risk/return objectives;
- compliance control activities – aimed at controlling risks related to non-compliance with external and internal regulations;
- internal audit activities – aimed at identifying anomalous trends, breaches of procedures, internal and external regulations and assessing the overall functioning of the Internal Control System.

Risk management, compliance and internal audit are carried out by independent non-operating functions.

The Board of Directors is responsible for the internal control system, which is responsible for clearly identifying the degree of risk appetite chosen and, in this framework, for defining and approving the strategic guidelines and risk management policies; it is also responsible for the coherence of the Internal Control System with the risk management policy adopted and verifies that senior management defines the internal control structure in line with the risk appetite chosen.

The governance model established to oversee the risk management and control process is based, on the one hand, on the separation between risk management processes and control processes and, on the other hand, on the development of these processes in keeping with the hierarchical structure of DEPObank, as well as through a process of delegation of authority.

At DEPObank the supervision and control of risks are the responsibility of the Risk Management Service, which performs its role of direction, control and coordination in close contact with the Board of Statutory Auditors and management, and which reports on its work to the Board of Statutory Auditors, the Risk Committee and the Chief Executive Officer.

The Risk Management Service focuses on measuring, monitoring and reporting the risks associated with DEPObank's business and verifying the adequacy of the capital requirements for the various types of risk.

The Service also provides specialist support in the regulatory areas and the manner defined in the "Non-Compliance Risk Management Policy" approved by the Board of Directors.

The Internal Control System includes the Risk Policy, which aims to identify the principles, purposes and methods of managing (methodology and tools) the main risks to which DEPObank is exposed in its business, as well as the Risk Appetite Framework, which in line with the maximum acceptable risk defines *the business model* and the strategic plan - risk appetite, tolerance thresholds, risk limits, risk governance policies and the processes of reference for designing and implementing them.

The Risk Appetite Framework is therefore the general structure within which the risks assumed by DEPObank are to be managed, laying down the general risk appetite principles and designing the management system accordingly:
- the overall risk profile; and
- the main specific risks.

For each metric, the Risk Appetite Framework defines the parameters that represent the optimal level of risk to which the bank wishes to expose itself in order to achieve its objectives and define the business strategy (risk target), an early warning level (risk trigger), which represents a threshold beyond which mitigation actions must be implemented in order to avoid a further deterioration of the value assumed by the metric, and a maximum level of risk (risk limit) that the bank is willing to bear, considering, among others, the market context and existing regulatory constraints.

In view of the centrality of risk management in strategic planning processes, in a specific Operating Procedure DEPObank has also defined the operating procedures, roles and responsibilities of the Organisational Units involved in the process of identifying, assessing and monitoring Major Transactions. The risk resulting from a Major Transaction is assessed by assessing the consistency of the risk profile of the Major Transaction with the risk appetite defined in the RAF. The risk profile of these transactions and initiatives also takes into account the risk-taking policies approved by the Board of Directors (Risk Policy) and the rules and regulations issued by the supervisory authorities for supervised intermediaries.

The aforementioned Risk Policy and a specific Operating Procedure also govern the ICAAP/ILAAP Process, which is carried out taking into account the requirements of Bank of Italy Circular no. 285 of 17 December 2013 “Regulatory provisions for banks” and subsequent updates, as well as EBA and ECB instructions.

The Board of Directors' assessment of capital adequacy is based on the identification the risk appetite level, from which the strategic guidelines and risk management policies derive.

Basel 3 regulation

The reforms to the Basel Committee Accords (“Basel 3”) aimed at strengthening banks' capacity to absorb shocks from financial and economic tensions regardless of their origin, improving risk management and governance, and strengthening banks' transparency and reporting were transposed into European Union law with effect from 1 January 2014. In doing so, the Committee maintained the three-pillar approach underpinning the previous Basel 2 capital accord, expanding and strengthening it to increase the quantity and quality of intermediaries' capital, as well as introducing counter-cyclical supervisory tools, liquidity risk management rules and leverage limits.

At Community level, the contents of "Basel 3” were transposed into two pieces of legislation on 26 June 2013:

- Directive 2013/36/EU (Capital Requirements Directive - CRD IV), which concerns, inter alia, conditions for access to banking, freedom of establishment and freedom to provide services, the prudential supervision process and additional capital reserves;
- Regulation (EU) No 575/2013 (Capital Requirements Regulation - CRR), which governs Pillar One prudential supervision mechanisms and public disclosure rules (Pillar Three).

In addition to European Union legislation, the Bank of Italy issued provisions referring to Circular 285 of 17 December 2013, which contains the prudential supervisory provisions applicable to Italian banks and banking groups, revised and updated to adapt domestic legislation to new developments in the international regulatory framework, with particular regard to the new regulatory and institutional framework of European Union banking supervision, as well as to take account of the needs arising in the exercise of supervision over banks and other intermediaries.

The adequacy of the risk control system is also represented in the annual report of the prudential control process for capital and liquidity adequacy purposes (ICAAP/ILAAP Report), which was approved and sent to the Bank of Italy in April 2019.

As part of the adoption of "Basel 3”, DEPObank publishes information on capital adequacy, risk exposure and the general characteristics of the systems it uses to identify, measure and manage risks in the document entitled "INSTITUTIONAL PUBLIC DISCLOSURE PURSUANT TO REGULATION (EU) No 575/2013”, published on its website (www.depobank.it) on an annual basis.

SECTION 1 – CREDIT RISK

QUALITATIVE INFORMATION

1. General aspects

Credit risk is the risk that an unexpected change in the creditworthiness of a debtor may result in the default of the debtor, giving rise to unexpected losses on on-balance sheet exposures or commitments (Insolvency Risk), or that in any case may generate a corresponding unexpected change in the value of the credit position (Migration Risk). Therefore, not only the possibility of the insolvency of a counterparty, but also the mere deterioration of the creditworthiness, should be considered a manifestation of credit risk.

DEPObank is a "second tier" bank, whose core business is currently the supply of products and services, mainly in payment systems and administrative custody, administration and settlement of securities. Lending is currently mostly ancillary and closely related to the provision of products/services and to the specific Treasury activities (managed through the granting of operating credit limits) and Securities Services activities (mostly managed through the granting of current account overdraft facilities).

2. Credit risk management policies

2.1 Organisational aspects

The activities that generate the Credit Risk are the responsibility of both the Chief Financial Officer (CFO) Area – in particular the Treasury Service, and the Chief Lending Officer (CLO) Area and the units that deal with Securities Services activities.

With regard to first-level controls, the Operating Units supervise and verify that financial activities are carried out by their Service within the Operational Credit Limits and/or caps approved; as part of second-level controls, the Risk Management Service verifies compliance with the Operational Credit Limits and Risk Concentration limits (so-called “Large Risks”) and calculates daily exposures to Related Parties.

In addition, the Risk Management Service monitors the performance of credit exposures, in the absence of a significant number of non-performing loans, on the basis of the persistence and amount (at the reference date at the end of the month) of negative balances of corporate accounts and bank accounts (beyond any credit line granted).

Due in part to the limited number of exposures normally assumed, the credit risk measurement methodologies adopted and the related performance control process of the various relationships are inspired by criteria of leanness and simplicity; accordingly, systems based on scoring and external and/or internal ratings are not used. Finally, it should be noted that, in accordance with the provisions of the Prudential Regulations (Bank of Italy Circular 285), the assessment/measurement carried out for credit risk includes counterparty risk, that is the risk that the counterparty in a transaction may default before the final settlement of the cash flows of a transaction, since the incidence of Counterparty Risk is extremely low compared to the total weighted assets.

DEPObank's organisational structure ensures an adequate risk monitoring and management process, particularly with regard to credit risk:

- the Board of Directors performs a strategic direction and supervision function, approving strategic guidelines and continuously verifying their implementation, grants delegated powers and decides, on proposal from the Credit Committee, on the applications within its purview, as defined in the delegation of authority scheme;
- the Chief Lending Officer is responsible, inter alia, for the definition of credit policies - consistent with credit strategies and in compliance with the decision-making authority limits approved by the Board of Directors – and guidelines for credit-granting, management and monitoring operating processes.

The main credit governance structures are represented by the Strategic & Financial Committee and the Credit Committee; while the former is responsible for providing non-binding opinions on matters within its purview, the latter is organised in two separate sessions in terms of the composition and role of the participants, by virtue of the specific responsibilities of competence: the performing section, with decision-making power on credit granting, and the NPE section, with decision-making power in matters of non-performing exposures.

The Board of Directors approves the strategic guidelines and risk management policies, as well as the bank's organisational structure, in the area of internal controls.

2.2 Management, measurement and control systems

The entire credit-granting, management and monitoring process is governed by a specific "Credit Regulation” and is divided into:

- credit-granting;
- management, monitoring and control of performing credit;
- management of non-performing exposures.

The creditworthiness assessment process begins after the customer contact phase. This step is aimed at assessing the creditworthiness of the counterparty on the basis of the information acquired and a quantitative and qualitative analysis aimed at ascertaining financial soundness, as well as prospective earning capacity, in addition to all other elements useful to determine the customer's debt-servicing capacity. The creditworthiness assessment phase also includes the acquisition of adequate guarantees and/or, in relation to the type of customer/economic entity of reference and credit instrument, the drafting of specific contractual clauses (known as “covenants”).

At the end of the creditworthiness assessment phase, if the draft resolution submitted to the decision-making body is approved, the lines of credit are made operational in accordance with the provisions of the contract.

Credit management is mainly carried out through the following activities:

- periodic review;
- on-going monitoring at the counterparty and portfolio level and examination of the performance trend with the aim of detecting symptoms / signs of anomalies (e.g. late payments) and/or additional business opportunities;
- analysis of the findings reported by the functions that carry out credit checks.

The management of doubtful and non-performing credit includes processes differentiated according to the risk status, the type of counterparty and the size of the exposure.

The management of non-performing exposures includes the following main activities:

- classification of credit exposures;
- formulation, implementation and monitoring of the recovery strategy.

By contrast, in the process of setting operating credit limits and/or "intermediation" caps, there is no specific request from customers and the assessment is initiated at the initiative of the Treasury Service or the relevant organisational units.

As part of the management of counterparties providing retail processing services, specific operating credit limits have been established, aimed at monitoring and controlling the operations of these entities. In some cases, guarantees have been requested to mitigate the risk assumed for these activities.

OVERRUN MANAGEMENT

The Credit Office verifies and analyses all positions in excess on a daily basis, reporting all overruns found on the Customer Accounts (euro and foreign currency, with or without credit facilities) to the Organisational Units concerned, which, in the first instance, verify the consistency of the accounting movements and, if necessary, make the appropriate adjustments. The relevant Organisational Units analyse the causes of the overrun, invite customers to remedy it immediately, where appropriate, and report the actions taken to the Credit Office and the Risk Management Service.

Positions with particular problems are subject to the activation of the credit reclassification procedure, through an appropriate review process for the resolution by duly authorised bodies with the consequent reports in the Central Credit Register according to Bank of Italy regulations. In addition, following the introduction of Circular 285/2013, a structured process of continuous monitoring of non-performing exposures has been formulated and the scope of the activities of the Risk Management Service has been revised, to include, among other things, monitoring credit performance, the results of which are included, together with those of monitoring credit risk, in a special section of the Dashboard.

OPERATING CREDIT LIMITS

The Head of the Treasury Service supervises and verifies that the financial activities carried out by his Service are conducted within the Operating Credit Limits and/or caps approved. Monitoring of compliance with the Operating Credit Limits, based on conventional coefficients, which vary according to the nature of the instrument and the implicit volatility, as well as the duration or residual life of the transaction, is carried out daily as a second-level control by the Risk Management Service.

An application is used for central management and daily verification of the Operating Credit Limits in place and alert generation if the limit is exceeded.

RISK CONCENTRATION LIMITS

The Risk Management Service, in support of the relevant controls already carried out at Level I by the competent departments, performs daily monitoring on compliance with the Risk Concentration limits (so-called “Large Exposures” regulated by the Bank of Italy in Part Two, Chapter 10 of Circular 285 of 17 December 2013 and subsequent updates).

LIMITS ON EXPOSURES TO RISK ASSETS AND CONFLICTS OF INTEREST WITH ASSOCIATED PARTIES

The legislation on limits to Risky Assets in respect of Related Parties and parties connected to them introduces limits (in relation to Regulatory Capital) on exposures to “Corporate officers”, “Controlling shareholders or shareholders with significant influence”, “Other shareholders” and “Entities subject to control or significant influence”.

In addition to the exposure to the individual Related Party, the total exposure to all Related Parties and their Connected Parties is also calculated daily.

CREDIT QUALITY MONITORING

Credit performance monitoring, included in the Dashboard for the first time in the first quarter of 2015, is performed, in the absence of a significant number of non-performing loans, on the basis of the persistence and amount (at the reference date at the end of the month) of negative balances of corporate accounts and bank accounts (beyond any credit line granted).

In particular, the monitoring detects:
- counterparties for which the total sum of negative balances exceeds € 1 million for at least 30/60/90 consecutive calendar days;
- counterparties for which the total sum of negative balances exceeds € 5 million for at least 10 consecutive working days;
- counterparties for which the total sum of negative balances exceeds € 10 million for at least 5 consecutive working days.

Since the survey of the first quarter of 2018, exposures exceeding the credit limit (if any) for more than 30 days of less than € 1 million (but more than € 100) have also been identified; in compliance with the accounting standard IFRS 9 in force from 1 January 2018, they are classified into specific "buckets".

2.3 Methods of measuring expected losses

IFRS 9 requires that impairment be calculated, according to the "expected loss" approach, for loans and debt securities on the basis of on two main aspects, namely:

- the stage allocation of the credit exposures;
- the relative expected loss calculation.

For exposures to financial assets classified to "Stage 1", impairment is equal to the expected loss calculated over a period of up to one year. (ref. IFRS9 B5.5 – B5.5.43)

For exposures to financial assets classified in Stages 2 and 3, impairment is equal to the expected loss calculated over a time *horizon equal to the residual duration of the related exposure (so-called Lifetime PD - ref. IFRS9 B5.5.3 and B5.5.43.*

Financial assets measured at amortised cost: Proprietary securities portfolio

Stage allocation

The stage allocation classifies securities to the various stages according to their absolute or relative credit quality compared to the initial disbursement. In particular:

- Stage 1: it includes newly acquired credit exposures as well as exposures that have not undergone a significant deterioration of credit risk compared to the initial recognition date and exposures with low credit risk at the reporting date;
- Stage 2: it includes credit exposures that, although performing, have suffered a significant deterioration in credit risk compared to the date of initial recognition (see IFRS9 B5.5.9);
- Stage 3: it includes non-performing credit exposures.

The stage allocation assessment model was based on a combination of relative and absolute elements:

- rating assessment, applying the low credit risk exemption to investment grade securities (at least 2 out of 3 rating agencies or, where unrated, a safe level PD >= 1 %);
- a transaction-level comparison between the PD at origination and at the reporting date; in line with the EBA stress tests, an increase of more than 200% is applied compared to that detected at the origination date.

It should also be noted that it is a numerically symmetrical model, i.e. the thresholds for the transition from Stage 1 to Stage 2 and vice versa are the same. An additional time control was added in order to limit a continuous change of status for securities with PD delta close to the 200% threshold, i.e. the transition from Stage 2 to Stage 1 takes place only if the position remains in this state for a reasonable period (from 3 to 6 months);

The PD delta is calculated on the one-year PD. This approach is consistent with CDS performance: when an issuer is in difficulty, the short-term CDS spread values exceed the long-term values. Accordingly, the calculation of the one-year PD incorporates the worst case.

Impairment

Impairment is calculated according to a "sophisticated approach”. In particular:

- PD (Probability of Default) expresses the probability of the occurrence of an event of default of the credit position, over a given period of time;
- LGD (Loss Given Default) expresses the estimated loss percentage, and therefore the expected recovery rate on the occurrence of an event of default of the credit position;
- EAD (Exposure at Default) expresses the extent of exposure at the time of the default event of the credit position. This corresponds to the amortised cost of the instrument as at the reporting date.

EAD*PD*LGD= Expected credit loss (ECL)

The model used provides for the calculation of the PD in two distinct steps:

1. calculation of the Risk Neutral PD, derived from observable market data and referring to the individual issuer;
2. calculation of the Real Word PD for which the risk premium component of the Probability of Default implicit in market spreads is eliminated.

The Risk Neutral PD is estimated on the basis of the information and credit spreads quoted daily on the financial markets (“CDS spreads”). Credit spreads for each single issuer are preferably used. In the event that for a given issuer equally significant specific credit spreads are available on several markets, use of the CDS market is preferred. Where market data do not allow the use of specific credit spreads, because they are absent, illiquid or insignificant, *the default probability term structure* associated with the issuer is obtained through a proxy methodology. This methodology involves identifying an issuer comparable to the issuer to be assessed for which specific credit spreads are available or a reference cluster for which it is possible to estimate a significant credit spread. The mapping of the individual issuers to the comparable issuer or to the reference cluster is based on the following analysis axes:

- industrial sector;
- geographical area of interest;
- rating (ECAI);
- analysis of key financial data.

The estimate of the real-world probability of default is based on the risk-neutral PD and therefore remains strongly anchored to the market data and the forward-looking approach that distinguishes it. It is calculated using structural models based on the methodological system of the Merton model, in order to identify the PD implicit in the market spreads without the risk premium component.

The forward-looking approach is therefore included in the calculation of the PD as it is precisely calculated on the values of Credit derivatives which already incorporate future expectations into the price.

For the purposes of estimating the PD, the model involves the use of historical average data from the three months prior to the assessment date, this to ensure minimum stability to the input data used in the model.

Based on the above, the bank applied an average PD of the proprietary securities portfolio of approximately 0.12% at 31 December 2019. It should be noted that the portfolio classified as financial assets measured at amortised cost consists almost entirely of Italian government bonds (approximately 99%).

The calculation of the LGD is assumed to be constant for the entire time horizon of the financial asset under analysis and is a function of:

- the type of issuer (government or corporate securities);
- the ranking of the instrument (covered, senior, subordinated);
- the rating of the instrument;
- the classification of the issuing institution's country.

These data represent market standards used for the pricing of CDSs.

In particular, for government bonds, the historically calculated LGD value indicated by the annual document "Moodys Sovereign Default Rates" was used. This value has been set at 0.45 and will be kept constant unless substantial differences are found in subsequent publications of the aforementioned document (generally published annually).

Financial assets measured at amortised cost: Loan portfolio

Stage allocation

The calculation of *the stage allocation* must be carried out on exposures for which the "*Solely Payment of Principal and Interest*" (SSPI Test) test is passed. On the reporting date, all the bank's loans pass the SPPI test.

The Standard requires that all impaired financial instruments be classified into three distinct stages according to the level of impairment of the exposure observed at the date of analysis compared to an initial recognition date; in particular, the following cases are distinguished:

Stage 1: these are loans:

(i) which have just been recognised;

(ii) which have not undergone, at the date of analysis, a significant increase in the credit risk compared to initial recognition;

(iii) which have low credit risk at the reporting date;

Stage 2: these are loans that, while performing, have undergone, at the date of analysis, a significant increase in the credit risk compared to initial recognition;

Stage 3: these are defaulted positions (in line with the Bank of Italy definitions).

The main change relates to the need to calculate, for instruments classified to Stage 2, the expected loss over the remaining life of a financial instrument on the basis of the increased risk of default compared to "*initial recognition*[1]".

The accounting standard also specifies that the default risk expected in the 12 months following the reporting date can be considered a good approximation of the default risk expected over the residual life of the financial instrument[2]; it therefore permits, except in cases where assessment over the entire residual life is necessary, use of the probability of default at 12 months as a benchmark to determine whether there has been a significant increase in credit risk.

On the initial recognition date, an entity classifies an asset to Stage 1 unless it is already *a credit-impaired position.*

At each *reporting date*, the entity assesses whether there has been a significant change in the credit risk compared to initial recognition. In this case there will be a transfer between stages. Loans can migrate between Stages 1 and 2 according to a symmetrical model.

The following components are considered in the stage allocation process:

- Relative criteria for classification to Stage 2 (the performance of a parameter relating to the counterparty's creditworthiness, i.e. its rating), which is observed over the period from origination to the assessment date;
- Absolute criteria for classification to Stage 2 (past-due by 30 days and forborne exposures);
- Use of the Low Credit Risk Exemption (for repurchase agreements within 3 months and reciprocal accounts);
- Definition of default for classification to Stage 3.

Impairment

For the calculation of the ECL at the relationship level and in correspondence with a given macro-economic scenario, considering the risk parameters of the customer, the expected multi-year loss at the portfolio level is given by the present value of the expected losses of each period t (t=0,..., T) as follows[3]:

$$ECL_{pluriennale}(t_0) = \sum_{i=1}^{N}\sum_{t=1}^{T} DF(t_0,t) \times \left(EAD_{i,t} \times LGD_{i,t} \times \left(cPD_{i,t} - cPD_{i,t-1}\right)\right)$$

1 IFRS 9 *Financial Instruments* – 5.5.9, B5.5.1 and B5.5.7
2 IFRS 9 *Financial Instruments* – B.5.5.13 and B5.5.14
3 It should be noted that the formula below does not explicitly consider the presence of the scenario-dependency component. This aspect is dealt with and discussed in section 7 of this document.

- *i* identifies the generic relationship;
- $[t_1 \dots t_T][t_1 \dots t_T]$ identifies the range of maturities at which cash flows are expected at the level of the individual position; in particular, $t_T t_T$ it represents the last time point to be considered in the analysis depending on the *stage* to which the position has been classified;
- $DF(t_0, t) DF(t_0, t)$ represents the discount factor relative to tt the maturity t_0 t_0 estimated at the point in time;
- $cPD_{c,t_k} - cPD_{c,t_{k-1}} cPD_{c,t_k} - cPD_{c,t_{k-1}}$ represents *the probability of default*, estimated at the counterparty level, over the time interval $[t_{k-1}; t_k][t_{k-1}; t_k]$ calculated as the difference between the values of the relevant cumulative PD curves at the extremes of the interval obtained by appropriate interpolation.
- $LGD_{i,t}\, LGD_{i,t}$ represents *the loss given default* estimated at the level of each individual relationship at the point in time$t_k t_k$.
- $EAD_{i,t}\, EAD_{i,t}$ represents the exposure (*Exposure At Default*) expected in the case of default *of position i* at time$t_k t_k$.

The PD estimation methodology and its forward-looking and scenario-dependent component that achieves the greatest possible adherence to the new accounting standard and its indications is divided into the following steps:

1) Recovery of input data: this phase consists of the recovery of the set of information that is required for the estimation process, structured into the development of a lifetime TTC (through-the-cycle) curve and its calibration according to a PIT (point-in-time) logic through the inclusion of forward-looking and scenario-dependent information;
2) Construction of the TTC PD curve: this step consists of the development of the TTC (through-the-cycle) curve in a lifetime perspective with appropriate granularity;
3) Application of satellite models: this phase consists of estimating future default rates based on forecasts of the macro-economic scenario by applying satellite models capable of managing a defined granularity of detail;
4) Construction of PIT PD curve: this phase consists in the inclusion in the TTC curve of the estimates of the default rates previously obtained in order to render the curve PIT (point-in-time) and forward-looking.

The Bank has various approaches to developing PD curves, depending on the type of counterparty considered. In particular, the elements used to formulate the probabilities of default are acquired from two data sources:

- Transition matrices from *Standard&Poor's*;
- Bank of Italy statistical database.

The following table provides an overview of the information set deriving from the methodological choices adopted by the Bank, required for the estimation of the IFRS 9-compliant PD component.

This information is broken down by the geographical area and sector of the counterparty.

Geographical area	Cluster	Rating	Transition matrix	Satellite Model target variable
Italy	Financial companies	Present	Standard&Poor's Corporates transition matrix	Run-off rates published by the Bank of Italy for the Financial Companies sector
		Not present	Run-off rates published by the Bank of Italy for the Financial Companies sector	
	Financial and Non-financial companies	Present	Standard&Poor's Corporates transition matrix	Run-off rates published by the Bank of Italy for the Non-Financial Companies sector
		Not present	Run-off rates published by the Bank of Italy for the Non-Financial Companies sector	
	Public administrations	Present	Standard&Poor's Corporates transition matrix	Run-off rates published by the Bank of Italy for the Public Administrations sector
		Not present	Run-off rates published by the Bank of Italy for the Financial Companies sector	
	Famiglie consumatrici	Not present	Run-off rates published by the Bank of Italy for the Non-Financial Companies sector	Run-off rates published by the Bank of Italy for the Consumer Households sector
Europe	Financial and Non-financial companies	Present	Standard&Poor's Corporates transition matrix	Global default rates published by Standard&Poor's for the Corporates sector
		Not present – rating set by downgrading sovereign government rating by one notch for Banks and by two notches for Financial and Non-financial companies.		
Rest of world	Financial and Non-financial companies	Present	Standard&Poor's Corporates transition matrix	Global default rates published by Standard&Poor's for the Corporates sector
		Not present – rating set by downgrading sovereign government rating by one notch for Banks and by two notches for Financial and Non-financial companies.		
	Repurchase agreements		PD curve based on government bond risk	

Table 3 – Overview of the information set required to estimate the IFRS 9-compliant PD component.

The choices made reflect the need to find a fair trade-off between the availability of the data to calibrate the models and adherence to the riskiness linked to the sector and geographical area.

For the estimation of the LGD, the Bank has adopted a prudential approach in line with current legislation (Article 161 CRR), placing it at 45% since the Bank's credit portfolio consists entirely of unsecured exposures.

2.4 Credit risk mitigation techniques

As mentioned above, in order to mitigate credit risk, the decision-making bodies, based on the results of the relevant assessment, may decide to render the granting of the credit line subject to the acquisition of suitable guarantees.

The adequacy of the guarantees offered by the applicant with respect to the credit application is assessed according to various criteria depending on the type of guarantee:

- mortgage guarantee: the value of the asset is estimated by means of a special appraisal carried out by an appraiser/appraisal firm that complies with the requirements of independence and professionalism provided for by current legislation;

- personal guarantee: the value of the surety is determined on the basis of an estimate of the assets of the guarantor (set of pursuable assets) highlighting any encumbrances/adverse entries in place on the same assets;
- financial collateral: the value of the asset/financial instrument serving as collateral is estimated on the basis of the value expressed by the relevant market in which the asset or instrument is traded.

In addition, DEPObank has signed netting (ISDA) and collateral management (CSA) agreements consistent with EMIR regulations for credit risk mitigation purposes.

At 31 December 2019, DEPObank did not avail itself of any guarantees granted by counterparties in order to mitigate the impact of credit risk on internal capital (so-called "Credit Risk Mitigation"). For repurchase agreements for which the bank has signed specific GMRA contracts, Depobank avails itself of the transfer of credit risk from the counterparty to the underlying of the repurchase agreement.

3. Non-performing credit exposures

3.1 Management strategies and policies

The Credit & Financial Committee periodically reviews all potentially anomalous positions, approving the recovery actions to be taken and, on the basis of appropriate parameters, any changes in the status of the positions; these resolutions are then submitted to the Board of Directors for review.

The classification of assets by quality of debtors, according to the categories provided for by current legislation, is as follows:

1) non-performing exposures: on-balance sheet (loans) and "off-balance sheet" assets (guarantees given and commitments to provide funds) falling into one of the following categories, as defined by the Bank of Italy:
   - bad loans: exposures to borrowers in a state of insolvency, even if not yet recognised in a court of law or in an essentially similar situation, regardless of any loss forecasts made by the bank. Exposures for which the situation of irregularity relates to country risk profiles are excluded.
   - unlikely to pay: credit exposures other than bad loans for which the bank considers it unlikely that the debtor will discharge their obligations in full (principal and interest) without the recourse to actions such as enforcement of guarantees;
   - non-performing exposures: exposures other than the above that, at the reporting date, were past due by more than 90 days and exceeded a predetermined materiality threshold, defined in the legislation in force in a differentiated manner depending on whether you a debtor or transaction approach is adopted.
2) performing past due exposures: these include both exposures that have been past due for more than 90 days and are not considered non-performing (for example because they do not exceed the materiality threshold established by current legislation – a fixed materiality threshold), as well as exposures that have been past due for less than 90 days.

3) forborne exposures: credit exposures are considered forborne where changes in contractual conditions or a total or partial refinancing have been granted due to the financial difficulties of the borrower, which could result in a loss for the lender. It is not necessary that the debtor has actually proved to be in default. The forbearance category is transversal to existing risk classes and may include both performing and non-performing loans. For a position to be presumed "forborne", it is sufficient for it to have been past due for more than 30 days at least once in the three months preceding the contractual change, lowering the alarm threshold from the 90 days provided for in the definitions of non-performing exposures. The following are created as a result:
   - non-performing forborne exposures: i.e. total and/or partial forbearance/ contractual changes relating to exposures classified as non-performing;
   - performing forborne exposures: total and/or partial forbearance/contractual changes relating to exposures classified as performing when the forbearance presumption applies (see above).

Forborne positions must be constantly monitored and may be reclassified and thus cease to be considered forborne after an observation period with a positive trend of 24 months if the loan was classified as performing and of 36 months if it was classified as non-performing. The definition of “forborne” does not replace the existing categories of non-performing assets; rather, it is an additional information and monitoring tool.

Write-downs based on separate assessment of individual positions have been applied to non-performing positions.

3.2 Write-offs

For all bad loan positions, the Bank assesses whether it is appropriate to continue to classify the loan as non-performing inasmuch as the out-of-court or judicial actions in progress allow an expectation of recovery, partial or complete, to be considered reasonable, or whether it is appropriate to proceed with a total or partial write-off, due to the conclusion of the recovery process or the circumstance that there is no reasonable prospect of recovery.

In accordance with IFRS 9, a write-off is a reduction in the gross book value of a loan due to an acknowledgement that there is no reasonable expectation of recovery of the position in amounts beyond those considered collectable or already collected.

It does not imply a waiver by the bank of the legal right to recover the claim and must be made if all the information available indicates that the debtor is unable to repay all or part of the amount of the debt. The criteria that the Bank has identified to determine whether a position falls within the category to be evaluated for the purpose of a possible write-off depend on the possible presence of bankruptcy proceedings, the coverage levels and the seniority of the position in bad loan status.

As of 31 December 2019 the Group has not resorted to any write-offs.

3.3 Purchased or originated impaired financial assets

The Bank does not present any *purchased or originated impaired financial assets* as at 31 December 2019

4. Financial assets subject to commercial negotiations and forborne exposures

The process of deciding and granting renegotiations is part of the broader process of granting and disbursing loans at the bank.

Credit exposures at 31 December 2019 are instrumentally and closely related to the provision of products and services to support and complete depositary banking activities. Lending activity is therefore to be seen, in 2019 as well, as part of "second tier" banking activity, in which the core business is the supply of products and services in payment systems and administrative custody, administration and settlement of securities. From this perspective, the analysis and granting of credit lines originates from a pre-existing business. The identification and granting of renegotiations of credit agreements is normally carried out during the review and verification of outstanding exposures, an activity that therefore requires a preliminary investigation and consequently an analysis of specialist bodies and resolution of collegial bodies. Therefore, the granting process and possible renegotiation of certain variables are decided following an adequate credit assessment carried out by the various corporate functions involved, in compliance with the principles of separation and independence.

In 2019, there were five exposures totalling € 4.4 million relating to loans to customers, which the bank designated forborne. The same exposures are linked to the real estate fund segment for which the bank acts as depositary bank. These are, therefore, revocable credit lines which were already renegotiated upon renewal last year. They are classified as non-performing and therefore Stage 3. There are no further forborne positions dating back to previous years.

In the context of the renegotiation, no additional guarantees were acquired, also due to the fact that the role of depositary allows constant monitoring of the cash flows of credit exposures. Since these are revocable credit lines (not subject to repayment in instalments) with a maximum term of 12 months, there is no direct impact on the net present value of the contractual cash flows of the forbearance measures granted.

QUANTITATIVE INFORMATION

A. CREDIT QUALITY

A.1 NON-PERFORMING AND PERFORMING CREDIT EXPOSURES: AMOUNTS, WRITE-DOWNS, CHANGES, AND ECONOMIC DISTRIBUTION

A.1.1 Distribution of financial assets by portfolio and credit quality (book value)

Portfolio/quality	Bad loans	Unlikely-to-pay positions	Non-performing past due exposures	Performing past due exposures	Other performing exposures	Total
1. Financial assets measured at amortised cost	391	2,660	22	1,641	6,275,035	6,279,749
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	6,161
3. Financial assets designated at fair value	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-	-	31,429
5. Financial assets held for sale	-	-	-	-	-	-
Total 31/12/2019	**391**	**2,660**	**22**	**1,641**	**6,275,035**	**6,317,338**
Total 31/12/2018	**391**	**-**	**-**	**-**	**7,406,496**	**7,406,887**

A.1.2 Breakdown of financial assets by portfolio and credit quality (gross and net amounts)

Portfolio/quality	Non-performing				Performing			
	Gross exposure	Total value adjustments	Net exposure	Total partial write-offs	Gross exposure	Total value adjustments	Net exposure	Total (net exposure)
1. Financial assets measured at amortised cost	6,470	3,397	3,073	-	6,279,920	3,244	6,276,676	6,279,749
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	6,161	6,161
3. Financial assets designated at fair value	-	-	-	-	X	X	31,429	31,429
4. Other financial assets mandatorily measured at fair value	-	-	-	-	X	X	-	-
5. Financial assets held for sale	-	-	-	-	-	-	-	-
Total 31/12/2019	**6,470**	**3,397**	**3,073**	**-**	**6,279,920**	**3,244**	**6,314,266**	**6,317,338**
Total 31/12/2018	**2,088**	**1,697**	**391**		**7,269,944**	**7,320**	**7,406,496**	**7,406,887**

Portfolio/quality	Assets of evident poor credit quality		Other assets
	Cumulative capital losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	877
2. Hedging derivatives	-	-	-
Total 31/12/2019	**-**	**-**	**877**
Total 31/12/2018	**-**	**-**	**2,666**

A.1.3 Distribution of financial assets by past-due brackets (book value)

Portfolio/quality	Stage one			Stage two			Stage three		
	Between 1 and 30 days	Between 30 and 90 days	More than 90 days	Between 1 and 30 days	Between 30 and 90 days	More than 90 days	Between 1 and 30 days	Between 30 and 90 days	More than 90 days
1. Financial assets measured at amortised cost	2,324	-	-	-	28	21	-	-	3,073
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
Total 31/12/2019	**2,324**	**-**	**-**	**-**	**28**	**21**	**-**	**-**	**3,073**
Total 31/12/2018	**118,493**	**-**	**-**	**-**	**15,645**	**637**	**-**	**-**	**391**

A.1.4 Financial assets, commitments to disburse funds and financial guarantees given: total value adjustments and total provisions

Description/risk stages	Total value adjustments													Total provisions on commitments to disburse funds and financial guarantees issued			
	Assets in stage one				Assets in stage two				Assets in stage three								
	financial assets measured at amortised cost	financial assets measured at fair value through other comprehensive income	of which individual write-downs	of which collective write-downs	financial assets measured at amortised cost	financial assets measured at fair value through other comprehensive income	of which individual write-downs	of which collective write-downs	financial assets measured at amortised cost	financial assets measured at fair value through other comprehensive income	of which individual write-downs	of which collective write-downs	of which: purchased or originated impaired financial assets	Stage one	Stage two	Stage three	Total
Opening balances	**-7,320**	**-**	**-**	**-7,320**	**-**	**-**	**-**	**-**	**-1,697**	**-**	**-1,697**	**-**	**-**	**-**	**-**	**-**	**-9,017**
Increases in purchased or originated financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Derecognitions other than write-offs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net value adjustments/ write-backs for credit risk (+/-)	4,093	-	4,093	-16				-16	-1,700	-	-1,700		-	-6	-	-	2,370
Contractual amendments without derecognitions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in estimate methodology	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other changes		-	-	-	-	-	-	-		-	-	-	-	-	-	-	-
Closing balances	-3,227	-	-3,227	-16	-	-		-16	-3,397	-	-3,397		-	-6	-	-	-6,646
Recoveries from receipts on written-off financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs recognised directly on the income statement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.1.5 Financial assets, commitments to disburse funds and financial guarantees given: transfers between the various credit risk stages (gross and nominal amounts)

Portfolios/risk stages	Gross values / nominal value					
	Transfer between Stage 1 and Stage 2		Transfer between Stage 2 and Stage 3		Transfer 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 measured at amortised cost	2,239	-	4,382	-		-
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
3. Commitments to disburse funds and financial guarantees given	-	-	-	-	-	-
Total 31/12/2019	**2,239**	**-**	**4,382**	**-**	**-**	**-**
Total 31/12/2018	**16,282**	**-**	**-**	**-**	**-**	**-**

A.1.6 On and off-balance-sheet credit exposures to banks: gross and net values

Type of exposures/values	Gross exposure		Total value adjustments total provisions for credit risk	Net exposure	Total partial write-offs
	Non-performing	Performing assets			
A. ON-BALANCE-SHEET EXPOSURES					
a) Bad loans	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
b) Unlikely-to-pay positions	-	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	1,539,758	448	1,539,310	-
- of which: forborne exposures	X	-	-	-	-
TOTAL (A)	**-**	**1,539,758**	**448**	**1,539,310**	**-**
B. OFF BALANCE SHEET CREDIT EXPOSURES					
a) Non-performing	-	X	-	-	-
b) Performing	X	295,321	-	295,321	-
TOTAL (B)	**-**	**295,321**	**-**	**295,321**	**-**
TOTAL (A+B)	**-**	**1,835,079**	**448**	**1,834,631**	**-**

A.1.7 On and off-balance-sheet credit exposures to customers: gross and net values

Type of exposures/values	Gross exposure		Total adjustments and total provisions	Net exposure	Total partial write-offs*
	Non-performing	Performing			
A. On-Balance-sheet exposures					
a) Bad loans	2,088	X	1,697	391	-
- of which: forborne exposures	-	X	-	-	-
b) Unlikely-to-pay positions	4,353	X	1,693	2,660	-
- of which: forborne exposures	4,353	X	1,693	2,660	-
c) Non-performing past-due exposures	29	X	7	22	-
- of which: forborne exposures	29	X	7	22	-
d) Performing past-due exposures	X	50	-	50	-
- of which: forborne exposures	X	-	-	-	-
e) Other performing exposures	X	4,740,111	2,796	4,737,315	-
- of which: forborne exposures	X	-		-	-
TOTAL A	**6,470**	**4,740,161**	**6,193**	**4,740,438**	**-**
B. Off-balance sheet credit exposures					
a) Non-performing	-	X	-	-	-
b) Performing	X	1,232,957	6	1,232,951	-
TOTAL B	**-**	**1,232,957**	**6**	**1,232,951**	**-**
TOTAL A+B	**6,470**	**5,973,118**	**6,199**	**5,973,389**	**-**

* Value presented for informative purposes

A.1.9 On-balance sheet credit exposure to customers: gross non-performing exposures

Descriptions/Categories	Bad loans	Unlikely-to-pay positions	Non-performing past due exposures
A. Opening balance - gross exposure	**2,088**	**-**	**-**
- of which: assets sold but not derecognised	-	-	
B. Increases	**-**	**4,353**	**29**
B.1 transfers from performing exposures	-	-	-
B.2 transfers from purchased or originated impaired financial assets	-	4,353	29
B.3 transfers from other non-performing exposures	-	-	-
B.4 Contractual amendments without derecognition	-	-	-
B.5 other increases	-	-	-
C. Decreases	**-**	**-**	**-**
C.1 transfers to performing exposures not subject to forbearance measures	-	-	-
C.2 write-offs	-	-	-
C.3 collections	-	-	-
C.4 proceeds from disposals	-	-	-
C.5 losses on disposal	-	-	-
C.6 transfers to other non-performing exposures	-	-	-
C.7 Contractual amendments without derecognition	-	-	-
C.8 other decreases	-	-	-
D. Gross exposure closing balance	**2,088**	**4,353**	**29**
- of which: assets sold but not derecognised	-	-	-

A.1.9 bis On-balance sheet credit exposures to customers: gross forborne exposures by credit quality

Descriptions/Categories	Forborne exposures: non-performing	Forborne exposures: performing
A. Opening balance - gross exposure	**-**	**9,380**
- of which: assets sold but not derecognised	-	9,380
B. Increases	**4,382**	**-**
B.1 transfers from performing exposures not subject to forbearance measures	4,382	
B.2 transfers from performing forborne exposures	-	X
B.3 transfers from non-performing forborne exposures	X	-
B.4 other increases	-	-
C. Decreases	**-**	**9,380**
C.1 transfers to performing exposures not subject to forbearance measures	X	-
C.2 transfers to performing forborne exposures	-	X
C.3 transfers to non-performing forborne exposures	X	4,382
C.4 write-offs	-	-
C.5 collections	-	-
C.6 proceeds from disposals	-	-
C.7 losses on disposal	-	-
C.8 other decreases	-	4,998
D. Gross exposure closing balance	**4,382**	**-**
- of which: assets sold but not derecognised	-	-

A.1.11 On-balance sheet non-performing credit exposures to customers: total value adjustments

Descriptions/Categories	Bad loans		Unlikely-to-pay positions		Non-performing past due exposures	
	Total	**of which: forborne exposures**	**Total**	**of which: forborne exposures**	**Total**	**of which: forborne exposures**
A. Total opening adjustments	**1,697**	**-**	**-**	**-**	**-**	**-**
- of which: assets sold but not derecognised		-	-	-	-	-
B. Increases	**-**	**-**	**1,693**	**1,693**	**7**	**7**
B.1 value adjustments to purchased or originated credit-impaired financial assets	-	X	-	X	-	X
B.2 other value adjustments	-	-	1,693	1,693	7	7
B.3 losses on disposal	-	-	-	-	-	-
B.4 transfers from other categories of non-performing exposures	-	-	-	-	-	-
B.5 contractual amendments without derecognition	-	X	-	X	-	X
B.6 other increases	-	-	-	-	-	-
C. Decreases	**-**	**-**	**-**	**-**	**-**	**-**
C.1 write-backs from valuation	-	-	-	-	-	-
C.2 write-backs from recoveries	-	-	-	-	-	-
C.3 gains on disposal	-	-	-	-	-	-
C.4 write-offs	-	-	-	-	-	-
C.5 transfers to other categories of non-performing exposures	-	-	-	-	-	-
C.6 contractual amendments without derecognition	-	X	-	X	-	X
C.7 other decreases	-		-	-	-	-
D. Total final adjustments	**1,697**	**-**	**1,693**	**1,693**	**7**	**7**
- of which: assets sold but not derecognised	-	-	-	-		-

A.2 CLASSIFICATION OF FINANCIAL ASSETS, OF COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES GIVEN ON THE BASIS OF EXTERNAL AND INTERNAL RATINGS

A.2.1 Distribution of financial assets, commitments to disburse funds and financial guarantees given: by classes of external ratings (gross values)

Exposures	External rating classes						No rating	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Financial assets measured at amortised cost	**41,421**	**34,234**	**4,619,948**	**79,444**	**23,066**	**5,316**	**1,482,961**	**6,286,390**
- Stage 1	41,421	34,234	4,619,948	79,372	23,066	5,316	1,474,252	6,277,608
- Stage 2	-	-	-	72	-	-	2,239	2,311
- Stage 3	-	-	-	-	-	-	6,470	6,470
B. Financial assets measured at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Stage 1	-	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
Total (A+B)	**41,421**	**34,234**	**4,619,948**	**79,444**	**23,066**	**5,316**	**1,482,961**	**6,286,390**
of which: purchased or originated impaired financial assets	-	-	-	-	-	-	-	-
C. Commitments to disburse funds and financial guarantees given	**-**	**-**	**-**	**-**	**-**	**-**	**295,321**	**295,321**
- Stage 1	-	-	-	-	-	-	295,321	295,321
- Stage 2	-	-	-	-	-	-		-
- Stage 3	-	-	-	-	-	-	-	-
Total (C)	**-**	**-**	**-**	**-**	**-**	**-**	**295,321**	**295,321**
Total (A+B + C)	**41,421**	**34,234**	**4,619,948**	**79,444**	**23,066**	**5,316**	**1,778,283**	**6,581,711**

Credit quality class	Risk weighting coefficients				ECAI
	Governments and central banks	Supervised intermediaries, public sector bodies, local and regional authorities	Multilateral development banks	Companies and others	Standard & Poor's
1	0%	20%	20%	20%	AAA to AA-
2	20%	50%	50%	50%	A+ to A-
3	50%	100%	100%	100%	BBB+ to BBB-
4	100%	100%	100%	100%	BB+ to BB-
5	100%	100%	100%	150%	B+ to B-
6	150%	150%	150%	150%	CCC+ and below

A.2.2 Distribution of financial assets, commitments to disburse funds and financial guarantees given: by classes of internal ratings (gross values)

Exposures	External rating classes						No rating	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Financial assets measured at amortised cost							**6,286,390**	**6,286,390**
- Stage 1							6,277,609	6,277,609
- Stage 2							2,311	2,311
- Stage 3							6,470	6,470
B. Financial assets measured at fair value through other comprehensive income							**-**	**-**
- Stage 1							-	-
- Stage 2							-	-
- Stage 3							-	-
Total (A+B)	**-**	**-**	**-**	**-**	**-**	**-**	**6,286,390**	**6,286,390**
of which: purchased or originated impaired financial assets								
C. Commitments to disburse funds and financial guarantees given							**295,321**	**295,321**
- Stage 1							295,321	295,321
- Stage 2							-	-
- Stage 3							-	-
Total (C)							**295,321**	**295,321**
Total (A+B + C)	**-**	**-**	**-**	**-**	**-**	**-**	**6,581,711**	**6,581,711**

A.3 DISTRIBUTION OF GUARANTEED CREDIT EXPOSURES BY GUARANTEE TYPE

A.3.1 Guaranteed on- and off-balance sheet credit exposures to banks

			Collateral (1)				Personal guarantees (2)									
							Credit derivatives					Endorsement credits				
								Other derivatives								
	Gross exposure	Net exposure	Real estate - mortgages	Real estate - finance leases	Securities	Other collateral	CREDIT LINK NOTES	Central counterparties	Banks	Other financial companies	Other entities	Public administrations	Banks	Other financial companies	Other entities	Total (1)+(2)
1. Secured on-balance sheet exposures:																
1.1 totally secured	801,172	801,172	-	-	800,627	-	-	-	-	-	-	-	-	-	-	800,627
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2 partially secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Off-balance sheet credit exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.1 totally secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 partially secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.3.2 Guaranteed on- and off-balance sheet credit exposures to customers

			Collateral (1)				Personal guarantees (2)									
							Credit derivatives					Endorsement credits				
								Other derivatives								
	Gross exposure	Net exposure	Real estate - mortgages	Real estate - finance leases	Securities	Other collateral	CREDIT LINK NOTES	Central counterparties	Banks	Other financial companies	Other entities	Public administrations	Banks	Other financial companies	Other entities	Total (1)+(2)
1. Secured on-balance sheet exposures:																
1.1 totally secured	232,615	232,615	-	-	232,029	-	-	-	-	-	-	-	-	-	-	232,029
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2 partially secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Off-balance sheet credit exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.1 totally secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 partially secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

B. DISTRIBUTION AND CONCENTRATION OF CREDIT EXPOSURES

B.1 Distribution by sector of on- and off-balance sheet credit exposures to customers

Exposures/Counterparties	Public administrations		Financial companies		Financial companies (of which insurance companies)		Non-financial companies		Households	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-balance sheet credit exposures										
A.1 Bad loans	-	-	391	1,491	-	-	-	206	-	-
- of which: forborne exposures	-	-	-	-	-	-			-	-
A.2 Unlikely to pay	-	-			-	-	2,660	1,693	-	-
- of which: forborne exposures	-	-			-	-	2,660	1,693	-	-
A.3 Non-performing past-due exposures	-	-			-	-			22	7
- of which: forborne exposures					-	-			-	-
A.4 Performing exposures	4,355,011	2,365	190,523	189	-	-	190,541	236	1,289	7
- of which: forborne exposures	-	-	-	-	-	-	-	-	-	-
TOTAL A	**4,355,011**	**2,365**	**190,914**	**1,680**	**-**	**-**	**193,201**	**2,135**	**1,311**	**14**
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	262	1	1,210,666	-	-	-	21,908	6	115	-
TOTAL B	**262**	**1**	**1,210,666**	**-**	**-**	**-**	**21,908**	**6**	**115**	**-**
TOTAL (A + B) 31/12/2019	**4,355,273**	**2,366**	**1,401,580**	**1,680**	**-**	**-**	**215,109**	**2,141**	**1,426**	**14**
TOTAL (A + B) 31/12/2018	**5,178,456**	**7,287**	**1,392,603**	**1,491**	**-**	**-**	**185,724**	**206**	**3,282**	**-**

B.2 Geographical distribution of on- and off-balance sheet credit exposures to customers

Exposures/Geographic Areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. On-balance sheet credit exposures										
A.1 Bad loans	391	1,697	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	2,660	1,693	-	-	-	-	-	-	-	-
A.3 Non-performing past-due exposures	22	7		-	-	-	-	-	-	-
A.4 Performing exposures	4,735,050	2,796	2,315	-	-	-	-	-	-	-
TOTAL A	**4,738,122**	**6,193**	**2,315**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	1,213,950	6	19,000	-	-	-	-	-	-	-
TOTAL B	**1,213,950**	**6**	**19,000**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total 31/12/2019	**5,954,388**	**6,199**	**23,008**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total 31/12/2018	**6,756,048**	**8,984**	**4,017**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

B.3 Geographical distribution of on- and off-balance sheet credit exposures to banks

Exposures/Geographic Areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
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	1,417,226	390	110,800	55	8,896	3	1,397	1	992	-
TOTAL A	**1,417,226**	**390**	**110,800**	**55**	**8,896**	**3**	**1,397**	**1**	**992**	**-**
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	294,468	-	853	-	-	-	-	-	-	-
TOTAL B	**294,468**	**-**	**853**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B) (31/12/2019)	**1,711,694**	**390**	**111,653**	**55**	**8,896**	**3**	**1,397**	**1**	**992**	**-**
Total (A+B) (31/12/2018)	**1,755,436**	**32**	**27,359**	**8,736**	**3,663**	**-**	**8,736**	**-**	**3,663**	**-**

C. SECURITISATION

Not applicable.

D. DISCLOSURE OF STRUCTURED ENTITIES NOT CONSOLIDATED IN THE ACCOUNTS (OTHER THAN SPECIAL PURPOSE VEHICLES FOR SECURITISATION TRANSACTIONS - SPVS)

QUANTITATIVE INFORMATION

Balance sheet items/ Structured entity type	Asset accounting portfolio	Total assets (A)	Liability accounting portfolio	Total liabilities (B)	Net book value (C = B-A)	Maximum exposure to the risk of loss (D)	Difference between exposure to loss risk and book value (E = D-C)
1. UCIs		31,322	-	-	31,322	75,000	43,678

The maximum exposure to the risk of loss is represented by the total commitments that can be called from the funds until maturity.

E. DISPOSALS

Not applicable.

F. CREDIT RISK MEASUREMENT MODELS

DEPObank does not use internal portfolio models to measure credit risk exposure.

SECTION 2 – MARKET RISKS

INTEREST RATE RISK AND PRICE RISK – REGULATORY TRADING BOOK

QUALITATIVE INFORMATION

1. General aspects

Market risk is the risk of loss generated by market transactions in financial instruments (regulatory trading book), currencies and commodities, resulting from the evolution of market factors or the situation of the issuer. The activities that generate Market Risk are the responsibility of the Chief Financial Officer (CFO) Area, and in particular the Treasury Service and the units that deal with Securities Services activities.

These activities are governed by the Finance Regulation, which defines the operating limits for the sub-components of Market Risk, such as Foreign Exchange Risk, Interest Rate Risk on the Trading Portfolio, Issuer Risk, Country Risk and Counterparty Risk. In addition, for the various types of assets the Finance Regulation defines operating limits in terms of the value held, VaR, maximum periodic loss ("stop loss") and the criteria and methods for monitoring positions.

2. Processes for managing and methods for measuring interest rate risk and price risk

First-level controls are managed by the CFO Area and Securities Services units, each within their respective purview, whereas second-level controls are carried out by the Risk Management Service, which monitors Market Risk on a daily basis, through VaR, performing second-level controls on compliance with the assigned limits.

The VaR model used is of a parametric type with a confidence interval of 99% over a 10-day time horizon, in line with the recommendations defined by the Basel Committee. The VaR, defined in order to obtain a reasonable estimate of potential losses under normal market conditions, does not propose and does not cover the analysis of extreme events: rather, the use of stress testing permits investigation of the impact on the portfolio in extreme conditions and in the violation of the assumptions underlying the model used, capturing the residual risk and providing complementary indications to VaR. In addition to the daily determination of VaR, daily stress tests are carried out, replacing the current volatility with the maximum volatility found in the 12 months prior to observation.

In addition, the Risk Management Service collects and processes daily, on an ex-post basis, the data related to the overall risk positions and prepares the reports necessary to verify the limits set by the Finance Regulation. The Risk Management Service is also responsible for carrying out specific tests in order to verify the degree of risk of scenarios already in place, or prospective scenarios on the existing portfolio. The Head of the Risk Management Service, when he/she detects that the VaR limits have been exceeded, is obliged to promptly inform the corporate function that holds the position, the relevant Head of Management and the Chief Executive Officer.

QUANTITATIVE INFORMATION

1. Regulatory trading book: distribution by maturity (repricing date) of on-balance sheet financial assets and liabilities and financial derivatives.

Currency of denomination: Euro

Type/residual maturity	sight	up to 3 months	more than 3 months to 6 months	more than 6 months to 1 year	more than 1 year to 5 years	between 5 and 10 years	10 years or more	indeterminate maturity
1. On-balance sheet assets								
1.1 Debt securities								
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	3	-	-	2	3	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2 On-balance sheet liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Repos	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3 Financial derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	28,347	-	-	-	-	-	-
+ Short positions	-	857,372	-	-	-	-	-	-

Currency of denomination: Other currencies

Type/residual maturity	sight	up to 3 months	more than 3 months to 6 months	more than 6 months to 1 year	more than 1 year to 5 years	between 5 and 10 years	10 years or more	indeterminate maturity
1. On-balance sheet assets								
1.1 Debt securities								
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2 On-balance sheet liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Repos	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3 Financial derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	852,837	-	-	-	-	-	-
+ Short positions	-	28,289	-	-	-	-	-	-

2. Regulatory trading book: distribution of exposures in equity instruments and share indices for the main stock market countries

Type of transactions/Quote index	Listed	Not listed
	ITALY	
A. Equity instruments		
- Long positions	1	-
- Short positions	-	-
B. Purchases not yet settled on equity instruments	**-**	**-**
- Long positions	-	-
- Short positions	-	-
C. Other derivatives on equity instruments	**-**	**-**
- Long positions	-	-
- Short positions	-	-
D. Derivatives on equity indices	**-**	**-**
- Long positions	-	-
- Short positions	-	-

INTEREST RATE RISK AND PRICE RISK – BANKING BOOK

QUALITATIVE INFORMATION

1. General aspects, management procedures and measurement methods for interest rate and price risk

Banking book interest rate risk is the risk of decrease in the value of the banking book due to potential changes in interest rates. The main source of this type of interest rate risk is *repricing risk*, that is, the risk deriving from the time *mismatches* between the maturity and repricing of assets and liabilities, the main aspects of which are:

- yield curve risk, the risk deriving from the exposure of DEPObank's positions to changes in the slopes and shape of the yield curve;
- basis risk, risk deriving from the imperfect correlation in changes in the rates payable and receivable on different instruments that may also have similar repricing characteristics.

DEPObank monitors the impact that unexpected changes in market interest rates may have on banking book positions from the following perspectives:

- current earnings – in order to assess interest rate risk based on the sensitivity of net interest income to changes in interest rates over a defined time horizon. Negative changes in net interest impact a bank's potential financial stability by weakening its capital adequacy. The change in interest income depends on interest rate risk in its various forms;
- economic value – changes in interest rates may affect the economic value of the asset and liability. The economic value of a bank is represented by the present value of the expected cash flows, defined as the algebraic sum of the present value of the expected cash flows of assets, liabilities and positions

in derivatives. Unlike the current earnings perspective, the economic value perspective identifies the risk generated by repricing or maturity gap over a long-term time horizon.

In the interest rate risk management model adopted, the centrality of the following risk measures is important:

- sensitivity of net interest income;
- sensitivity of economic value.

The sensitivity analysis of net interest income captures the sensitivity of net interest income to parallel interest rate shocks. The bank calculates the sensitivity of net interest income through an approach based on constant rates and volumes. According to this model, maturing items are reinvested at constant volumes, rates and maturities. The scenarios applied are the same as for the sensitivity analysis of economic capital.

The sensitivity analysis of economic value makes it possible to assess the impact of yield curve shifts (shocks) on the value of equity. The methodology applied is that formerly provided for in Circular 263/2006 and currently in Circular 285/2013 for class 2 banks, revising, as required by the legislation concerned, the simplified assumptions relating to the estimate of the stable share (so-called "*core component*") and its distribution over time bands, so as to make the calculation of risk more consistent with its operations. According to the methodology provided for in the aforementioned Circular, for the determination of internal capital:

- **under ordinary conditions** the bank applies the "annual changes in interest rates recorded over a 6-year observation period, alternatively considering the 1^{st} percentile (down) or the 99^{th} (up)";
- **in a stress scenario**, the assumed changes in interest rates are applied on the basis of scenarios chosen by the bank, in addition to the parallel shift of +/- 200 basis points. In the event of a reduction in the bank's economic value of more than 20% of its own funds, the European Central Bank and the Bank of Italy review the results with the bank and reserve the right to take appropriate action.

QUANTITATIVE INFORMATION

1. Banking book: distribution by maturity (repricing date) of on-balance sheet financial assets and liabilities

Currency of denomination: EUR

Type/residual maturity	sight	up to 3 months	more than 3 months to 6 months	more than 6 months to 1 year	more than 1 year to 5 years	between 5 and 10 years	10 years or more	Indeterminate maturity
1 On-balance sheet assets								
1.1 Debt securities								
- with early redemption option	-	-	-	-	5,102	-	-	-
- other	1,546,441	35,316	868,884	632,238	1,301,505	-	-	-
1.2 Loans to banks	250,669	1,129,384	-	-	9,907	-	-	-
1.3 Loans to customers	-	-	-	-	-	-	-	-
- c/c	19,665	-	-	-	-	-	-	-
- Other loans	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	108,921	232,748	126	236	20,268	-	-	-
2 On-balance sheet liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Amounts due to customers	-	-	-	-	-	-	-	-
- c/c	5,991,071	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	131,066	17,443	-	-	-	-	-	-
2.2 Amounts due to banks	-	-	-	-	-	-	-	-
- c/c	524,292	-	-	-	-	-	-	-
- other payables	206,800	5,113	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-

(cont'd)

Currency of denomination: EUR

Type/residual maturity	sight	up to 3 months	more than 3 months to 6 months	more than 6 months to 1 year	more than 1 year to 5 years	between 5 and 10 years	10 years or more	Indeterminate maturity
3 Financial derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
4 Other off-balance sheet transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ Long positions	-	93,134	-	-	-	-	-	-
+ Short positions	-	105,039	-	-	-	-	-	-

Currency of denomination: Other currencies

Type/residual maturity	sight	up to 3 months	more than 3 months to 6 months	more than 6 months to 1 year	more than 1 year to 5 years	between 5 and 10 years	10 years or more	Indeterminate maturity
1 On-balance sheet assets								
1.1 Debt securities								
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	18,761	-	-	-
1.2 Loans to banks	95,724	-	-	-	-	-	-	-
1.3 Loans to customers	-	-	-	-	-	-	-	-
- c/c	3,463	-	-	-	-	-	-	-
- Other loans	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2 On-balance sheet liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Amounts due to customers	-	-	-	-	-	-	-	-
- c/c	853,754	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	333	-	-	-	-	-	-	-
2.2 Amounts due to banks	-	-	-	-	-	-	-	-
- c/c	65,248	-	-	-	-	-	-	-
- other payables	-	438	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-

(cont'd)

Currency of denomination: Other currencies

Type/residual maturity	sight	up to 3 months	more than 3 months to 6 months	more than 6 months to 1 year	more than 1 year to 5 years	between 5 and 10 years	10 years or more	Indeterminate maturity
3 Financial derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
4 Other off-balance sheet transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-

2. Fair value hedging activities

Not applicable.

3. Cash flow hedging activity

Hedging strategies are generic in nature and may also refer to the interest rate risk of the sight deposits core component.

4. Hedges of foreign investments

Not applicable.

EXCHANGE RATE RISK

QUALITATIVE INFORMATION

1. General aspects, management processes and measurement methods for exchange rate risk

Exchange rate risk is the risk of loss generated by market transactions in financial instruments, currencies and commodities, resulting from the evolution of market factors or the situation of the issuer.

Exchange rate risk originates from trading activities carried out on behalf of customers in foreign currencies and is constantly monitored not only by the Treasury Service that performs the competent level I controls, but also by the Risk Management Service through the calculation of the VaR and the monitoring of limits.

Exposure to exchange rate risk – determined on the basis of the net foreign exchange position using a methodology based on the supervisory regulations – is limited, since any foreign exchange transaction of a significant amount closed with institutional counterparties is normally "hedged" by executing a transaction of the opposite sign on the market. Minor transactions carried out on behalf of customers that generate a position open to exchange rate risk are monitored in real time by the Treasury Service in compliance with the limits established by the current Regulation.

Positions open to exchange rate risk may only be maintained within very strict (and in any case always amply observed) limits by maximum overall exposure, single currency and VaR.

2. Exchange rate risk hedging

The risk associated with the trading book is mainly hedged through spot forex transactions. The Risk Management Service verifies on a daily basis that the VaR on existing positions is always within the limit set by the Finance Regulation.

QUANTITATIVE INFORMATION

1. Distribution of assets, liabilities and derivatives by currency

Items	Currencies					
	US dollars	Pounds	Yen	Canadian dollars	Swiss francs	Other currencies
A. Financial assets						
A.1 Debt instruments	18,761	-	-	-	-	-
A.2 Equity instruments	4,511	-	-	-	-	152
A.3 Loans to banks	42,627	19,847	2,495	1,784	7,396	21,575
A.4 Loans to customers	1,097	-	-	-	17	2,348
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**2**	**4**	**1**	**2**	**2**	**19**
C. Financial liabilities						
C.1 Amounts due to banks	35,173	9,219	819	5,673	2,218	12,583
C.2 Deposits from customers	501,717	118,756	131,963	23,803	23,781	54,890
C.3 Debt instruments	-	-	-	-	-	-
C.4 Other financial assets	-	-	-	-	-	-
D. Other liabilities	**-**	**-**	**-**	**-**	**-**	**-**
E. Financial derivatives	**-**	**-**	**-**	**-**	**-**	**-**
- Options	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-
+ Long positions	517,587	108,148	131,212	27,653	18,756	49,481
+ Short positions	20,358	150	820	292	6	6,662
Total assets	**584,585**	**128,000**	**133,708**	**29,440**	**26,171**	**73,574**
Total liabilities	**557,248**	**128,125**	**133,602**	**29,768**	**26,006**	**74,135**
Difference (+/-)	**27,336**	**- 125**	**106**	**- 328**	**165**	**- 562**

SECTION 3 – DERIVATIVES AND HEDGING POLICIES

DERIVATIVE INSTRUMENTS

DEPObank's transactions in derivatives mainly concern trading activities that are balanced on behalf of customers. DEPObank does not hold innovative or complex financial products.

3.1 TRADING DERIVATIVES

FINANCIAL DERIVATIVES

A.1 Trading financial derivatives: notional end-of-period value

Underlying assets/ Derivative types	31/12/2019				31/12/2018			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	With netting agreements	
1. Debt securities and interest rates								
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and share indices	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	794,259	-	-	990,393	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**				
5. Other underlying	**-**	**-**	**12**	**-**	**-**	**12**	**-**	**-**
Total	**-**	**-**	**794,271**	**-**	**-**	**990,405**	**-**	**-**

A.2 Trading financial derivatives: positive and negative gross fair value – breakdown by products

Type of derivatives	31/12/2019				31/03/2018			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Positive fair value								
a) Options	-	-	-	-	-	-	-	
b) Interest rate swaps	-	-	-	-	-	-	-	
c) Cross currency swaps	-	-	-	-	-	-	-	
d) Equity swaps	-	-	-	-	-	-	-	
e) Forwards	-	-	868	-	-	-	2,653	
f) Futures	-	-	-	-	-	-	-	
g) Other	-	-	-	-	-	-	-	
Total	**-**	**-**	**868**	**-**	**-**	**-**	**2,653**	
2. Negative fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**	
a) Options	-	-	-	-	-	-	-	
b) Interest rate swaps	-	-	-	-	-	-	-	
c) Cross currency swaps	-	-	-	-	-	-	-	
d) Equity swaps	-	-	-	-	-	-	-	
e) Forwards	-	-	6,248	-	-	-	4,926	
f) Futures	-	-	-	-	-	-	-	
g) Other	-	-	-	-	-	-	-	
Total	**-**	**-**	**6,248**	**-**	**-**	**-**	**4,926**	

A.3 OTC financial derivatives – notional values, positive and negative gross fair values by counterparty

Underlying assets	Central counterparties	Banks	Other financial companies	Other entities
Contracts not covered by netting agreements				
1) Debt securities and interest rates				
- Notional value	X	-	-	-
- Positive fair value	X	-	-	-
- Negative fair value	X	-	-	-
2) Equity securities and share indices		**-**	**-**	**-**
- Notional value	X	-	-	-
- Positive fair value	X	-	-	-
- Negative fair value	X	-	-	-
3) Currencies and gold		**-**	**-**	**-**
- Notional value	X	794,259	-	-
- Positive fair value	X	868	-	-
- Negative fair value	X	6,248	-	-
4) Commodities		**-**	**-**	**-**
- Notional value	X	-	-	-
- Positive fair value	X	-	-	-
- Negative fair value	X	-	-	-
5) Other		**-**	**-**	**-**
- notional value	X	-	-	12
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts covered by netting agreements		-	-	-
1) Debt securities and interest rates		**-**	**-**	**-**
- Notional value	X	-	-	-
- Positive fair value	X	-	-	-
- Negative fair value	X	-	-	-
2) Equity securities and share indices		**-**	**-**	**-**
- Notional value	X	-	-	-
- Positive fair value	X	-	-	-
- Negative fair value	X	-	-	-
3) Currencies and gold		**-**	**-**	**-**
- Notional value	X	-	-	-
- Positive fair value	X	-	-	-
- Negative fair value	X	-	-	-
4) Commodities		**-**	**-**	**-**
- Notional value	X	-	-	-
- Positive fair value	X	-	-	-
- Negative fair value	X	-	-	-
5) Other		**-**	**-**	**-**
- Notional value	X	-	-	-
- Positive fair value	X	-	-	-
- Negative fair value	X	-	-	-

A.4 Residual life of OTC financial derivatives: notional values

Underlying/Residual Life	Up to 1 year	1 year to 5 years	More than 5 years	Total
A. Regulatory trading book				
A.1 Financial derivatives on debt securities and interest rates	-	-	-	-
A.2 Financial derivatives on equity securities and shares indices	-	-	-	-
A.3 Financial derivatives on exchange rates and gold	794,259	-	-	794,259
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	12	12
Total 31/12/2019	**794,259**	**-**	**12**	**794,271**
Total 31/12/2018	**990,393**	**-**	**12**	**990,405**

SECTION 4 – LIQUIDITY RISK

QUALITATIVE INFORMATION

1. General aspects, management procedures and measurement methods for liquidity risk

Liquidity risk is defined as the risk that the bank may be unable to meet its obligations at maturity and/or that it may have to bear non-market financing costs in relation to an unbalanced net financial position, due to the inability to procure funds or due to the presence of limits on the liquidation of assets.

The Board of Directors supervises the strategic management of the liquidity risk to which the bank is exposed and ensures the adoption of the crisis management plans, ensuring the effectiveness and efficiency of the solutions to be undertaken. The Chief Executive Officer is responsible for defining the guidelines for the liquidity risk management process and implementing strategic guidance, as part of maintaining an effective liquidity risk management and control system. The Board of Statutory Auditors and the Risk Committee are responsible for monitoring the adequacy and compliance of the liquidity risk management process with the regulatory requirements.

DEPObank's business model is focused on providing banking services to participants in Italy's national banking and financial system; its lending and financial investment businesses are currently mainly managed as ancillary to its core businesses, with relationships developed mainly at the interbank level. In addition to the liquidity generated by the balances of the accounts deriving from depositary bank business and the time lag between the credits recorded and the payment arrangements made with counterparties, DEPObank can also meet its needs through liquidity from: highly liquid assets, repurchase agreement funding, unsecured over-the-counter (OTC) interbank market funding, refinancing operations with the European Central Bank (ECB) and inflows from its assets that have reached maturity.

The relevant document is entitled the "Liquidity Risk Policy and Contingency Funding and Recovery Plan", approved by the Board of Directors. It defines the guidelines for the liquidity risk policy and the rules to be adopted in a state of liquidity crisis (Contingency Funding and Recovery Plan), transposing the latest regulatory updates (see Bank of Italy Circular 285/2013) and the principles enshrined in the Risk Policy, complementing and completing the rules laid down in the Finance Regulation.

As part of the Risk Appetite Framework, specific liquidity metrics have been defined, both regulatory, Liquidity Coverage Ratio – LCR and Net Stable Funding Ratio – NSFR, and internal, "Ratio of minimum cumulative net balance to total assets", in order to better represent the operational reality of the bank.

With regard to short-term liquidity monitoring, which aims to ensure the ability to meet expected or unforeseen cash payment commitments over a four-month horizon[4], two indicators are calculated to monitor the sustainability of the short-term balance in a complementary manner, both under normal business conditions (on-going) and in stress scenarios:

- **Cumulative net balance at 30 days**, referring to the daily analysis of the projected liquidity at one month on a rolling basis;
- **Minimum cumulative net balance**, referring to the weekly analysis of time bands up to four months in the maturity ladder scheme.

Liquidity monitoring is carried out both in a situation of normal going concern business and in a stress scenario. The results of stress tests are used to verify:

- DEPObank's ability to cope autonomously (time to survival) with unforeseen liquidity crises in the first period in which they occur and before initiating structural interventions aimed at changing the structure of assets/liabilities;
- whether the level of limits/early warning results in the maintenance of liquidity reserves that allow DEPObank to cope with the initial period of systemic or idiosyncratic stress;
- the effectiveness of crisis management.

The stress tests are based on the calculation of the Basel 3 coefficient – LCR (the same indicator monitored for the liquidity risk tolerance threshold), in relation to the most important items for DEPObank. In particular, the items taken into account are counterbalancing capacity, the negative balances of large corporate current accounts and bank reciprocal accounts and the credit facility margins.

Liquidity risk also includes the intraday risk deriving from the time mismatch between outflows (settled at daily cut-offs or when orders are received from customers) and inflows (settled at different intraday cut-offs), which may render it impossible for the Bank to discharge its payment obligations when they are called in due to a temporary lack of funds. To hedge intraday liquidity risk, rules are defined for the maintenance of a minimum portfolio of eligible securities, functional to meet requirements for intraday and periodic refinancing from central banks.

4 The reference time horizon for short-term liquidity may be up to 12 months, but for DEPObank is up to four months is relevant, since items with longer maturities are residual and relate exclusively to maturing securities in the proprietary portfolio.

QUANTITATIVE INFORMATION

1. Breakdown of financial assets and liabilities by residual contractual maturity

Currency of denomination: Euro

Items/Time bands	sight	more than 1 days to 7 days	more than 7 days to 15 days	more than 15 days to 1 month	more than 1 month to 3 months	more than 3 months to 6 months	more than 6 months to 1 year	more than 1 year to 5 years	5 years or more	indefinite duration
On-balance sheet assets										
a.1 Government bonds	-	-	-	-	20,000	115,000	620,000	2,314,501	1,170,502	-
a.2 Other debt instruments	-	-	-	-	-	-	4,790	34,501	3	-
a.3 Units of UCIs	31,323	-	-	-	-	-	-	-	-	-
a.4 Loans	-	-	-	-	-	-	-	-	-	-
banks	340,364	329,261	424,505	130,995	72,285	-	-	10,000	-	173,273
customers	130,713	35,480	68,793	80,196	48,650	130	242	20,497	-	-
On-balance sheet liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
b.1 Deposits and current accounts	-	-	-	-	-	-	-	-	-	-
banks	785,019	17,000	77,000	97,092	-	-	-	13,850	-	-
customers	6,304,449	-	-	-	-	-	-	99	-	-
b.2 Debt instruments	-	-	-	-	-	-	-	-	-	-
b.3 Other liabilities	543,282	98,243	-	-	-	-	-	-	-	-
Off-balance sheet transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
c.1 Financial derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
long positions	-	28,111	236	-	-	-	-	-	-	-
Short positions	-	58,834	483,576	314,962	-	-	-	-	-	-
c.2 Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
long positions	-	-	-	-	-	-	-	-	-	-
Short positions	-	-	-	-	-	-	-	-	-	-
c.3 Deposits and loans to be collected	-	-	-	-	-	-	-	-	-	-
long positions	-	93,134	-	-	-	-	-	-	-	-
short positions	93,134	-	-	-	-	-	-	-	-	-
c.4 Irrevocable commitments to lend funds	-	-	-	-	-	-	-	-	-	-
long positions	-	-	58,682	-	-	-	-	-	-	-
short positions	-	29,341	-	-	-	-	-	-	-	-
c.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
c.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
c.7 Credit derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
long positions	-	-	-	-	-	-	-	-	-	-
short positions	-	-	-	-	-	-	-	-	-	-
c.8 Credit derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
long positions	-	-	-	-	-	-	-	-	-	-
short positions	-	-	-	-	-	-	-	-	-	-

Currency of denomination: Other currencies

Items/Time bands	sight	more than 1 days to 7 days	more than 7 days to 15 days	more than 15 days to 1 month	more than 1 month to 3 months	more than 3 months to 6 months	more than 6 months to 1 year	more than 1 year to 5 years	5 years or more	indefinite duration
On-balance sheet assets										
a.1 Government bonds	-	-	-	-	-	-	-	-	-	-
a.2 Other debt instruments	-	-	-	-	-	-	-	17,803	-	-
a.3 Units of UCIs	-	-	-	-	-	-	-	-	-	-
a.4 Loans	-	-	-	-	-	-	-	-	-	-
banks	95,757	-	-	-	-	-	-	-	-	-
customers	3,495	-	-	-	-	-	-	-	-	-
On-balance sheet liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
b.1 Deposits and current accounts	-	-	-	-	-	-	-	-	-	-
banks	65,248	-	304	-	134	-	-	-	-	-
customers	853,754	-	-	-	-	-	-	-	-	-
b.2 Debt instruments	-	-	-	-	-	-	-	-	-	-
b.3 Other liabilities	1,156	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
c.1 Financial derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
long positions	-	58,814	480,941	313,082	-	-	-	-	-	-
Short positions	-	28,053	235	-	-	-	-	-	-	-
c.2 Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
long positions	-	-	-	-	-	-	-	-	-	-
Short positions	-	-	-	-	-	-	-	-	-	-
c.3 Deposits and loans to be collected	-	-	-	-	-	-	-	-	-	-
long positions	-	-	-	-	-	-	-	-	-	-
short positions	-	-	-	-	-	-	-	-	-	-
c.4 Irrevocable 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 principal	-	-	-	-	-	-	-	-	-	-
long positions	-	-	-	-	-	-	-	-	-	-
short positions	-	-	-	-	-	-	-	-	-	-
c.8 Credit derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
long positions	-	-	-	-	-	-	-	-	-	-
short positions	-	-	-	-	-	-	-	-	-	-

SECTION 5 – OPERATIONAL RISKS

QUALITATIVE INFORMATION

1. General aspects, management procedures and measurement methods for operational risk

Operational risk is defined as the risk of losses deriving from the inadequacy or malfunctioning of processes, human resources and internal systems, or from external events.

Operational risk is characterised by a cause and effect such that an adverse event is generated by one or more triggers that directly results in a financial loss. Operational loss can thus be defined as all the adverse economic effects resulting from operations, recorded on the company's accounts, and impacting the income statement.

The main characteristic of operational risks is that they are inherent in the bank's operations and, therefore, unavoidable and present everywhere. This characteristic presupposes that, unlike the other risks for which the bank, based on its risk appetite, consciously assumes credit or financial positions to achieve the desired risk/return profile, the assumption of operational risks is implicit in the decision to undertake a certain type of business and in the performance of business activity more generally. In order to assess the exposure to operational risks and the effects that appropriate mitigation measures have on them, qualitative and quantitative information should be combined as appropriate.

In this context, the Internal Control System must be the main safeguard for the prevention and containment of these risks. In particular, company policies and procedures to define, identify, assess and manage operational risk exposure must be approved and implemented.

The operational risk governance framework consists of a structured set of processes, functions and resources for the identification, assessment and control of operational risks, including those arising from events characterised by low frequency and particular severity, with the aim of ensuring an effective risk prevention and mitigation action.

Elements characterising this framework, consistent with the prudential regulatory provisions, are:

- the assessment of operational risk exposure as a process closely integrated into the risk management process in all company activities;
- formalisation and assignment of responsibilities;
- the reporting system.

In addition to the provisions on capital requirements, DEPObank has activated a specific process aimed at fully analysing the operational risks to which it is exposed, identifying any areas of vulnerability and providing adequate management and control systems. The framework consists of four key elements:

- Identification;
- Measurement;

- Monitoring and Reporting; and
- Management.

Identification of operational risks involves collecting operational risk information through the coherent, coordinated treatment of all relevant sources of information; the objective is establishing a complete information base. The necessary information is internal loss data accompanied by all information relevant for management purposes and subjective assessments acquired through risk self-assessment and control processes. This information is collected on the basis of specific classification models, designed to ensure a homogeneous representation of the data. The Identification phase consists of the following processes:

- Collection of operational loss data. In this regard, DEPObank has set up a system for collecting and storing data on Operational Risks, including significant losses and related recoveries, suitable for making the management system effective. The Loss Data Collection (LDC) process involves collecting all adverse events related to any business process.
- Identification and assessment of operational risks. DEPObank has implemented a system for identifying potential losses due to operational events that, regardless of past scenarios, present a plausible probability of occurrence. The process of identifying and assessing Operational Risks is carried out in the following phases:
  a. Design of new services/products, identifying the possible types of adverse events related to the initiative, their possible impact in terms of the project and/or product/service and the objectives and control and mitigation actions to be pursued;
  b. Identification and assessment of the coherence of the risk profile of Major Transactions with the defined risk appetite;
  c. Periodic assessment of the operational risk profile of the processes in place: at least annually, an overall assessment is carried out, for the relevant operating segments, of the level of exposure to Operational Risks and any reputational impacts, through the Risk Control Self-Assessment (RCSA) process;
  d. Periodic assessment of IT risk for the identification of specific risks inherent in the ICT sphere, internal or dependent on outsourcers, and a better qualification of operational risk through the evaluation of the specific elements characteristic of the automatic processing of information.

Measurement is the risk-valuation activity aimed at quantifying the capital to be allocated for operational risk. DEPObank calculates regulatory capital for operational risks using the basic approach, taking into account the degree of compliance with the minimum qualitative and quantitative requirements defined for access to the most advanced models (standardised and advanced). In addition, for a better assessment of risk exposure, DEPObank has implemented a quantitative operational risk assessment process (OpVaR) used to calculate expected and unexpected losses on various percentiles; a specific allocation for the expected losses is made to the provision for risk.

The risk profile **Monitoring** phase aims to define a set of risk indicators that allow any critical issues and/or anomalies to be reported through an appropriate reporting system. These indicators include both qualitative and quantitative indicators. The **Reporting** phase aims to ensure timely and appropriate communication in support of management decisions of corporate bodies and organisational functions. Reporting includes the outcomes of the following activities:

- the identification and monitoring of loss events identified through the Loss Data Collection and Risk Control Self Assessment (LDC and RCSA) processes;
- the assessment of the operational risks to which the bank's processes are exposed (e.g. assessment of New Products/Services/Major Transactions);
- the definition of the action plans undertaken in risk management and mitigation, indicating the time horizon of the plan, the contact person responsible for managing it and any supporting operational documents;
- the trend of monitoring indicators (RAF and monitoring indicators for risk measurement and control systems).

The planning and development of control activities are subject to follow-up processes involving their entry into a "Dashboard" and the related monitoring by the control functions (Risk Management, Compliance and Audit) of all the actions envisaged for the improvement of the internal control system. The results of the monitoring are prepared on a quarterly basis and reported periodically to the Corporate Bodies, in order to provide an overview of the main problems to which the bank is exposed and the progress of the corrective actions implemented or to be addressed, and then sent to the Bank of Italy.

The Operational Risk **Management** phase aims to continuously assess the strategies for controlling and reducing risk, deciding, depending on the nature and extent of the risk, whether to assume it, whether to implement mitigation policies or whether to transfer it to third parties, in relation to the risk appetite expressed by the top management.

A fundamental instrument for mitigating operational risk is also represented by the Business Continuity and Disaster Recovery Plan, reviewed annually in compliance with the requirements of the Supervisory Instructions on internal controls; the Bank of Italy legislation has in fact extended the concept of Business Continuity to all critical “business processes”, focusing not only on the technological component, but on all the factors (human resources, logistics, essential services, etc.) that contribute to the mitigation of operational risks in the context of new crisis scenarios.

“Business continuity” includes all initiatives aimed at reducing to an acceptable level the damage resulting from accidents and catastrophes that could directly or indirectly affect the bank, while the Disaster Recovery Plan sets out the technical and organisational measures to deal with events that result in the unavailability of data processing centres and is aimed at enabling the functioning of the relevant IT procedures at alternative sites.

Finally, an additional mitigation tool, in particular with regard to unexpected risks, consists of insurance coverage, which the bank uses for certain risk areas that are inherent in the business and for cases (typically low frequency and high impact) that are not effectively mitigated by the prevention of line operational controls alone.

QUANTITATIVE INFORMATION

Operational Risk

31/12/2019		31/12/2018	
Years	**Relevant indicator**	**Years**	**Relevant indicator**
2017	177,867	2016	180,026
2018	129,515	2017	177,867
2019	131,576	2018	129,515
Average	**146,319**		**162,469**
Operational Risk	**21,948**		**24,370**

Part F – EQUITY

B. QUANTITATIVE INFORMATION

B.1 Equity: breakdown

Items/values	Amount 31/12/2019	Amount 31/12/2018
1. Share capital	42,557	42,557
2. Share premium	148,242	148,242
3. Reserves		
- earnings		
a) legal	20,000	20,000
b) Articles of Association		
c) treasury shares	746	746
d) others	279,837	208,299
- others	10,848	10,848
4. Equity instruments		
5. (Treasury shares)		
6. Valuation reserves		
- Equity instruments measured at fair value through other comprehensive income		
- Hedging of equity instruments measured at fair value through other comprehensive income		
- Financial assets (other than equity instruments) measured at fair value through other comprehensive income	-476	9,805
- Property, plant and equipment		
- Intangible assets		
- Hedging of foreign investments		
- Cash flow hedges		
- Hedging instruments (undesignated elements)		
- Foreign exchange differences		
- Non-current assets held for sale and disposal groups		
- Financial liabilities measured at fair value through profit or loss (changes in creditworthiness)		
- Actuarial gains (losses) relating to defined benefit plans		
- Share of valuation reserves for equity investments measured at equity		
- Special revaluation laws	-	-
7. Profit (loss) for the financial year	- 29,166	5,165
Total	**472,587**	**445,662**

B.2 Valuation reserves for financial assets measured at fair value through profit or loss: breakdown

Assets/Values	31/12/2019		31/12/2018	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities				
2. Equity securities	2,972	-2,202	11,034	-13
3. Loans				
Total	**2,972**	**-2,202**	**11,034**	**-13**

B.3 Valuation reserves for financial assets measured at fair value through other comprehensive income: annual changes

	Debt securities	Equity securities	Loans
1. Opening balances	**-**	**11,021**	**-**
2. Positive changes			
2.1 Increases in fair value		55,443	-
2.2 Adjustments in value for credit risk		X	
2.3 Recycling to income statement of negative reserves following disposal		X	
2.4 Transfers to other equity items (equity securities)			
2.3 Other changes		1,774	
3. Negative changes			
3.1 Decreases in fair value			
3.2 Adjustments in value for credit risk			
3.3 Recycling to the income statement of positive reserves: - on disposal		X	
3.4 Transfers to other equity items (equity securities)		55,443	
3.5 Other changes		12,025	
4. Closing balance	**-**	**770**	**-**

B.4 Valuation reserves for defined benefit plans: annual changes

The valuation reserve for defined-benefit plans refers exclusively to the post-employment benefits accrued before 1 January 2006. As there are no assets servicing the plan, the valuation reserve includes only the actuarial effect on the liability, the change in which was as follows:

	Gross actuarial effect	Income taxes	Valuation reserve
Opening balances	**-1,599**	**382**	**-1,216**
Increases in actuarial effect	-126	97	-30
Decreases in actuarial effect			-
Closing balances	**-1,726**	**478**	**-1,246**

SECTION 2 – OWN FUNDS AND REGULATORY RATIOS

2.1 – Own funds

A. Qualitative information

As at 31 December 2019 the bank's own funds have been determined in accordance with the harmonised regulations for banks and investment firms contained in Directive 2013/36/EU (CRD IV) and in Regulation (EU) 575/2013 (CRR) of 26 June 2013, which transposed into the European Union the standards set by the Basel Committee on Banking Supervision (the “Basel III framework”) and on the basis of Bank of Italy Circulars 285, 286 and 154.

Common Equity Tier 1 capital is € 369,158 thousand. The bank does not have additional Tier 1 or Tier 2 capital. Own Funds therefore coincide with the amount of Common Equity Tier 1 capital.

2.2 Capital adequacy

For more details, refer to the information on own funds and capital adequacy contained in the public disclosure (“Pillar 3”).

Part G – BUSINESS COMBINATIONS OF COMPANIES OR BUSINESS UNITS

SECTION 1 - TRANSACTIONS COMPLETED DURING THE YEAR

There were no transactions completed during the year 2019.

SECTION 2 – TRANSACTIONS COMPLETED AFTER YEAR END

As required by IFRS 3, paragraph 59 (b), information is provided below on a business combination completed after the end of the year, but before the approval of the draft financial statements at 31 December 2019.

Following the approval of the Strategic Plan, the process of selecting potential acquisition options capable of expediting the transition to the fintech model was begun.

The search resulted in the identification of an opportunity to enable the bank to upgrade its technology by acquiring a company (Cara Services GmbH) that owns a next-generation technology platform capable of managing the various phases of the lending process through artificial intelligence and highly digitalised processes.

On 25 July 2019 DEPObank thus entered into an agreement with PrestaCap Holdings S.A. for the acquisition of 100% of the German company Cara Services GmbH for € 20 million. This acquisition was then closed on 25/01/2020.

In addition to acquiring a highly scalable innovative specialised lending platform, developed in the cloud, which uses innovative machine learning and business intelligence solutions, through this transaction the Bank also acquired a highly competent and motivated team with specialist know-how that can be used for the digitalisation of processes, including in the Bank's more traditional business areas.

The company's balance sheet at 31 December 2019 shows total assets of € 1.4 million and equity of € 0.7 million, which includes a loss for the period totalling € 0.5 million. At the date of acquisition of control, 20 January 2020, the company shows values aligned with the end of the previous year, i.e. a total assets of € 1.3 million, equity of € 0.7 million and a loss for the period of € 0.1 million.

The following table shows the financial position of the company as at 31 December 2019 and 20 January 2020:

Assets	31/12/2019	20/01/2020
Property and equipment	4	4
Intangible assets	943	943
Loans to banks	0	72
Loans to customers	387	102
Other assets	89	142
of which security deposits	25	25
of which receivables from the Treasury	18	21
of which other	45	96
Total assets	**1,423**	**1,263**

Liabilities	43,830	43,850
Tax liabilities	242	242
of which deferred tax liabilities	242	242
Other liabilities	439	315
of which amounts due to suppliers	*313*	*192*
of which amounts due to employees	*79*	*69*
of which other	*47*	*54*
Reserves	1,177	767
Share capital	25	25
Profit /(loss) for financial year	-460	-86
Total liabilities and equity	**1,423**	**1,263**

figures in '000 euros

On the basis of the consideration transferred and the fair value (€ 20.0 million) and net value of the amounts of the identifiable assets acquired and the identifiable liabilities assumed at the acquisition date, measured according to IFRS 3, goodwill of € 19.3 million would result.

SECTION 3 – RETROSPECTIVE ADJUSTMENTS

Not applicable.

Part H – TRANSACTIONS WITH RELATED PARTIES

1. Information on remuneration of executives with strategic responsibilities

The following table summarises the remuneration paid by the bank to directors, executives and executives with strategic responsibilities as defined in Part 2.

	31/12/2019
Directors' fees	1,415
Remuneration of other executives with strategic functions and supervisory bodies	4,875
Total	**6,290**

2. Information on related party transactions

The purpose of International Accounting Standard 24 (*Related Party Disclosures*) is to ensure that an entity's financial statements contain the disclosures necessary to highlight the possibility that its financial position and economic result may have been altered by the existence of related parties and by transactions and balances with such parties.

Based on these indications, applied to the bank's organisational and governance structure, the following are considered related parties:

a) parties who, directly or indirectly, including through subsidiaries, fiduciaries or nominees, control, including jointly, the bank, or hold an investment in the bank that can exert a significant influence on it;
b) subsidiaries or companies under joint control of the entities referred to above;
c) subsidiaries, affiliated companies or companies subject to joint control by the bank;
d) executives with strategic responsibilities of the bank and its parent and its subsidiaries, subject to joint control or significant influence;
e) the close relatives of the natural persons included in points a) and d) above;
f) supplementary pension funds set up for employees of the bank or its related entities.

The effects of the transactions with related parties as defined above are shown in the following summary table.

(Figures in thousands of €)

Transactions with related parties	Total item	Subsidiaries	Other related parties	Directives, executives and control bodies
40. Financial assets measured at amortised cost	6,279,749	-		-
a) loans and receivables with banks	1,539,311	-		-
b) loans and receivables with customers	4,740,438	-	72	-
120. Other assets	278,427		23,899	
10. Financial liabilities measured at amortised cost	8,295,788	-		-
a) due to banks	801,892	-		
b) due to customers	7,493,896		485,655	
80. Other liabilities	322,027		15,811	
10. Interest income and similar income	70,560	-	134	-
40. Fee and commission income	111,453		1,451	-
160. Administrative costs	-101,589		-22,557	-6,290
200. Other operating income/expenses	10,490		1,355	-
Commitments and guarantees			72	

It should be noted that these relationships are governed by specific contractual agreements which - without prejudice to the objective of optimising synergies, economies of scale and scope and using centres of excellence – refer to objective, constant parameters over time based on criteria of transparency and substantial fairness. The quantification of fees for the services provided is defined and formalised according to parameters that take into account the actual use by each end user.

Such relations with related parties, which are part of normal banking activity, are normally at arm's length.

Part I – SHARE-BASED PAYMENT ARRANGEMENTS

There were no payment arrangements based on own shares.

Part M - INFORMATION ON LEASING

SECTION 1 – LESSEE

Qualitative information

Refer to the section “Other aspects” of Part A - Accounting policies of these Notes

Quantitative information

Refer to:

- information on *lease* rights of use contained in Part B, Assets;
- information on *lease* liabilities contained in Part B, Liabilities;
- information on interest expense on *lease* liabilities contained in Part C;
- information on the bank's choices contained in Part A of the Notes.

DEPObank
BANCA DEPOSITARIA ITALIANA

Report of the Board of Statutory Auditors

DEPObank S.P.A.

* * *

REPORT OF THE BOARD OF STATUTORY AUDITORS

TO THE SHAREHOLDERS' MEETING

(In accordance with Article 2429 paragraph 2 of the Italian Civil Code)

* * *

During 2019, the Board of Statutory Auditors carried out its supervisory duties in accordance with current laws and regulations. The activities of the Board of Statutory Auditors were carried out in coordination with the independent auditors (KPMG S.p.A. and, from 29 April 2019, Deloitte & Touche S.p.A.).

As a preliminary point, it should be noted that the Board of Statutory Auditors in office at the date of this report is composed of Gianluigi Fiorendi (Chairman), Lorenzo Banfi and Paolo Lazzati, Statutory Auditors. The Board of Statutory Auditors thus composed was appointed by the Shareholders' Meeting on 26 April 2018 and assigned the functions of the Supervisory Body pursuant to Italian Legislative Decree no. 231/2001 on 27 April 2018.

* * *

Operations of particular relevance - Strategic Plan

As a result of the activities of redefining the strategic positioning of the company, conducted by the governing body starting in the second half of 2018, following the reorganisation of the Nexi Group, the Board of Directors at its meeting on 21 February 2019 approved the bank's "2019-2023 Strategic Plan" ("*DEPObank: the Italian Fintech Multispecialist*").

The Plan identifies a strategy to strengthen existing businesses (Payments and Securities Services), which was to be accompanied, with a view to defining a complete asset side strategy, by a new line of business represented by specialised lending activities in favour of small and medium-sized enterprises.

The business model envisaged in the plan is that of a multispecialist bank (characterised by the offer of vertically specialised banking/financial services, capable of generating adequate levels of profitability and open to entry into new lines of business) and fintech (capable of combining state-of-the-art technologies enabling low cost-to-serve, highly competent, motivated resources with a strong ability to face challenges, a lean organisation able to operate effectively and efficiently and a brand strategy able to add value to specific products and services).

In Payments, in an environment of discontinuity due to regulatory changes (PSD2 and EBC Vision 2020), the Plan lays down a strategy for consolidating the role of "System Bank", at the service of all market players (old and new), by offering traditional and innovative banking payment services, to meet customers' needs for simplification and optimisation, while also ensuring speed, flexibility and harmonisation, without competing for their retail customers.

In Securities Services, within a market dominated globally by a few large players, but where there are still some local market segments that international players are unable to penetrate, the Plan confirms the desire to continue to offer fund and global custody services, positioning the bank as a national champion and as a player focused on specific market segments serving customers that require specialisation, customisation, quality of service and proximity, including in the physical sense, while strengthening its position in the pension funds and AIFs sector in particular.

Overall, the Bank's two historical business units (Securities Services and Payments) and the related Treasury activities performed positively and regularly in 2019, with commercial indicators growing compared to the previous year and economic performance exceeding the Plan's objectives and improving on 2018.

Development of the fintech model

With regard to the launch of the new SME Lending Business Unit (the "Vesta Project"), the focus of the development of the new asset side strategy envisaged by the Strategic Plan, the early months of 2019 saw the prompt inclusion of management personnel of high standing and the start of the set-up of the operating machine, involving the establishment of an SPV specialised in the factoring of receivables from the public administration as a solution capable of accelerating the start of lending activities.

In parallel, the selection of potential acquisition options has been begun to accelerate the transition to the fintech model.

The search resulted in the identification of an opportunity to enable the bank to upgrade its technology by acquiring 100% of a German company (Cara Services GmbH) that owns a next-generation technology platform capable of managing the various phases of the lending process through artificial intelligence and highly digitalised processes. This transaction was completed at the beginning of 2020.

In autumn 2019, the process of implementing the Vesta Project was suspended following the expression of interest (addressed to the parent company Equinova UK HoldCo, which took a positive view of it) in the acquisition of the bank by a potential acquirer that stated that it was not interested in developing the Vesta Project.

In March 2020, due in part to developments related to the spread of the COVID-19 (coronavirus) pandemic, which led to an unprecedented market situation, the parties (Equinova and the potential acquirer) both acknowledged the impossibility of completing the transaction.

The change in outlook due to the withdrawal of this sale transaction, combined with the aforementioned interruption of the activities envisaged in the Strategic Plan, functional to the start-up of the new Specialised Lending business, resulted in the need for the Board of Directors to reflect on the strategic outlook for the bank, a process which is still ongoing.

With regard to the financial statements at 31 December 2019, due to the uncertainty regarding the development of the new SME Specialised Lending division, the governing body, without excluding the resumption of the Vesta Project, has decided – on a prudential basis, in discontinuity with the impairment test for the previous year – not to consider for impairment testing purposes the effects of this development initiative on the company's forecast financial performance.

While this decision did not have any impact on the income streams of the CGUs tested (Banking Payments and Securities Services), it did lead to a significant increase in the minimum regulatory capital allocated to these CGUs, with repercussions at the level of their recoverable amounts.

The goodwill associated with the Securities Services CGU was therefore written down to zero, resulting, in view of the irrelevance of this write-down for tax purposes, in a loss for the year of € 29.2 million.

The impairment recognised in the income statement has no impact on either the bank's capital adequacy (capital ratios are calculated after deducting all intangible assets) or its prospective profitability.

In fact, the financial statements close with an improving financial performance by the core business and a sound financial position.

Selection of the new core banking provider

Since the current core banking system does not allow the management of the new businesses identified in the Strategic Plan (Crossover Lending, Factoring and UTP), nor does it provide programs for integration with third-party applications, after the Plan was adopted, a feasibility study was promptly launched for the replacement of the current core banking and related facility management solution, involving the replacement of the current provider, Creval, with CSE. Migration is expected by the end of 2020.

However, the sustainability of this timeline is also currently being verified in the light of the aforementioned corporate events.

Other transactions

During 2019, the company carried out some disposals of assets considered non-strategic and in particular:

- the sale of the 5.76% equity interest in equensWorldline SE was closed on 30 September. The interest was sold to the parent company Worldline SA (a French company listed on Euronext – Paris) due to the exercise of the call option reserved for it in October 2017 as part of the transaction that had led to the integration of Equens SE with Wordline Group companies operating in the payments sector. The option (to be applied to the shares held by all minority shareholders) was exercised on the basis of a valuation of the company of € 2.95 billion, which allowed DEPObank to collect the sum of € 168.0 million (in addition to a dividend of € 1.6 million), against a book value at 31 December 2018 of € 110.1 million;

- the sale of the 12.5% equity interest in Fondo Italiano di Investimento SGR S.p.A. was closed on 5 December. The interest was sold to the relative majority shareholder Cassa Depositi e Prestiti S.p.A., on the basis of the sales agreements reached in the first half of the year, which also extended to the interest of another leading Italian bank. Consideration for the sale was € 2.225 million, compared with a carrying amount at 31 December 2018 of € 0.5 million.

Organisational structure of DEPObank

In 2019, the organisational structure of DEPObank was adapted to support the developments envisaged in the new 2019-2023 Strategic Plan.

In particular, the Chief Administrative Officer (CAO) Department was abolished and the following were created:
- the Deputy General Manager (DGM), with the task of coordinating the Chief Lending Officer (CLO), Chief Information Officer (CIO) and Chief Operating Officer (COO) Departments;
- the Human Resources Department, reporting to the CEO, with responsibility for management, training and development, industrial relations, human resources administration and organisational development;
- the COO Department, with responsibility for coordinating the operations of the business units, internal processes and regulations, procurement, facility management and general services;
- the CLO Department, with responsibility for granting, monitoring and managing credit and branch activities;
- the structure supporting the new SME Lending Business Line with responsibility for developing the new business of lending to small and medium-sized companies in its various forms: Crossover Lending & Factoring, Distressed & Turnaround Lending and Products Lending.

In addition, some fine-tuning of the organisational structure was carried out with a view to continuously improving operational efficiency.

In 2019 DEPObank passed the ISO 9001:2015 recertification audit by DNV, for the provision of treasury and cash services.

COVID-19 emergency

Following the spread of COVID-19 beginning in early 2020, the bank has continuously monitored the situation, seeking to formulate initial estimates of the possible economic and financial impacts of this global emergency, in the knowledge that this exercise is currently not easy and reliably quantifiable. For this reason and in view of the rapid evolution of events, it is not possible to provide quantitative estimates.

At the date of writing of this report, the bank had defined and adopted a series of technical and organisational measures aimed at protecting the safety of personnel and business continuity, while minimising the impacts on service levels provided, in compliance with the measures by the competent authorities.

In light of the above, to date the Bank's operations are guaranteed without critical situations; there are no situations of operational tension and contacts with IT partners remain ongoing in order to ensure the continuation of operational activity. There are currently no liquidity stress situations, no significant increases in credit risk, and no significant increases in operating costs related to the pandemic.

The potential effects of the pandemic on the bank's financial position are constantly monitored.

Transactions with related and connected parties

The Board of Directors has adequately reported and illustrated the transactions with the related parties indicated, in accordance with IAS 24, in the Report on Operations and in the Notes.

In order to safeguard the risk that the proximity of certain parties ("related parties") to the decision-making centres of the company may compromise the objectivity and impartiality of company decisions, with possible distortions in the resource allocation process, exposure of the company to inadequately measured or supervised risks, potential damage to the company and its stakeholders, DEPObank has adopted a Regulation on Transactions with Related Parties in compliance with the provisions of the Bank of Italy Circular no. 263 of 2006 ("New prudential supervisory provisions for banks"). In addition, the Board of Directors, by resolution of 2 July 2018, appointed a Committee (the Committee for Transactions with Connected Parties) to which these transactions are submitted.

* * *

Activities of the Board of Statutory Auditors during the year

- The Board of Statutory Auditors supervised compliance with laws, regulations and the Articles of Association.
- The financial statements for the year ending 31 December 2019, complete with the Notes to the Financial Statements and accompanied by the Directors' Report on Operations, were approved by the Board of Directors on 6 April 2020 and made available to the Board of Statutory Auditors within the statutory period.
- In carrying out its control activities, the Board of Statutory Auditors complied with the rules laid down by Italian Legislative Decree no. 39/2010, Bank of Italy Circular no. 285/2013, Bank of Italy Communication no. 264010 of 4 March 2008 and subsequent updates, the Joint Bank of Italy, Consob and Isvap (now Ivass) Documents no. 2 of 6 February 2009 and no. 4 of 3 March 2010, the contents of Art. 2429, paragraph 2, of the Italian Civil Code, as well as the principles of conduct recommended by the National Council of Accounting Professionals.
- To perform the aforementioned supervisory functions, the Board of Statutory Auditors acquired information through both meetings with the heads of the competent corporate structures, especially control structures, and participation in meetings of the Board of Directors and the Risk Committee.
- In 2019, the Board of Statutory Auditors attended all the meetings of the Board of Directors and met with the Chief Executive Officer, the Deputy General Manager, the Chief Financial Officer, the Chief Information Officer and the Chief Administrative Officer to discuss specific issues. On these occasions, it received

adequate information on the activities carried out and on the company transactions with the greatest impact on financial performance and financial position. It may reasonably be assured that the actions decided and carried out comply with the law and the Articles of Association and are not manifestly imprudent, risky, in conflict of interest, in contrast with the decisions taken by the Shareholders' Meeting, or such as to compromise the integrity of company assets.

- The Board of Statutory Auditors supervised, to the extent of its competence, the adequacy of the organisational structure and compliance with the principles of sound administration. It did so through the collection of information from the managers of the organisational functions and meetings with the independent auditors, for the mutual exchange of relevant data and information. In this regard, there are no particular findings to report.
- The adequacy of the overall system of internal controls was verified with frequent meetings with the heads of the Audit, Risk Management and Compliance & AML departments, with the examination of the reports periodically submitted to the Board of Statutory Auditors, the Board of Directors and the Risk Committee (Quarterly Dashboard, reports on the progress of scheduled activities and annual activity plans, etc.).

  In particular:
  - at its meeting on 7 February 2019, the Board of Directors took note of the results of the assessment carried out on the internal control functions;
  - at its meeting of 21 February 2019, the Board of Directors, in approving the 2019-2023 Strategic Plan, also approved the revision of the RAF metrics, took note of the exceeding of the limit on large exposures with regard to the shareholding in equensWorldline SE and made several determinations in this regard;
  - at its meeting on 21 March 2019, the Board of Directors took note of the summaries of the activities carried out by the Control Functions in 2018 and the business plans for 2019 (2019-2021 in the case of the Audit Service), took note of the Annual Self-Assessment Report on the continued fitness requirements of the Depositary Bank, the Report on the manner in which investment services are carried out, the Summary Report on the IT risk situation in 2018, the changes to the Non-Compliance Risk Policy, the changes made to the Anti-Money Laundering and Anti-Terrorism Policy and the adoption of the Privacy Policy;
  - at its meeting of 29 April 2019, the Board of Directors approved the ICAAP/ILAAP Report as at 31 December 2018, took note of the assessment of the Recovery Plan sent to the Bank of Italy in September 2018, approved the revisions made to the Organisational, Management and Control Model pursuant to Italian Legislative Decree no. 231/2001 and took note of the Annual Report on Important Operational Functions;
  - at its meeting on 9 May 2019, the Board of Directors approved the Annual Report on the internal system for reporting violations for 2018;
  - at its meeting of 20 June 2019, the Board of Directors approved the new organisational structure and took note of the changes to the organisational procedure on reporting violations of the rules (whistleblowing);
  - at its meeting on 1 August 2019, the Board of Directors approved the introduction of new RAF metrics on the occasion of the approval of the Banking Book Interest Rate Risk Policy and approved the new version of the DEPObank General Regulations;

- at its meeting of 19 December 2019, the Board of Directors approved the amendments to the Anti-Money Laundering and Anti-Terrorism Policy and the Policy for the management of the risk of non-compliance, and approved the update of the Business Continuity Plan.

- The Board of Statutory Auditors monitored the proper performance of anti-money laundering controls by the company.
- The Board of Statutory Auditors monitored the implementation by the company of the corrective actions and interventions identified and suggested by the Audit Service.
- The Supervisory Body, established in accordance with Italian Legislative Decree no. 231 of 8 June 2001 and whose functions have been consolidated into the Board of Statutory Auditors, continued its activity without finding anomalies or objectionable facts.
- The adequacy of the administrative-accounting system and its reliability in correctly representing operating events was verified. This was done by acquiring information from the managers of the respective functions, examining corporate documents and analysing the results of the work done by the independent auditors, as well as by supervising the activities of those responsible for internal control.
- The Board of Statutory Auditors held regular meetings with the independent auditors, exchanging information regarding the company's auditing activities. No significant issues and/or criticalities emerged in relation to this activity.
- In addition to the audit assignments of the annual and half-yearly accounts, the auditing firm Deloitte & Touche S.p.A. and other entities belonging to the auditing firm's network in 2019 were not assigned assignments other than those of the statutory audit.
- The 2019 report on operations complies with applicable regulations and is consistent with the resolutions of the governing body and with the results of the financial statements; as already mentioned, it contains adequate information on the activity during the year and on transactions with related parties. The notes to Part E contain an indication of the risks and related hedging policies, as recommended by the joint Bank of Italy, Consob and Isvap documents no. 2 of 6 February 2009 and no. 4 of 3 March 2010.
- The financial statements have been prepared according to the structure and schedules imposed by current regulations. In particular, the financial statements for the year ended 31 December 2019, in compliance with the provisions of Regulation (EC) No 1606 of 19 July 2002, have been prepared in compliance with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), as endorsed by the European Commission and transposed into Italian law by Legislative Decree no. 38/2005.

  The IASs/IFRSs in effect from 31 December 2018 and the instructions for preparing financial statements issued by the Bank of Italy in its Order of 22 December 2005, concurrent Circular No. 262 and subsequent updates have been adopted in preparing the financial statements. There were no derogations from the IASs/IFRSs.

  The independent auditors issued their report on 16 April 2020. The auditors express an unqualified opinion of the financial statements inasmuch as they: (i) provide a true and correct representation of the financial position, results of operations and cash flows, and (ii) comply with accounting standards. They also express an unqualified opinion of the Report on Operations.

- In accordance with Article 17 of Italian Legislative Decree no. 39/2010, the independent auditors also declare there are no causes that could compromise their independence.
- During the year, the Board of Statutory Auditors issued the opinions required by law, supervisory regulations and the Articles of Association. Among others, the following opinions should be noted:
  - the opinion dated 9 January 2019, pursuant to Article 136 of the Consolidated Law on Finance, on the agreement governing the termination of the Chief Executive Officer and General Manager in office at that date, the consensual termination of the relevant employment relationship and his appointment to the different position of Chairman of the Board of Directors;
  - the opinion dated 9 January 2019 on the appointment of the new Chairman of the Board of Directors and the determination of the relevant remuneration pursuant to Article 2389 of the Italian Civil Code;
  - the opinion dated 9 January 2019 on the appointment of the new Chief Executive Officer, award of the related powers and the determination of the relevant remuneration pursuant to Article 2389 of the Italian Civil Code;
  - the opinion dated 14 March 2019 on the annual activity plans of the control functions;
  - the opinion dated on 11 April 2019 on the variable remuneration of the head of the Securities Services BU and then Chief Executive Officer for 2018;
  - the opinion dated 11 April 2019 on the variable remuneration of the Deputy General Manager and then Vice Chairman for 2018;
  - the opinion dated 11 April 2019 on the variable remuneration of the Chief Executive Officer for 2019;
  - the opinion dated 12 April 2019 on amendments to the policy: "Internal Policies on Investments in Non-Financial Enterprises and Real Estate Investments";
  - the opinion dated 23 April 2019 on the ICAAP/ILAAP Report as at 31 December 2018;
  - the opinion dated 23 April 2019 on the report on controls carried out on important operational functions;
  - the opinion dated 20 June 2019 on the Recovery Plan due to the violation of the related parties limit;
  - the opinion dated 25 July 2019 on the Banking Book Interest Rate Risk Policy;
  - the opinion dated 19 December 2019 on the integration of the powers of the Chief Executive Officer.
- On 29 April 2019, the Board of Statutory Auditors also submitted a reasoned proposal to the Shareholders' Meeting for the appointment of a statutory auditor for the years 2019/2027.
- The Board of Statutory Auditors did not receive any complaints pursuant to Art. 2408 of the Italian Civil Code or petition.
- The supervisory activities of the Board of Statutory Auditors were recorded in the minutes of the 14 meetings held during 2019. The Board of Statutory Auditors also attended 16 meetings of the Board of Directors and one meeting of the Committee for Related Party Transactions and held 4 meetings as the Supervisory Body pursuant to Italian Legislative Decree no. 231/2001. It is generally acknowledged that the supporting documentation for the items on the agenda was exhaustive and was sent well in advance.

- In the course of the supervisory activity carried out, and based on the information obtained from the independent auditors, no omissions, objectionable facts or irregularities were detected, nor, in any case, were there any material facts to be reported to the supervisory authorities or mentioned in this report.

* * *

Supervisory activities pursuant to Art. 19 of Italian Legislative Decree no. 39/2010

Pursuant to Art. 19 of Italian Legislative Decree no. 39/2010, the Board of Statutory Auditors is responsible for: monitoring the financial reporting process; overseeing the effectiveness of the company's internal quality control and risk management systems and of internal auditing; monitoring the statutory auditing of the financial statements; and verifying and monitoring the independence of the independent auditors.

Although the above report in part already provides the information referred to in the aforementioned Art. 19, it is specified that the supervisory activity related to the financial reporting process, the system of internal controls and risk management, the statutory audit activity and the independence of the auditor did not reveal any further elements to be reported.

* * *

Proposal to the Shareholders' Meeting

Financial statements for the year ending 31 December 2019

In view of the results of the activities carried out by the body responsible for accounting control and the results contained in the report issued on 16 April 2020, the Board of Statutory Auditors expresses a favourable opinion of the approval of the financial statements at 31 December 2019, which closed with a loss for the year of € 29,166,152, which it is proposed be covered through the use of available reserves (the financial statements at 31 December 2018 had closed with a profit of € 5,164,942); there is no impediment to the proposal relating to the coverage of the loss for the year by attributing it, for € 29,166,152, to the earnings reserves set aside by the Board of Directors.

Milan, 16 April 2020

The Board of Statutory Auditors

Gianluigi Fiorendi, Chairman
Lorenzo Banfi
Paolo Lazzati

FOR THE BOARD OF STATUTORY AUDITORS
THE CHAIRMAN

DEPObank
BANCA DEPOSITARIA ITALIANA

Report of the Independent auditors

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INDEPENDENT AUDITOR'S REPORT PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010 AND ARTICLE 10 OF THE EU REGULATION 537/2014

To the Shareholders of
DEPObank S.p.A.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of DEPObank S.p.A. (the "Bank"), which comprise the balance sheet as at December 31, 2019, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at December 31, 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 43 of Italian Legislative Decree no. 136/15.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Impairment test on goodwill	
Description of the key audit matter	The Bank has recorded Euro 81 Million (Euro 126.9 Million as at December 31, 2018) of goodwill under intangible assets in the financial statement as at December 31, 2019, which has been allocated to the *Cash Generating Unit* (CGU) "Banking Payments" and "Securities Services". According with IAS 36 "Impairment of assets", goodwill is subjected to an impairment test at least once a year, by comparing it with the recoverable amount of the CGU. The recoverable amount is the higher of: • Value in Use, as the present value of the future cash flows expected to be derived from an asset or CGU; • Fair Value, less costs of sell, as the price that would be received to sell an asset or a CGU in an orderly transaction between aware and independent market participants. The impairment test was conducted by first preparing financial projections for each CGU underlying the 2019-2023 Strategic Plan, approved by the Board of Directors on February 21, 2019 and updated in its 2020-2023 financial projections on March 19, 2020 (the "Updated Plan"). The Value in Use of the CGUs has been determined by applying the Dividend Discount Model (DDM) methodology in the Excess Capital version, discounting the underlying financial projections at a rate considered adequate and representative of the investment. Fair Value was determined by applying the market multiples method, using a range between the average and the median value of a sample of comparables. Based on the results of such process, in the financial statements as at December 31, 2019 the Bank accounted a full write-down of the goodwill of the Securities Services CGU for Euro 45.9 Million, whereas it did not determine the need to recognize any write-down of goodwill allocated to the Banking Payments CGU. The notes to the financial statements – Part A – Accounting Policies; Part B – Information on the balance sheet, Section 9 of Assets – provide the disclosures on the aspects mentioned above. Considering the amount of the goodwill recorded in the financial statements, the subjectivity of the estimates relating to the determination of the expected cash flows, of the key variables of the impairment model, as well as the discretion in the choice of the market multiples, we considered that the impairment test of goodwill was a key audit matter for the Bank's financial statements.

Audit procedures performed	The main procedures carried out as part of our audit work, also with the support of experts belonging to Deloitte network, have included the following: • identification and understanding of key controls put in place by the Bank over the impairment testing process; • obtaining an understanding of the methods and assumptions adopted by the Bank to carry out the impairment test; • analysis of the reasonableness of the main assumptions adopted by the Bank to estimate cash flows, to select the capitalization rate and the comparables used in the market multiples method, also by obtaining information from the Bank and comparison with public information; • analysis of actual figures compared with the original plans to assess the nature of the variances and the reliability of estimation of the expected cash flows; • verification of the calculation accuracy of the models used to determine the recoverable amount; • review of the sensitivity analysis prepared by the Bank; • analysis of the events occurring after the reference date of the financial statements; • verification of the completeness and compliance of the disclosure provided by the Bank with respect to the requirements of the IAS 36 "Impairment of assets".

Other matters

The financial statements of DEPObank S.p.A. for the year ending December 31, 2018 have been audited by another auditor that on April 12, 2019 issued an unmodified opinion on those financial statements.

Responsibilities of the Directors and the Board of Statutory Auditors for the Financial Statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 43 of Italian Legislative Decree no. 136/15 and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Bank or for the termination of the operations or have no realistic alternative to such choices.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of DEPObank S.p.A. has appointed us on April 29, 2019 as auditors of the Bank for the years from December 31, 2019 to December 31, 2027.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Bank in conducting the audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14, paragraph 2 (e), of Legislative Decree 39/10

The Directors of DEPObank S.p.A. are responsible for the preparation of the report on operations of DEPObank S.p.A. as at December 31, 2019, including its consistency with the related financial statements and its compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations with the financial statements of DEPObank S.p.A. as at December 31, 2019 and on its compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations is consistent with the financial statements of DEPObank S.p.A. as at December 31, 2019 and is prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the entity and of the related context acquired during the audit, we have nothing to report.

DELOITTE & TOUCHE S.p.A.

Signed by
Antonio Zecca
Partner

Milan, Italy
April 16, 2020

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

DEPObank

BANCA DEPOSITARIA ITALIANA

Resolutions of the Shareholders' Meeting of 7 May 2020

Resolutions of the Shareholders' Meeting

of 7 May 2020

The following is a summary of the resolutions passed by the Ordinary Shareholders' Meeting held in first call on 7 May 2020.

1. FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019; DIRECTORS' REPORT ON OPERATIONS; REPORTS OF THE BOARD OF STATUTORY AUDITORS AND INDEPENDENT AUDITORS; RELATED RESOLUTIONS.
The Shareholders' Meeting approved the financial statements as at 31 December 2019 as presented by the Board of Directors and the related coverage of the loss for the financial year.

2. DEPOBANK'S REMUNERATION AND INCENTIVE POLICIES; RELATED RESOLUTIONS.
The Shareholders' Meeting approved DEPObank's remuneration and incentive policies as proposed by the Board of Directors.

DEPObank
BANCA DEPOSITARIA ITALIANA

Boards and officers at 7 May 2020

Boards and officers

As at 7 May 2020

BOARD OF DIRECTORS

Chairman	Paolo Mario Tadini
Deputy Chairman	Pier Paolo Cellerino
Chief Executive Officer	Fabrizio Viola
Directors	Fabio Calì Giovanni Camera Rosa Cipriotti Francesco Colli Umberto Colli Ottavio Rigodanza Ezio Simonelli Paolo Vagnone

BOARD OF STATUTORY AUDITORS

Chairman	Gianluigi Fiorendi
Standing Auditors	Lorenzo Banfi Paolo Francesco Maria Lazzati
Alternate Auditors	Andrea Brambilla Gianluca Pozzi

GENERAL MANAGEMENT

Acting Assistant General Manager	Paolo Testi

DEPObank

BANCA DEPOSITARIA ITALIANA

List of shareholders

List of Shareholders

Equinova UK HoldCo Limited	London
Banco BPM S.p.A.	Milan
Credito Valtellinese S.p.A.	Sondrio
Banca Popolare di Sondrio S.c.p.A.	Sondrio
UBI Banca S.p.A.	Bergamo
Banca di Cividale S.c.p.A.	Cividale
ICCREA Banca S.p.A.	Rome
Banca Sella Holding S.p.A.	Biella
Banca Popolare del Frusinate S.c.p.A.	Frosinone
Banca Popolare Vesuviana Soc. Coop.	S. Giuseppe Vesuviano