Banca Profilo

Annual Financial Report

2019

Annual Financial Report
at 31 December 2019

Letter to shareholders

Dear Shareholders,

2019 was a year of excellent results for your company, the best results achieved in the last 10 years, exceeding all the profit and loss and balance sheet objectives set out in the 2017-19 Business Plan. Operating income amounted to € 12.2 million, six times higher than in 2018 and up almost 50% compared to the positive year 2017. Consolidated net profit amounted to € 8.4 million with revenues of over € 70 million. This result allows for the payment of a dividend of € 0.009 per share, three times higher than last year.

The figures are always important, but the satisfaction with which we present this financial report also derives from the quality of the actions that have led to these results, inspired by the guidelines of the Business Plan and based on the full involvement of each business area within our Group.

In 2019, the Bank increased its customer funding, establishing itself as a highly specialised player in exclusive and niche financial products, created or identified to meet the diversification and profitability needs of a sophisticated and cultured clientèle. We have become recognised leaders in the creation of real estate, industrial and financial club deals, thanks also to the virtuous interaction between the private banking structures, which carefully manage the relationship with customers, and those of the product factories and investment banking, actively present for the needs of entrepreneurial customers. These products continue to interest our traditional customers, entrepreneurs and professionals who are attentive to the dynamics of the markets and the evolution of macroeconomic scenarios, and are attracting new customers, interested in the value of diversification and complementarity that the products offer with respect to more traditional investments, such as those underlying asset management or that are occasionally recommended by our advanced advisory resources.

Investment banking activities have distinguished themselves in their reference market for important capital market transactions, realising several of the better performing IPO transactions in the year on the AIM market, and strengthening the brand awareness of the division, which now is able to place instruments with the most sophisticated institutional investors, to participate in international structured credit consortia and to assume significant Nomad and specialist mandates.

The contribution of Finance was very positive in 2019, capturing precisely and promptly the growth trends found in the financial markets, with revenues generated by all the active desks in our front office structure, which is unique in the domestic market in terms of size, characteristics and quality. Trading, banking book and brokerage have all generated returns that make a significant contribution to the Bank's profitability. We are proud of the professionalism and commitment of our operators.

The activities of Banque Profil de Gestion contributed a positive net result to the Group's figures. The integration with Dynagest has been completed and the contribution of our new colleagues' quantitative and management skills is generating synergies with Italian activities. The necessary steps are being taken to make the most of the opportunities offered by the Luxembourg subsidiary Dynamic Asset Management, as an authorised manager of European vehicles.

2019 was also an important year for our commitment to fintech in order to safeguard the opportunities offered by technological innovation and digital evolution, a commitment that makes Banca Profilo one of the most specialised operators in this field. The partnership with Tinaba continues successfully, characterised during the year by further developments in the agreements with one of the global leaders in fintech, Alipay, which chose our Group to increase its presence in Europe, and by the roboadvisor service which recorded excellent results during the year. The collaboration with MdotM, a start-up company active in the management of assets using artificial intelligence algorithms, was also launched, which allowed Banca Profilo to be among the first operators to propose wealth management based on machine learning algorithms.

2020, which started well, has unfortunately reversed dramatically in recent weeks, following the extraordinary emergency caused by the spread of COVID 19, a pandemic that undermines the macroeconomic outlook in the short and medium term and which has triggered a sudden and violent reaction on the financial markets. It is difficult today to predict the events of the coming weeks, but we are confident in the ability of our society to face and overcome even the most difficult challenges, with commitment, seriousness, a sense of duty and the common good. If the challenge is met in the coming months, the damage created can be limited and followed by a gradual and then more decisive recovery in economic and financial transactions.

Your Bank is ready to defend your savings, guaranteeing a contribution of professionalism, as well as moral and substantial commitment to households and businesses in our country. In these days of uncertainty and confusion, we must not allow ourselves to be caught up in fear, but must focus on what is required to contain the emergency and its negative consequences. The time will soon return to resume the positive path of growth and development with which we ended 2019.

Milan, 12 March 2020

Giorgio Di Giorgio
Chairman

Fabio Candeli
Chief Executive Officer

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Pro

We believe that freedom from

all institutional or commercial constraints

is the best guarantee of quality.

Independence

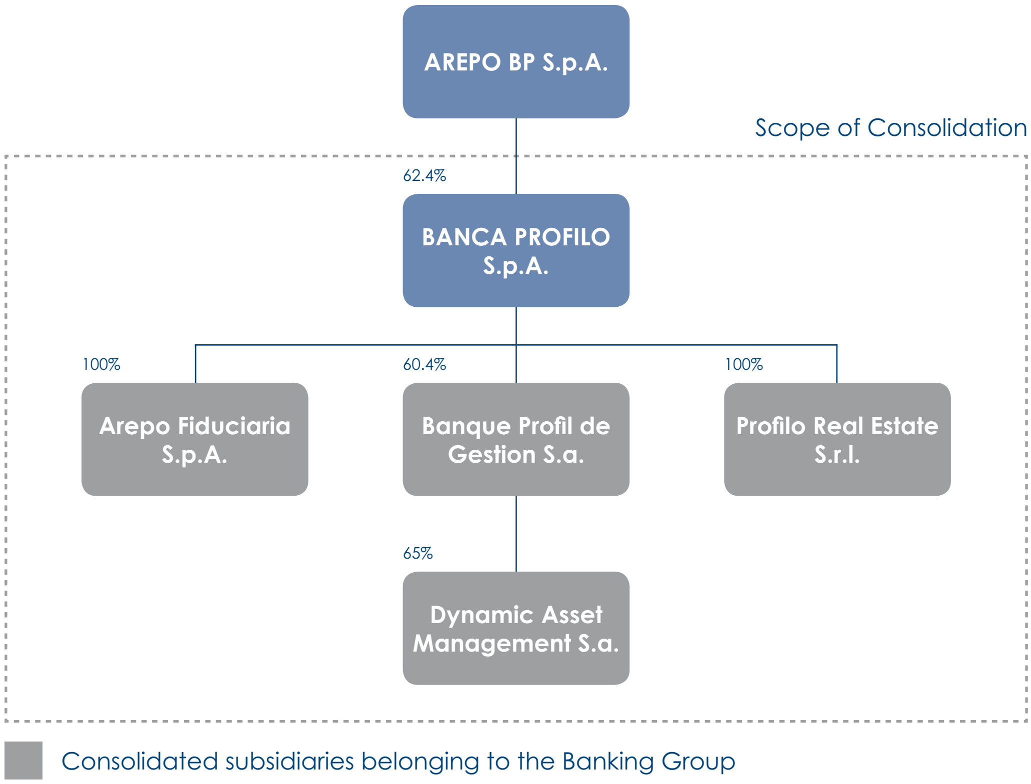
Ours is a new model of banking,

focused on service,

independence, efficiency.

Consolidated Financial Statements

Banking Group Structure and Scope of Consolidation



As at 31 December 2019, the **Banca Profilo Banking Group** consisted of the Parent Company Arepo BP S.p.A., a financial holding company that does not carry out any activities to the public, and its subsidiaries pursuant to Art. 2359 of the Italian Civil Code.
All subsidiaries are part of the Banca Profilo Banking Group.
Banca Profilo prepares its Consolidated Financial Statements in accordance with IAS/IFRS and in compliance with the provisions of the Bank of Italy, including its Subsidiaries as indicated in the schedule, all **consolidated on a line-by-line basis**.

On 2 July 2018 Banque Profil de Gestion completed **the acquisition of the Swiss company Dynagest S.A.** and indirectly a 65% interest in **Dynamic Asset Management S.A.** (DAM), a Luxembourg management company. Dynagest S.A. was subsequently (on 28 September 2018) merged into Banque Profil de Gestion, while the subsidiary Dynamic Asset Management S.A. was registered with the Banca Profilo Banking Group on 2 July 2018.
The Parent Company Arepo BP is not included in the scope of consolidation of this Financial Report.

The Bank's Corporate Officers and Organisational Chart

Corporate Officers as at 31 December 2019

Board of Directors

Chairman	Giorgio di Giorgio
Deputy Chairman	Giacomo Garbuglia
Chief Executive Officer	Fabio Candeli
Directors	Vladimiro Giacchè
	Giovanni Maggi*
	Ezilda Mariconda
	Rosa Cipriotti*
	Carlo Mazzi*
	Paola Antonia Profeta*
	Carlo Puri Negri
	Serenella Rossano*

** Independent Directors*

Board of Statutory Auditors

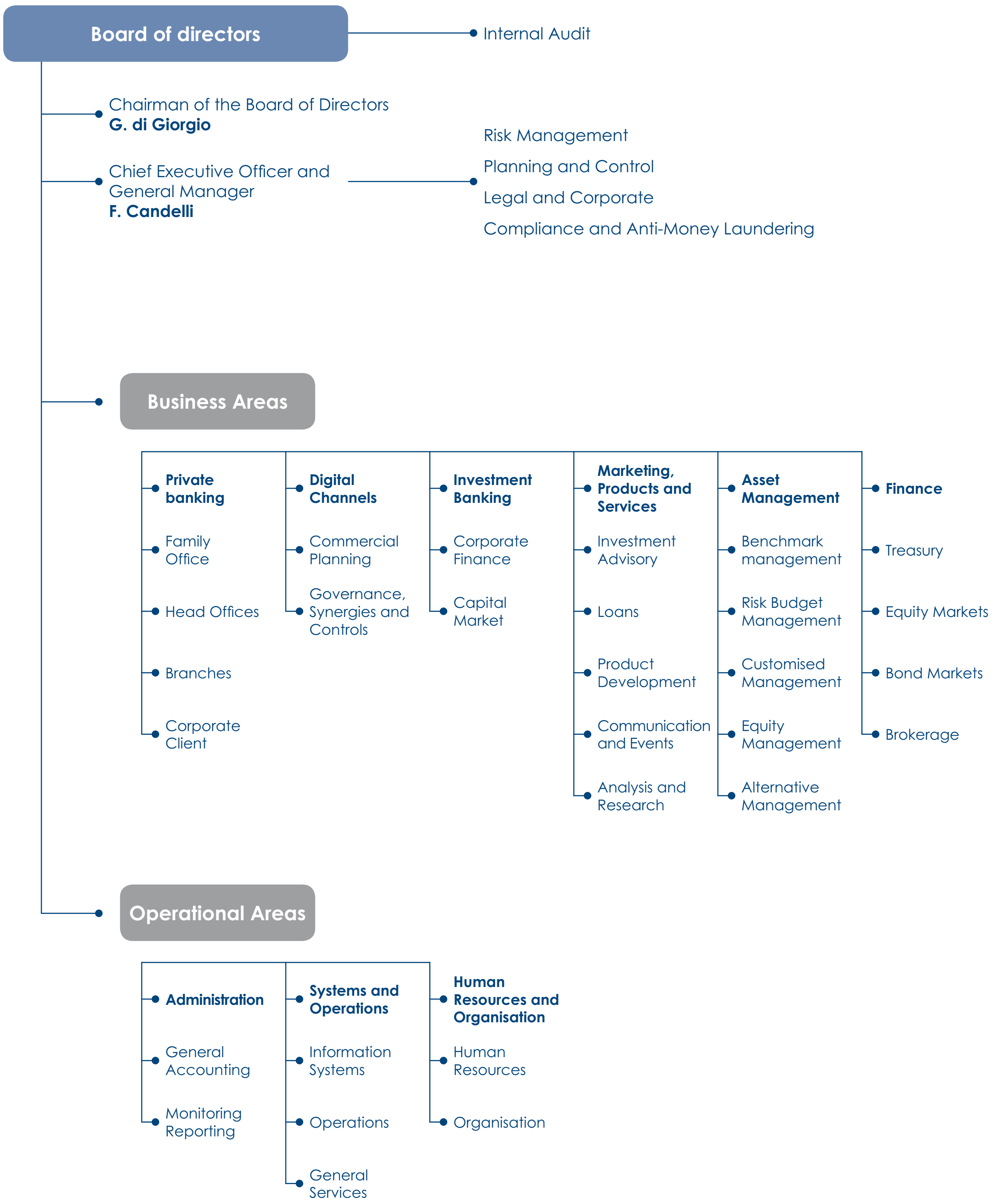
Chairman	Nicola Stabile
Standing Auditors	Sonia Ferrero
	Andrea Angelo Aurelio Amaduzzi
Alternate Auditors	Beatrice Gallì
	Nicola Miglietta

Senior Management

General Manager	Fabio Candeli

Financial Reporting Officer	Giuseppe Penna
Independent Auditors	Deloitte & Touche S.p.A.

Organisational Chart as at 31 December 2019



Territorial Organisation

Banca Profilo

Milan Branch

Via Cerva, 28
20122 Milan
Tel.: 02 58408.1
Fax.: 02 58301590

Brescia Branch

Corso Zanardelli, 32
25100 Brescia
Tel.: 030 296611.1
Fax.: 030 2966320

Turin Branch

Via Davide Bertolotti, 2
10121 Turin
Tel.: 011 551641.1
Fax.: 011 5516404

Genoa Branch

Salita Santa Caterina, 4
16123 Genoa
Tel.: 010 53137.1
Fax.: 010 584018

Reggio Emilia Branch

Via Emilia San Pietro, 35
42121 Reggio Emilia
Tel.: 0522 44141.1
Fax.: 0522 441445

Rome Branch

Via Carissimi, 41
00198 Rome
Tel.: 06 69016.1
Fax.: 06 69202354

Italian subsidiaries

Profilo Real Estate Srl

Via Cerva, 28
20122 Milan
Tel.: 02/58408.1

Arepo Fiduciaria Srl

Via Cerva, 28
20122 Milan
Tel.: 02/58408.1

Foreign subsidiaries

Banque Profil de Gestion S.a.

11, Cours de Rive
CH1204- Genève
Tel: 0041 22 818 31 31
Fax: 0041 22 818 31 00

Dynamic Asset Management Company (Luxembourg) S.A.

15, rue du Fort Bourbon
L-1249 Luxembourg
Tel: (+352) 264 80 264
Fax: (+352) 264 80 265


Pro

We build stable and trustworthy

relationships because every

reliability

asset entrusted to us is not only a

value to protect and grow; for us it is

a personal commitment.

Summary Data and Indicators

Main consolidated figures

RECLASSIFIED INCOME STATEMENT FIGURES (in €/thousand)	12 2019	12 2018	YoY change	
			Absolute	%
Net interest income	16,702	17,852	*-1,150*	*-6.4*
Total net revenues	70,868	54,063	*16,805*	*31.1*
Operating income	12,168	1,750	*10,418*	*n.s.*
Result before taxes	11,568	1,621	*9,947*	*n.s.*
Net profit (loss)	**8,371**	**1,635**	***6,736***	***n.s.***

RECLASSIFIED BALANCE SHEET FIGURES (in €/thousand)	12 2019	12 2018	YoY change	
			Absolute	%
Financial assets measured at fair value through profit and loss	532,391	507,975	*24,416*	*4.8*
Financial assets measured at fair value through other comprehensive income	311,714	440,547	*-128,833*	*-29.2*
Financial assets measured at amortised cost	1,127,002	1,173,361	*-46,359*	*-4.0*
Hedging derivatives	1,271	2,985	*-1,714*	*-57.4*
Total Assets	**2,107,937**	**2,255,668**	***-147,731***	***-6.6***
Direct funding	1,270,060	1,375,039	*-104,979*	*-7.6*
Indirect funding	6,220,819	5,755,172	*465,647*	*8.1*
- of which asset management	*792,404*	*779,035*	*13,369*	*1.7*
- of which assets under custody	*2,954,200*	*2,677,684*	*276,516*	*10.3*
- of which activities abroad	*2,474,215*	*2,298,453*	*175,762*	*7.7*
Total funding	**7,490,879**	**7,130,212**	***360,667***	***5.1***
Net Fiduciary Funding	825,772	1,054,197	*-228,425*	*-21.7*
Total Fiduciary funding	**8,316,651**	**8,184,409**	***132,242***	***1.6***
Group shareholders' equity	165,276	151,539	*13,737*	*9.1*

RISK ASSETS AND CAPITAL RATIOS	12 2019	12 2018	YoY change	
			Absolute	%
Total Own Funds (in thousands of Euro)	149,111	139,614	*9,497*	*6.8*
Risk-weighted assets (in thousands of Euro)	690,526	719,630	*-29,104*	*-4.0*
CET 1 capital ratio%	21.4%	19.2%	2.2	
Total capital ratio%	21.6%	19.4%	2.2	

OPERATING STRUCTURE	12 2019	12 2018	YoY change	
			Absolute	%
Number of employees and collaborators	211	217	*-6*	*-2.8*
- of which Private Bankers	*39*	*44*	*-5*	*-11.4*
Number of branches	6	6	-	

Main consolidated indicators

PROFITABILITY INDICATORS (%)	12 2019	12 2018	Change YoY Absolute
Net interest income/Net revenues	23.6	33.0	*-9.4*
Net fee and commission income/Net revenues	45.6	51.9	*-6.3*
Cost/Income	82.8	96.8	*-14.0*
R.O.A.E.	5.3	1.0	*4.3*
R.O.A.	0.4	0.1	*0.3*

BALANCE SHEET INDICATORS (%)	12 2019	12 2018	Change YoY Absolute
Direct funding/ Loans and advances to customers	149.0	173.4	*-24.4*
Loans and advances to customers/Total Assets	40.4	35.2	*5.2*
Financial assets measured at fair value/Total Assets	40.1	42.2	*-2.1*
Shareholders' equity/Loans and advances to customers	19.4	19.1	*0.3*

INFORMATION ON BANCA PROFILO SHARE (in Euro units)	12 2019	12 2018	%
Earnings per share (EPS) - on average number of shares	0.013	0.002	*n.s.*
Shareholders' equity per share	0.24	0.22	*11.2*
Share price of Banca Profilo share at year-end	0.22	0.18	*26.0*
Share price of Banca Profilo share during the year:			
- average	0.17	0.20	*-18.5*
- low	0.14	0.16	*-9.6*
- high	0.26	0.27	*-1.4*
Shares issued at the end of the period (number)	677,997,856	677,997,856	*0.0*

Note: the figures relating to earnings per share and shareholders' equity per share are consolidated and consider only the Group's share.
Profitability indicators are calculated on the reclassified income statement amounts
Cost/Income = total operating expenses/total net revenues.
R.O.A.E. = return on average equity for the year.
R.O.A. = return on average assets for the year.

Consolidated Report on Operations

Reference Macroeconomic Scenario and Commentary on Markets

Macroeconomic scenario

According to the January update of the International Monetary Fund's "World Economic Outlook" report[1]" during 2019, the expected growth of the global economy is estimated at 2.9% year-on-year, slowing from 3.6% in 2018 and 3.8% in 2017. This deceleration was mainly driven by the trade escalation between China and the United States and the resulting deterioration in global trade, whose volumes contracted by 9% year-on-year during 2019. In support of a slowing economy and still low core inflation, the world's major central banks have adopted a largely accommodative monetary policy. For the current year, the overall macroeconomic picture continues to deteriorate. Although the trade agreement between China and the United States and the disappearance of the Hard Brexit risk have contributed to the stabilisation of some important economic indicators, the impact of Covid-19, which according to several economists could lead to a global recession, is still to be verified.

In the United States, the economy slowed during 2019 to 2.3% annually from 2.9% in 2018, penalised by weak manufacturing and declining business investments, which contributed negatively to the aggregate GDP figure in the second and third quarters. Conversely, consumption showed a less marked slowdown, supported by a strong labour market which continued to show an increase in non-agricultural employees and a decline in the unemployment rate to 3.5% at the end of December. The recession risk shown in August by the partial reversal of the curve in the 2Y-10Y section gradually eased in the second half of the year, thanks to better than expected macroeconomic data and the accommodating intervention by the Fed, which implemented 3 consecutive cuts in interest rates, with the Fed Funds rate falling into the 1.5%-1.75% range from 2.25-2.5% at the end of 2018. With regard to inflation, both the headline and the core indicators accelerated in the second half of 2019, reaching 2.3% at the end of December; however, the core PCE indicator, which the Fed pays more attention to when monitoring price trends, has been steadily below 2% (the Fed's target) since October 2018, suggesting that the US central bank's orientation will remain expansionary during the first half of 2020.

Consistent with the global economic slowdown, **GDP in the Eurozone decelerated to 1.2% year-on-year in 2019, compared to 1.9% in 2018 and 2.5% in 2017**, according to the latest IMF estimates. The economy was held back mainly by factors outside the Eurozone, such as the trade war between China and the United States and the uncertainty surrounding Brexit, which caused a deterioration in business confidence and volatility in the demand for goods from abroad. At the individual country level, the most disappointing figures came from Germany (0.6% year-on-year from 1.5% in 2018) and Italy (0% year-on-year from 0.8% in 2018), whose growth estimates were gradually revised downwards over the year. On the other hand, domestic demand was resilient thanks to a solid labour market, with the unemployment rate down to 7.5%, at a low since March 2008, which supported personal consumption. In the first part of 2019, inflation, both in the headline and core components, showed a progressive slowdown, causing the ECB, then led by Mario Draghi, to cut the deposit rate from -0.4% to -0.5% and to start a new QE programme worth € 20 billion per month. Christine Lagarde, who succeeded Mario Draghi last November, has maintained the accommodating line of her predecessor, but has appealed to the governments of individual countries for fiscal policy interventions where there is room for manoeuvre.

The Italian economy

According to the latest IMF estimates, **the Italian economy stagnated during 2019, with the aggregate GDP figure remaining, in absolute terms, at the same levels as in 2018**, thus showing year-on-year growth of zero. The Italian economy continued to grow less than the other member countries of the Eurozone, with the quarterly trend figure for growth in the fourth quarter of 2019 (0%) being lower than the aggregate figure for the Eurozone (+1%) for the seventy-fourth consecutive quarter, showing a gap, in terms of GDP growth, which continues to remain around one percentage point. The industrial sector con-

1 Report published on 9 January 2020.

tinued a period of weakness that began last year, but the slowdown in 2018 turned into a recession during 2019, with industrial production contracting for 11 out of 12 months. As far as price dynamics are concerned, consumer inflation showed a slight recovery, while remaining at contained levels, but reducing the inflation gap with the Eurozone countries.

Financial markets

2019 was a year of double-digit gains for investors: despite commercial and geopolitical uncertainties, the huge injection of liquidity by central banks and the constant search for returns by investors pushed financial assets to new record levels during the year.

On the stock market, the MSCI World, a synthetic index representative of the performance of the world's stock exchanges, **achieved a performance of 26%**, driven by the expansive turn of the world's leading central banks and, at the end of the year, by optimism regarding the achievement of a trade agreement between China and the United States. In Europe, the Eurostoxx 50 and Stoxx Europe 600 aggregate indices rose by 25.5% and 24% respectively: among the individual markets, the Milan Stock Exchange stood out, outperforming the other European indices with a gain of 28%; on the other hand, the Spanish IBEX was weak, at +13.2%. In the United States, the S&P 500 index, +29%, exceeded the psychological threshold of 3,000 points for the first time in history, driven up by the brilliant performance of the technology sector (+50%).

On the bond side, **the ultra-expansionary policy implemented by central banks and the constant search for returns by investors have pushed down government yields and corporate spreads** in both the high yield and investment grade segments. In Europe, the recovery of the QE and the cut in the deposit rate by the ECB brought the German Bund into negative territory, in August at an all-time low of -0.7%, before rising slightly at the end of the year to -0.2%, coinciding with renewed risk-on sentiment. BTP performance was positive, which also benefited from the narrowing of the spread, which went from 250bps at the end of 2018 to 160bps at the end of 2019: in terms of yield, the Italian ten-year bond fell from 2.7% at the end of 2018 to 1.4% at the end of 2019, with a minimum of 0.8% in September.

The commodities market also posted double-digit gains at constant exchange rates, with WTI at $ 61 per barrel at the end of 2019, up 34% over the end of 2018, and Brent at $ 66, up 22%. Gold, at $1,517 an ounce, showed an appreciation of 18% over the year.

In 2019, the currency market was strongly affected by the newsflow linked to the trade escalation between China and the United States, which led safe haven currencies such as CHF, JPY and USD to appreciate in risk-off periods and to depreciate in risk-on periods, in relation to the alternation of pessimism/optimism regarding the reaching of an agreement between China and the United States. The euro-dollar exchange rate fell from 1.14 at the end of 2018 to 1.12 at the end of 2019, coming through a low of 1.09 at the end of September.

Developments in the Private Banking sector

Private Banking in Italy has characteristics of significant heterogeneity. The private divisions of the large domestic and foreign banking groups coexist with specialised boutiques, characterised by organisational structures and commercial policies far apart from each other.

However, for some time now, an attempt has been underway to analyse the sector at an aggregate and unitary level, mainly through the research activities of the Italian Private Banking Association (*Associazione Italiana Private Banking* - AIPB)[2]. In this sense, efforts are aimed at on the one hand, quantifying the size of the so-called "potential private market", conventionally represented by the stock of financial assets held by parties with securities in excess of € 500,000 (the so-called "High net worth households"), and on the other hand at analysing the penetration of the potential market by operators focused on the provision of private banking services (the so-called "private served market").

As far as the first line of research is concerned, for 2019 the main figures released[3] show a growth in the potential market compared to the value recorded the previous year. **The value of the financial wealth** of high net worth households is in fact estimated at the end of 2019 at € 1,112 billion (new historical record) compared to € 1,050 billion in 2018 (+5.9%), a change attributable both to the favourable performance of the markets (+4.0%) and the positive contribution of net funding (+1.9%). These resources refer to 656 thousand households.

2 AIPB is the trade association of players active in the Italian private banking market.
3 AIPB, "The potential market for Private Banking in Italy", December 2019.

During the year, the value of wealth entrusted to **structures focused on private banking** (served market[4]), also increased, reaching € 869 billion in September 2019. The potential market share of private banking structures is therefore 78.1%, the highest since the research was conducted. The potential market for generalist structures, just under a quarter of the total, remains significant and continues to represent the main development opportunity for focused institutions.

In terms of **composition of funding**, at the end of September 2019 direct funding in private portfolios increased compared to the previous year (from 15% to 17%) at the expense of managed funding (from 41% to 39%). Administered funding (23%) and insurance funding (21%) were stable.

Developments in the Assets Management Sector

There was a new record for Italian savings **in the last quarter of 2019**. The asset management industry recorded € 17.7 billion in net subscriptions. From this, € 7.3 billion was raised by collective management and € 10.3 billion was invested in portfolio management, driven by insurance products.

Throughout the year the system totalled inflows for € 76.7 billion. Assets under management totalled € 2,306 billion and reached a new all-time high.

Open-ended funds recorded € 5.1 billion in the fourth quarter of 2019 compared to € 3.9 billion in the previous quarter. During the survey period, Italian savers turned their preferences towards bond products (€ +5.2 billion), equities (€ +3.2 billion) and balanced products (€ +2 billion). Flexible funds and monetary funds, on the other hand, closed with accounts in the red for € 1.6 billion and € 3.4 billion respectively (-11.2 and +1 on an annual basis).

In **December**, net funding from asset management reached € 10.3 billion, with total assets rising to € 2,288 billion, a new all-time high, more than € 270 billion more than the figure recorded at the end of 2017. 51% of assets are invested in portfolio management (€ 1,162 billion), the remaining 49% in collective management (€ 1,126 billion).

In December, net funding of open-ended funds reached € 3.2 billion. Subscriptions were directed towards bond products (€ +2.3 billion), equities (€ +560 million), balanced products (€ +416 million) and flexible products (€ +226 million).

The regulatory context and the main developments required

During 2019, numerous new Italian and international laws and regulations came into force, with reference to which the main issues are set out below.
On 25 February 2019, the European Banking Authority (EBA) published on its website the "Final Report on EBA Draft Guidelines on outsourcing arrangements", i.e. the outsourcing guidelines that replace the previous 2006 CEBS outsourcing guidelines and the 2017 EBA Recommendation on outsourcing to cloud service providers. The Guidelines shall apply from 30 September 2019; for existing outsourcing agreements, the adjustment is expected on the first contract renewal date, in any case no later than 31 December 2021.

On 27 February 2019, IVASS Regulation no. 44 was published in the Official Gazette, containing the implementing provisions aimed at preventing the use of insurance companies and insurance intermediaries for the purposes of money laundering and terrorist financing in terms of organisation, procedures and internal controls and adequate customer due diligence, pursuant to Article 7, paragraph 1, letter a) of Legislative Decree no. 231 of 21 November 2007. The Regulation entered into force on 1 May 2019, repealing ISVAP Regulation no. 44/12 and IVASS Regulation no. 5/14.

On 19 March 2019, the Bank of Italy published amendments to the provision "Transparency of banking and financial transactions and services. Correct conduct between intermediaries and customers" adopted on 29 July 2019. The aim of the intervention is to implement: Directive 2015/2366/EU (Payment Services Directive, so called PSD2) and Chapter II-*bis*, Title VI, of the Consolidated Banking Law on the transparency of payment services; Directives 2014/17/EU (Mortgage Credit Directive) and 2008/48/EC (Consumer Credit Directive), as amended by Regulation 2016/1011/EU, on pre-contractual information in relation to benchmarks (the so-called Benchmark Regulation); the Guidelines of the European Banking Authority on remuneration policies and practices for the personnel responsible for offering banking products and for third parties involved in the sales network; the Guidelines of the Joint Committee of the European Supervisory Authorities on complaint management.

4 AIPB Research Department, "Analysis of the Market Served by Private Banking in Italy - Figures as at 30/9/2019", November 2019.

The amendments apply from 1 July 2019 and have been implemented by the Bank within that deadline. The same measure was further updated on 18 June 2019 to implement Directive 2014/92/EU (Payment Account Directive, so-called PAD) and Chapter II-*ter*, Title VI of the Consolidated Banking Act on payment accounts offered to or signed by consumers. The amendments apply from 1 January 2020 and have been implemented by the Bank within that deadline (activities relating to final reporting for the year 2020 are ongoing). From that date, the amendments to Section VI made by the amendments to the measure of 19 March 2019 shall also apply.

On 28 March 2019, the Financial Intelligence Unit (FIU), incorporated at the Bank of Italy, published on its corporate website the "Instructions on objective reporting" which establish the obligation for financial intermediaries to transmit to the FIU, on a periodic basis, data and information selected on the basis of objective criteria and concerning transactions at risk of money laundering or terrorist financing. The obligation to provide objective reporting begins in April 2019; when the measure is first applied, communications relating to April, May and June 2019 may be sent to the FIU by the deadline for reporting in July 2019 (15 September 2019). The Bank has periodically sent objective reporting at the intervals required by the Bank of Italy.

The new "Regulation on the organisation, procedures and internal controls to prevent the use of intermediaries for money laundering and terrorist financing" of 26 March 2019 were published in the Official Gazette of 8 April 2019, adopted in order to achieve alignment with European legislation and, in particular, with the provisions on organisation, procedures and internal controls set forth in Legislative Decree no. 231 of 21 November 2007 as amended by Legislative Decree no. 90 of 25 May 2017, as well as in order to further strengthen the principle of risk-based approach and the principle of proportionality according to which organisational and procedural measures are graduated according to the legal form and size of the obligated party, the operational complexity, the nature of the activity carried out and the type of services provided.

With communication no. 9 of 11 April 2019, Consob pointed out to the market that from 1 July 2019 the obligation for internalisers to notify the authority of aggregate data on internally settled transactions applies. The obligation derives from the European Regulation no. 909/2014 (so-called CSDR). The Bank has been sending periodic reports to Consob since July 2019.

On 28 May 2019, EU Regulation 2019/834 was published in the Official Gazette of the European Union amending Regulation (EMIR) EU 648/2012 as regards "the clearing obligation, the suspension of the clearing obligation, the reporting requirements, the risk-mitigation techniques for OTC derivative contracts not cleared by a central counterparty, the registration and supervision of trade repositories and the requirements for trade repositories" (so-called "EMIR Refit").

In the Official Gazette no. 134 of 10 June, Legislative Decree no. 49/2019, implementing Directive 2017/828 (so-called Shareholders' Rights Directive II - SHRD II) amending Directive 2007/36/EC as regards encouraging long-term shareholder engagement, approved by the Council of Ministers on 8 May, was published. The decree, which comes into force between June and September 2020, intervenes on the Italian Civil Code, amending Art. 2391-*bis*, and on the TUF. On 31 October 2019, Consob launched a public consultation on the amendments to be made to the Regulation in relation to transactions with related parties (Regulation no. 17221 of 12 March 2010) and to the Issuers' Regulation (Regulation no. 11971 of 14 May 1999) to implement the SHRD 2 directive. With regard to transactions with related parties, SHRD 2 establishes information and procedural controls for the execution of significant transactions. Considering that, in implementation of the legislative delegation already contained in Article 2391-*bis* of the Italian Civil Code, in 2010 Consob regulated the transparency obligations and procedural principles that companies are required to observe when carrying out transactions with related parties, the Italian regulations are largely consistent with the Directive with regard to approval procedures and transparency obligations for transactions as well as some cases of exemption. The amendments to the Issuers' Regulations (Article 84-*bis* and Annex 3A, Diagram 7-*bis*) submitted for market consultation align the secondary regulations with the provisions of SHRD 2 and make further refinements in light of developments in market practice in remuneration transparency. The interventions include: (i) the inclusion of the Directive's specifications on the purpose and content of the remuneration policy as well as on financial and non-financial performance targets, where appropriate taking into account corporate social responsibility criteria, and (ii) the refinement of the disclosure required on certain elements of the remuneration policy and remuneration paid. Finally, with regard to the transparency of asset managers and proxy advisors, the rules, introduced in the Issuers' Regulations, which identify the methods and terms for the compliance by asset managers and proxy advisors with the transparency and disclosure obligations provided for by SHRD 2 and already incorporated in the TUF by Legislative Decree no. 49/2019, are subject to market consultation. These obligations, largely based on the comply or explain principle, are designed to promote the engagement of institutional investors and asset managers in investing in European listed companies and to ensure adequate information flows in the contractual relationship between asset managers and institutional investors and transparency on the activities of proxy advisors. The consultation ended on 1 December 2019.

On 15 June 2019 the "Regulation for cash management activities", which came into force on 30 June 2019, were published in the Official Gazette no. 139 of the Italian Republic. The purpose of cash management activities is to preserve the integrity and state of preservation of banknotes by a) identifying those that are suspected of being counterfeit, by verifying their distinctive characteristics and security features (so-called authenticity checks) and b) verifying those that, due to their state of preservation, are suitable for re-entry into circulation both in counter operations and through cash dispensers (so-called suitability checks).

Directive 2018/843 (so-called "Anti-Money Laundering Directive V") of the European Parliament and of the Council was published in the Official Gazette of the European Union on 19 June 2019. The legal text amended Directive 2015/849 (Anti-Money Laundering Directive IV), transposed in Italy by Legislative Decree no. 90/2017, aimed at further tightening up the prevention of the use of the financial system for the purpose of money laundering and terrorist financing, constituting its main legal instrument. New additions include (i) the widening of the range of obligated parties (which also includes virtual and legal currency exchange service providers, digital portfolio service providers, gallery owners, auction house operators and antique dealers), (ii) the reduction of the pre-existing thresholds for the use of prepaid cards without the obligation to carry out an adequate customer due diligence (from the current €250 to €150), (iii) the adoption of further measures to be taken where the identified beneficial owner is a "senior manager".

On 24 July 2019 the Bank of Italy published the 28th update of Circular no. 285 of 17 December 2013 "Supervisory Regulation for Banks". The amendments transpose into national law the following second level acts issued by the EBA: (i) Guidelines on security measures for operational and security risks of payments services (EBA/GL/2017/17), Guidelines on reporting of major incident reporting (EBA/GL/2017/10) and Guidelines on the conditions to benefit from the exemption from the fallback mechanism under Article 33, para. 6 of Regulation (EU) 2018/389 (EBA/GL/2018/07); ii) the Recommendations on outsourcing to cloud service providers (EBA/REC/2017/03). The amendments contained in the update came into force the day after their publication on the Bank of Italy's website. In particular: a) the EBA Guidelines on security measures for operational and security risks of payments services define the safeguards that, in accordance with the principle of proportionality, intermediaries providing payment services shall adopt in order to mitigate and manage operational and security risks arising from the provision of these services; b) the Guidelines on Major Incident Reporting define the criteria and methodology for the classification of serious security incidents related to payments; c) the Guidelines on the conditions to benefit from the exemption of the fallback mechanism ('fallback interface') of Article 33, para. 6 of Regulation (EU) 2018/389 specify the criteria to which payment service providers holding accounts accessible online may be exempted from the obligation to provide the fallback interface provided for in Article 33, para. 4 of Regulation (EU) 2018/389 of the European Commission; d) EBA Recommendations on outsourcing to cloud service providers complement the general framework for outsourcing and introduce specific safeguards for cases of outsourcing of cloud computing services.

On 30 July 2019, the Bank of Italy published in its final version, the "Regulation on adequate customer due diligence to combat money laundering and terrorist financing". These Provisions came into force 15 days after their publication in the Gazette with an adjustment period starting on 1 January 2020, also specifying that, in relation to clients acquired before the Provisions came into force and for whom the regulations in force before Legislative Decree no. 90/2017 (Anti-Money Laundering Decree) established forms of exemption from the obligations of adequate due diligence, the recipients shall collect any missing data and identification documents at the first useful contact and in any case no later than 30 June 2020. The Provisions implement, in line with European legislation, the following: a) the provisions on customer due diligence; b) the Joint Guidelines of the European Supervisory Authorities issued for simplified and enhanced customer due diligence measures and the factors that credit and financial institutions should take into account when assessing the risks of money laundering and terrorist financing associated with individual ongoing relationships and occasional transactions. Among the main changes made, the measure confirms the provisions of the Anti-

Money Laundering Decree regarding the due diligence obligation, which is more articulated than the previous measure. It is also expected that a Register of Actual Ownership will be prepared for corporations, private legal entities and trusts (also established in other EU countries) to be consulted for the definition of the process of identification of the Beneficial Owner and as a source of feedback for the data provided by the customer (the provision does not appear to be applicable to date, in the absence of the implementing ministerial decree provided for in Article 21(5) of the Decree, establishing the Register). With regard to the Provisions applicable to Groups - and, in particular, the provision to centralise the profiling of common customers, assuming the highest risk in the event of discrepancies - the new Provisions provide for the possibility for Group companies to deviate from the assignment of the highest risk profile, provided that the reasons are adequately justified in writing. The Bank's adaptation activities are currently being finalised.

On 23 September 2019, Consob and IVASS launched the consultation on the implementation of the European Insurance Distribution Directive (Idd, 2016/97). In particular, as far as Consob is concerned, attention is drawn to the proposed amendments to the Intermediaries' Regulation concerning the rules of conduct and disclosure obligations with which the intermediaries themselves (including banks, investment firms, Poste Italiane) must comply when distributing insurance investment products. In more detail, the proposals consist of a complete rewriting of the ninth book of the Intermediaries' Regulation, so as to complete, for the aspects falling within Consob's sphere of competence, the rules for the implementation of the Idd. With regard to IVASS, proposals to amend the Regulations on corporate governance, distribution and disclosure of insurance products and the adoption of a new Regulation on the governance and control of insurance products (POG, Product Oversight Governance) are brought to the attention of insurance companies and financial intermediaries. The document consultation of both Authorities closed on 31 October 2019. In order to provide the parties entitled to insurance distribution with an adequate period of time within which to comply with the rules that are the subject of the consultation with the document in question, its entry into force will be set to 1 April 2020.

On 28 November 2019, the EBA published the final report of the ICT risk management and security guidelines. The Guidelines apply from 30 June 2020 and set out how financial institutions should manage ICT risks, and complement and build on the requirements set out in the "Guidelines on security measures for operational and security risks of payments services" which were published in December 2017 and apply from January 2018. These guidelines were addressed to payment service providers (PSPs) and applied only to payments services. These guidelines have been prepared in order to be addressed to a wider range of financial institutions covered by the EBA (i.e. credit institutions that already fell within the scope of the guidelines on security measures for their payments services, but for which the Guidelines will now apply for all activities) and investment firms.

On 5 December 2019, the Bank of Italy published the Regulation implementing Articles 4-*undecies* and 6(1)(b) and (*c-bis*) of the TUF. This Regulation governs the obligations of intermediaries providing investment services and activities and collective asset management in relation to: corporate governance and general organisational requirements, including internal systems for reporting violations; remuneration and incentive systems; business continuity; administrative and accounting organisation, including the establishment of compliance control functions, company risk management, internal audit; senior management responsibilities; outsourcing of essential or important operational functions; deposit and sub-deposit of customer assets.
In November and December 2019, ESMA published technical and operational details for the reporting of transactions falling within the scope of EU Regulation 2015/2365 (SFTR), which is expected to enter into force in April 2020.

Preparation Criteria

The Consolidated Financial Statements are prepared in accordance with **international IAS/IFRS standards** issued by the International Accounting Standards Board (IASB) and related interpretations of the International Financial Reporting Interpretations Committee (IFRIC) approved by the European Commission at the reporting date for which no exceptions have been made.

The consolidated economic situation is shown in the body of the report in a condensed reclassified form, providing the intermediate profit margins up to the net profit for the year. The income statement figures for the year (1 January 2019 - 31 December 2019) are compared with those for the previous year (1 January 2018 - 31 December 2018) although prepared using non-homogeneous accounting standards, as indicated below.

Any reclassifications and aggregations performed compared to the mandatory annual financial statements required by Bank of Italy Circular no. 262 of 22 December 2005 and subsequent updates are provided at the foot of the reclassified consolidated Balance Sheet and Income Statement.

The scope of consolidation was determined with reference to IFRS 10.

On 1 January 2019, the international standard IFRS 16 "Leases" came into force. For the purposes of the first-time adoption of the standard, the Group decided to apply the so-called Modified Retrospective approach permitted by the transitional provisions contained in sections C5(b), C8(b)(ii) of the aforementioned standard, which provides that the value of the right of use is assumed to be equal to the lease liability. As required by the standard, the application of this method does not require the restatement of comparative information; consequently, the balance sheet and income statement figures as at 31 December 2019 are not fully comparable with the comparative figures. Only the lessee is required to recognise the cumulative effect of the initial application of IFRS 16 as an adjustment to the opening balance of retained earnings or other components of shareholders' equity at the date of initial application. In this regard, it should be noted that the adjustment to the opening balances of shareholders' equity items is zero, and that the impact on total assets (in relation to the recognition of the right to use leased assets) and the corresponding lease liability outstanding at the date of first-time adoption is € 6.1 million. In any case, reference should be made to that described in "Part A - Accounting Policies" of the Notes to the Financial Statements, in which the impact of the new IFRS 16 accounting standard is reported.

Main Elements of the Financial Year and Operating Performance

As at 31 December 2019, Banca Profilo and its subsidiaries closed the year with a **consolidated net profit** of € 8.4 million, an increase of € 6.8 million (+411.9%) compared to € 1.6 million as at 31 December 2018.

As at 31 December 2019, **total administered and managed funding** - including Net Fiduciary Funding - of Banca Profilo and its subsidiaries amounted to **€ 8,317 million**, up by € 133 million compared to € 8,184 million as at 31 December 2018 (compared to a Business Plan target of € 9 billion at the end of the plan).

Direct funding decreased by € 105 million (-7.6%) from € 1,375 million as at 31 December 2018 to € 1,270 million as at 31 December 2019. **Indirect funding** rose by € 466 million (+8.1%), from € 5,755 million as at 31 December 2018 to € 6,221 million as at 31 December 2019. Internally, **assets under management** increased by € 13 million (+1.7%), **assets under custody** increased by € 277 million (+10.3%) and **activities abroad** increased by € 176 million, reaching € 2,474 million compared to € 2,298 million as at 31 December 2018.

Main consolidated balance sheet figures

(€/thousand)	12 2019	12 2018	YoY change	
			Absolute	%
Direct funding	**1,270,060**	**1,375,039**	**-104,979**	**-7.6**
- of which Italy	*1,081,544*	*1,207,064*	*-125,520*	*-10.4*
- of which activities abroad	*188,516*	*167,976*	*20,540*	*12.2*
Indirect funding	**6,220,819**	**5,755,172**	**465,647**	**8.1**
- of which asset management	*792,404*	*779,035*	*13,369*	*1.7*
- of which assets under custody	*2,954,200*	*2,677,684*	*276,516*	*10.3*
- of which activities abroad	*2,474,215*	*2,298,453*	*175,762*	*7.7*
Total direct and indirect funding	**7,490,879**	**7,130,212**	**360,667**	**5.1**
Net Fiduciary Funding	*825,772*	*1,054,197*	*-228,425*	*-21.7*
Total Customer funding	**8,316,651**	**8,184,409**	**132,242**	**1.6**
Total Fiduciary Funding	1,171,268	*1,404,000*	-232,732	-16.6
Loans and advances to customers	**852,328**	**793,057**	**59,271**	**7.5**
- of which interest-bearing loans and advaces to customers, Italy	*263,955*	*256,782*	*7,173*	*2.8*
- of which interest-bearing loans and advances to customers, activities abroad	*65,953*	*87,256*	*-21,303*	*-24.4*
- of which HTC Securities	*304,064*	*151,372*	*152,692*	*100.9*
- of which other loans and advances to customers	*218,356*	*297,647*	*-79,291*	*-26.6*

Total consolidated net revenues amounted to **€ 70.9 million**, an increase of € 16.8 million compared to € 54.1 million as at 31 December 2018 (+31.1%).

The **Net interest income** as at 31 December 2019, amounting to € 16.7 million, was slightly down by € 1.2 million compared to € 17.9 million as at 31 December 2018 (-6.4%). The decrease is mainly due to the lower contribution of government securities to the trading and HTCS portfolios, only partially offset by the increase in the Bank's HTC portfolio (€ +1.8 million) and the **loans** undertaken by Banca Profilo and its Swiss subsidiary (€ +0.8 million).

Net Fee and Commission Income amounted to € 32.3 million, up € 4.2 million compared to € 28.1 million as at 31 December 2018 (+15.2%). This increase is mainly due to *i)* the result of the subsidiary Banque Profil de Gestion for € 1.9 million, partly due to the consolidation of Dynagest; *ii)* the higher contribution of Banca Profilo, which saw its net fee and commission income increase year-on-year by € 2.3 million, in particular due to the contribution of performance fees in relation to Private Banking managed mandates and the contribution of placement, advanced advisory and investment banking commissions.

Net result from financial activities and dividends amounted to € 20.5 million, an increase of € 13.3 million (+184%) compared to € 7.2 million as at 31 December 2018. The increase is mainly attributable to the combined effects of an increase in income from the **higher returns** recorded on Banca Profilo's trading book thanks to the strategies implemented, which positively exploited the more **favourable financial market environment** compared to last year (€ +11.5 million) and the **brokerage and trading** activity carried out by the Swiss subsidiary (€ +0.9 million).

The balance of **other operating income and expenses**, amounting to € 1.4 million, is up by € 0.5 million compared to € 0.9 million as at 31 December 2018. The increase is mainly due to the sale of property assets during the first quarter of 2019.

Operating expenses amounted to € 58.7 million, an increase of € 6.4 million compared with the figures as at 31 December 2018 (+12.2%). **Personnel expenses**, amounting to € 34.7 million, increased by € 5.1 million (+17.4%) compared to € 29.6 million as at 31 December 2018. The increase is attributable for € 1.4 million to the accounts of the Swiss subsidiary following the new personnel resulting from the acquisition of Dynagest S.A. in July 2018 and for € 3.8 million to the accounts of Banca Profilo also due to higher provisions relating to the variable component of remuneration, resulting from the results recorded during the year, in accordance with the Group's remuneration policies.

Other **administrative expenses**, amounting to € 20.7 million, were substantially in line with the figures as at 31 December 2018. This item includes the **ordinary and additional contribution** due to the **Single Resolution Fund** for 2019 for a total amount of € 0.8 million (€ 0.9 million in 2018). The item was also affected by the new IFRS 16 standard, which led to the recognition in this item of **lower charges** deriving from the rental and lease of property, plant and equipment for an amount of € 1.1 million with a consequent increase of € 1.1 million in the item "value adjustments on property, plant and equipment" following the depreciation process of the "right of use" recorded in Assets under "Property, plant and equipment", as well as higher interest expenses relating to the related financial liability of € 0.1 million. Net of this impact, **other administrative expenses** increased by € 1.2 million (+6.1%) compared with € 20.6 million as at 31 December 2018, due to higher advertising expenses, higher fees for the use of the technology platform and the impact of regulatory projects.

Value adjustments on property, plant and equipment and intangible assets amounted to € 3.3 million, net of the above-mentioned effect of the new IFRS 16 standard, and were in line with those of the same period of previous year of € 2.2 million.

Operating income came to € 12.2 million, an increase of € 10.4 million (+595.3%) compared to € 1.8 million as at 31 December 2018, equivalent to a cost income[5] ratio of 82.8%.

Net provisions for risks and charges were negative by € 538 thousand and referred to higher provisions made by Banca Profilo following disputes in the last quarter of the year, together with the net effect of the impairment of guarantees and commitments. The value as at 31 December 2018 amounted to a positive € 135 thousand. **Net value adjustments/reversals for credit risk relating to financial assets measured at amortised cost** were equal to € 422 thousand in reversals. The result is due to the combined effect of the provisions and reversals recorded during the year as a result of the impairment test on loans and positions in the HTC securities portfolio. The value increased compared to the figure as at 31 December 2018 which amounted to € 90 thousand in net reversals. **Net value adjustments/reversals on financial assets measured at fair value through other comprehensive income** amounted to € 13 thousand of net reversals and referred to the combined effect of provisions and reversals recorded during the year at the end of the process of determining impairment on positions in the HTC&S portfolio. The figure as at 31 December 2018 was € 353 thousand in costs.

Value adjustments to goodwill of € 497 thousand referred to the impairment of goodwill during the year arising from the acquisition of the lending and custody business unit in 2003.

The consolidated financial statements of Banca Profilo as at 31 December 2019 showed a **pre-tax profit** of € 11.6 million, an increase of € 9.9 million (+613.3%) compared to € 1.6 million as at 31 December 2018. The **tax charge for the year** amounted to € 2.8 million, equal to a tax rate of 24.6%, also thanks to the realignment of deferred taxes on the Swiss subsidiary following the reduction in the tax rate in force since 2020.

Banca Profilo and its subsidiaries closed the year with a net profit for the year of € 8.4 million, an increase of € 6.8 million compared to € 1.6 million as at 31 December 2018 (+411.9%).

[5] Cost income = total operating expenses/total net revenues

Reclassified Consolidated Income Statement

Items (Amounts in €/thousand)	**2019**	**2018**	**Changes**	
			Absolute	**%**
Net interest income (1)	16,702	17,852	-1,150	-6.4
Net fee and commission income	32,339	28,065	4,274	15.2
Net result from financial activities and dividends (2)	20,457	7,203	13,254	184.0
Other operating income/expenses (3)	1,370	944	426	45.2
Total net revenues	**70,868**	**54,063**	**16,805**	**31.1**
Personnel expenses	(34,717)	(29,580)	-5,137	17.4
Other administrative expenses (4)	(20,693)	(20,579)	-115	0.6
Value adjustments on property, plant and equipment and intangible assets	(3,289)	(2,155)	-1,134	52.7
Total operating expenses	**(58,699)**	**(52,313)**	**-6,386**	**12.2**
Operating income	**12,169**	**1,750**	**10,419**	**n.s.**
Net provisions for risks and charges (5)	(538)	135	-673	n.s.
Net value adjustments/reversals for credit risk relating to financial assets measured at amortised cost	422	90	332	n.s.
Net value adjustments/reversals on financial assets measured at fair value through other comprehensive income (6)	13	(353)	366	n.s.
Value adjustments to goodwill	(497)	0	-497	n.s.
Profit (loss) for the year before tax	**11,568**	**1,621**	**9,947**	**n.s.**
Tax on income for the year for continuing operations	(2,840)	(366)	-2,474	n.s.
Profit (loss) for the year after tax	**8,728**	**1,256**	**7,472**	**n.s.**
(Profit) loss for the year attributable to non-controlling interests	(357)	379	-736	n.s.
Parent company's profit (loss) for the year	**8,371**	**1,635**	**6,736**	**n.s.**

(1) coincides with item 10. Interest Income and item 20. Interest Expense (Circ. 262 Bank of Italy) net of the economic effects deriving from the redemption of inflation-linked securities included in "Net result from financial activities and dividends" for an amount of € 3.6 million
(2) includes Items 70. Dividends and similar income, 80. Net profit (loss) from trading including the economic effects deriving from the redemption of inflation-linked securities recorded under item 10. Interest Income for an amount of € 3.6 million, 90. Net profit (loss) from hedging, 100. Income (loss) from disposal/repurchase and 110. Net profit (loss) from other financial assets and liabilities measured at fair value through profit and loss of the mandatory annual financial statements (Circ. 262 Bank of Italy)
(3) coincides with Item 230. Other operating income/expenses included among the operating expenses of the mandatory annual financial statements (Circ. 262 Bank of Italy) net of the recovery of stamp duty payable by customers.
(4) other administrative expenses are shown net of the recovery of stamp duty payable by customers.
(5) coincides with Item 200. Net provisions for risks and charges included among the Operating expenses of the mandatory annual financial statements (Circ. 262 Bank of Italy).
(6) includes Item 130 b). Net value adjustments/reversals on financial assets measured at fair value through other comprehensive income, and Item 250. Gains (losses) on equity investments in the mandatory annual financial statements (Circ. 262 Bank of Italy).

Reclassified Consolidated Income Statement by Quarter

Items (Amounts in €/thousand)	12 2019	09 2019	06 2019	03 2019	12 2018
Net interest income (1)	4,531	4,416	3,992	3,763	5,393
Net fee and commission income	11,369	6,431	7,519	7,020	7,963
Net result from financial activities and dividends (2)	4,847	5,905	5,046	4,659	(2,984)
Other operating income/expenses (3)	467	223	310	371	281
Total net revenues	**21,214**	**16,975**	**16,867**	**15,812**	**10,652**
Personnel expenses	(10,659)	(8,411)	(8,470)	(7,177)	(8,987)
Other administrative expenses (4)	(5,648)	(5,032)	(5,024)	(4,989)	(5,493)
Value adjustments on property, plant and equipment and intangible assets	(956)	(787)	(779)	(766)	(697)
Total operating expenses	**(17,264)**	**(14,231)**	**(14,273)**	**(12,932)**	**(15,177)**
Operating income	**3,950**	**2,744**	**2,594**	**2,880**	**(4,525)**
Net provisions for risks and charges (5)	(546)	(4)	14	(2)	15
Net value adjustments/reversals on financial assets measured at amortised cost	248	7	(74)	241	(161)
Net value adjustments/reversals on financial assets measured at fair value through other comprehensive income (6)	(42)	(68)	(12)	134	(86)
Value adjustments to goodwill	(497)	-	-	-	-
Profit for the year before tax	**3,112**	**2,680**	**2,523**	**3,253**	**(4,757)**
Tax on income for the year for continuing operations	(319)	(891)	(403)	(1,226)	1,778
Profit for the year after tax	**2,793**	**1,788**	**2,120**	**2,026**	**(2,979)**
(Profit) loss for the year attributable to non-controlling interests	(496)	88	(108)	159	(1)
Parent company's profit (loss) for the year	**2,298**	**1,876**	**2,012**	**2,186**	**(2,980)**

(1) coincides with item 10. Interest Income and item 20. Interest Expense (Circ. 262 Bank of Italy) net of the economic effects deriving from the redemption of inflation-linked securities included in "Net result from financial activities and dividends" for an amount of € 3.6 million.
(2) includes Items 70. Dividends and similar income, 80. Net profit (loss) from trading including the economic effects deriving from the redemption of inflation-linked securities recorded under item 10. Interest Income for an amount of € 3.6 million, 90. Net profit (loss) from hedging, 100. Income (loss) from disposal/repurchase and 110. Net profit (loss) from other financial assets and liabilities measured at fair value through profit and loss of the mandatory annual financial statements (Circ. 262 Bank of Italy).
(3) coincides with Item 230. Other operating income/expenses (Circ. 262 Bank of Italy) included among the operating expenses of the mandatory annual financial statements (Circ. 262 Bank of Italy) net of the recovery of stamp duty payable by customers.
(4) other administrative expenses are shown net of the recovery of stamp duty payable by customers.
(5) coincides with Item 200. Net provisions for risks and charges included among the Operating expenses of the mandatory annual financial statements (Circ. 262 Bank of Italy).
(6) includes Item 130 b). Net value adjustments/reversals on financial assets measured at fair value through other comprehensive income, and Item 250. Gains (losses) on equity investments in the mandatory annual financial statements (Circ. 262 Bank of Italy).

Commentary on the Consolidated Balance Sheet Data

The balance sheet performance of the Bank and its subsidiaries during 2019 is illustrated below with reference to the main aggregates which, listed in the underlying table, are compared with those of the previous year. All the amounts in the tables are in thousands of euro.

Main consolidated balance sheet figures

(€/thousand)	31/12/2019	31/12/2018	Changes	
			Absolute	%
Financial assets measured at fair value through profit and loss	532,391	507,975	24,416	4.8
Financial assets measured at fair value through other comprehensive income	311,714	440,547	-128,833	-29.2
Financial assets measured at amortised cost – Loans and advances to banks	274,673	380,304	-105,631	-27.8
Financial assets measured at amortised cost – Loans and advances to customers	852,328	793,057	59,271	7.5
Hedging derivatives	1,271	2,985	-1,714	-57.4
Total Assets	**2,107,937**	**2,255,668**	**-147,731**	**-6.6**
Financial liabilities measured at amortised cost - Deposits from banks	447,232	482,196	-34,964	-7.3
Financial liabilities measured at amortised cost - Deposits from customers	1,270,060	1,375,039	-104,979	-7.6
Financial liabilities held for trading	129,405	164,404	-34,999	-21.3
Hedging derivatives	38,926	29,259	9,667	33.0
Group shareholders' equity	**165,276**	**151,539**	**13,737**	**9.1**

Assets

Banca Profilo and its subsidiaries have total **consolidated assets** of **€ 2,107.9 million**, down 6.6% from € 2,255.7 million as at 31 December 2018.
As detailed in the table below, the performance of the aggregate financial assets and hedging derivatives decreased year-on-year by € 152.5 million (-7.2%).

Financial assets and hedging derivatives

(€/thousand)	31/12/2019	31/12/2018	Changes	
			Absolute	%
Financial assets measured at fair value through profit and loss	**532,391**	**507,975**	**24,416**	**4.8**
Financial assets held for trading	532,348	507,932	24,416	4.8
Financial assets desgnated at fair value	-	-	-	-
Other financial assets mandatorily measured at fair value	43	43	-	n.s.
Financial assets measured at fair value through other comprehensive income	**311,714**	**440,547**	**-128,833**	**-29.2**
Financial assets measured at amortised cost	**1,127,001**	**1,173,361**	**-46,359**	**-4.0**
Loans and advances to banks	274,673	380,304	-105,631	-27.8
Loans and advances to customers	852,328	793,057	59,271	7.5
Hedging derivatives	**1,271**	**2,985**	**-1,714**	**-57.4**
Total	**1,972,377**	**2,124,868**	**-152,488**	**-7.2**

Financial assets measured at fair value through profit and loss increased by € 24.4 million, rising from € 508.0 million as at 31 December 2018 to € 532.4 million as at 31 December 2019 (+4.8%).

Financial assets measured at fair value through other comprehensive income decreased by € 128.8 million, from € 440.5 million as at 31 December 2018 to € 311.7 million as at 31 December 2019 (-29.2%).
Financial assets measured at amortised cost are divided into **loans and advances to banks** which decreased by € 105.6 million from € 380.3 million as at 31 December 2018 to € 274.7 million as at 31 December 2019 and **loans and advances to customers** which increased by € 59.3 million from € 793.1 million as at 31 December 2018 to € 852.3 million as at 31 December 2019.
Hedging derivatives, amounting to € 1.3 million, decreased by € 1.7 million (-57.4%) compared to € 3.0 million recorded as at 31 December 2018. The amount refers entirely to Banca Profilo.

Loans and advances to banks

(€/thousand)	31/12/2019	31/12/2018	Changes	
			Absolute	%
Current accounts and demand deposits	133,310	232,576	-99,266	-42.7
Time deposits	22,845	33,637	-10,792	-32.1
Reverse repurchase agreements	54,066	55,466	-1,400	-2.5
Other loans	45,536	49,374	-3,838	-7.8
Debt securities measured at amortised cost	18,914	9,251	9,663	104.5
Loans to banks	**274,673**	**380,304**	**-105,631**	**-27.8**

Loans and advances to banks include: *i)* **current accounts and demand deposits** of € 133.3 million; *ii)* **time deposits** of € 22.9 million; *iii)* **repurchase agreements** of € 54.1 million; *iv)* **other** of € 45.5 million, of which the most significant amount is due to deposits made by Banca Profilo to guarantee derivative transactions, based on agreements with institutional counterparties; *v)* securities classified in the category of **Held To Collect** for € 18.9 million.
Loans and advances to customers came to **€ 852.3 million** as at 31 December 2019, an increase of € 793.1 million (+7.5%) compared with 31 December 2018.

Loans and advances to customers

(€/thousand)	31/12/2019	31/12/2018	Changes	
			Absolute	%
Current accounts	243,937	252,324	-8,387	-3.3
Mortgages	50,513	50,702	-189	-0.4
Other receivables and loans	34,086	40,114	-6,028	-15.0
Interest-bearing loans and advances to customers	**328,536**	**343,141**	**-14,605**	**-4.3**
Non-performing assets	1,479	1,059	420	39.7
Total loans and advances to customers	**330,015**	**344,200**	**-14,185**	**-4.1**
HTC securities	304,064	151,371	-152,693	100.9
Deposits to guarantee transactions in derivatives, repurchase agreements, other transactions	218,249	297,486	-79,237	-26.6
Other loans and advances to customers	**522,313**	**448,857**	**73,456**	**16.4**
Loans and advances to customers	**852,328**	**793,057**	**59,271**	**7.5**

The balance of private **current accounts** decreased from € 252.3 million as at 31 December 2018 to € 243.9 million as at 31 December 2019 (-3.3%); the balance of **mortgages** as at 31 December 2019 decreased slightly to € 50.5 million (-0.4%) compared with € 50.7 million as at 31 December 2018. **Other receivables and loans** decreased by € 6 million, from € 40.1 million as at 31 December 2018 to € 34.1 million as at 31 December 2019. **HTC securities**, consisting mainly of Italian government securities, amounted to € 304.1 million as at 31 December 2019, up from € 151.4 million as at 31 December 2018, in line with the strategies adopted by the bank during the year. Other guarantee deposits, repos and other transactions fell from € 297.5 million as at 31 December 2018 to € 218.3 million as at 31 December 2019. **Non-performing assets** increased by € 0.4 million compared with € 1.1 million as at 31 December 2018.

Equity investments in subsidiaries as at 31 December 2019 were consolidated on a line-by-line basis. The main figures relating to consolidated companies are shown below.

Equity investments in subsidiaries

Company name (€/thousand)	Registered office	Total assets	Shareholders' equity (1)	Profit (loss) for the year	Type of relationship (2)	Shareholding relationship	
						Investing company	%
A. Companies consolidated line-by-line							
1. Profilo Real Estate S.r.l.	Milan	49,404	28,508	917	1	Banca Profilo S.p.A.	100.0
2. Banque Profil de Géstion S.A.	Geneva	252,907	52,990	906	1	Banca Profilo S.p.A.	60.4
3. Dynagest Asset Management S.A.	Luxembourg	467	172	5	1	Banque Profil de Géstion S.A.	65.0
4. Arepo Fiduciaria S.r.l.	Milan	4,265	2,154	202	1	Banca Profilo S.p.A.	100.0

Key
(1) Including the result for the year.
(2) Type of relationship
1 = majority of voting rights at ordinary shareholders' meetings

The aggregate **tax assets** amounted to **€ 8.2 million** as at 31 December 2019. The amount is mainly due to **deferred tax assets** of € 6.7 million, of which € 2.3 million is due to prior tax losses. The decrease of € 5.5 million is mainly due to temporary differences arising from the valuation of HTCS securities recognised in shareholders' equity and to the use of deferred tax assets on previous tax losses following the profits recorded by Banca Profilo in 2019.

Liabilities

The balance of **financial liabilities measured at amortised cost** decreased by € 139.9 million (-7.5%) falling from € 1,857.2 million as at 31 December 2018 to € 1,717.3 million as at 31 December 2019. The balance consists of € 447.2 million in deposits from banks and € 1,270.1 million in deposits from customers.

Deposits from banks stood at **€ 447.2 million** as at 31 December 2019, down by € 35.0 million from € 482.2 million as at 31 December 2018. The change is mainly due to the combined effect of a reduction in repurchase agreements for € 50.5 million, reciprocal current accounts for € 12.5 million and deposits to guarantee derivative transactions for € 12.8 million offset by the increase in a loan with the ECB for € 50 million.

Deposits from banks

(€/thousand)	31/12/2019	31/12/2018	Changes	
			Absolute	%
Deposits from central banks	84,570	34,712	49,858	143.6
Current accounts and demand deposits	6,929	19,429	-12,500	-64.3
Time Deposits	-	8,964	-8,964	-100.0
Repurchase agreements	340,708	391,251	-50,543	-12.9
Other	15,025	27,840	-12,815	-46.0
Deposits from banks	**447,232**	**482,196**	**-34,964**	**-7.3**

Customers funding as at 31 December 2019 amounted to **€ 1,270.1 million**, down € 104.9 million (-7.6%) compared to € 1,375 million as at 31 December 2018. The decrease is mainly due to current accounts which decreased by € 78.4 million from € 943.7 million as at 31 December 2018 to € 865.4 million as at 31 December 2019 (-8.3%) and is also due to "repurchase agreements and other loans" which decreased from € 428.4 million as at 31 December 2018 to € 394.9 million as at 31 December 2019.

Customer funding

(€/thousand)	31/12/2019	31/12/2018	Changes	
			Absolute	%
Current accounts	865,363	943,747	-78,384	-8.3
Time Deposits	-	1,950	-1,950	-100.0
Repurchase agreements and other loans	394,914	428,401	-33,487	-7.8
Other payables	9,783	941	8,842	n.s.
Deposits from customers	**1,270,060**	**1,375,039**	**-104,979**	**-7.6**
Customer funding	**1,270,060**	**1,375,039**	**-104,979**	**-7.6**

Financial liabilities held for trading as at 31 December 2019 amounted to **€ 129.4 million**, down by € 35 million compared to € 164.4 million as at 31 December 2018. The aggregate is attributable almost entirely to Banca Profilo and includes the balance of negative valuations of derivative trading transactions in addition to the balance of "technical overdrafts".

Hedging derivatives rose from € 29.3 million as at 31 December 2018 to € 38.9 million as at 31 December 2019 (+33%). The hedging derivatives refer only to the parent company Banca Profilo and hedge the changes in fair value deriving from the interest rate risk on bonds in the HTC and HTC&S portfolio.

Tax liabilities as at 31 December 2019 amounted to € 2.3 million, substantially in line with the figures for the previous year.

The **Group consolidated shareholders' equity** as at 31 December 2019, including the profit for the year of **€ 8.4 million** and non-controlling interests of € 20.8 million, amounted to **€ 186.1 million**.

The composition of shareholders' equity is summarised in the following table:

Shareholders' equity

(€/thousand)	31/12/2019	31/12/2018	Changes	
			Absolute	%
Share capital	136,994	136,994	-	-
Share premium	82	82	-	-
Reserves	25,991	25,723	268	1.0
Valuation reserves	(2,559)	(9,538)	6,979	-73.2
Treasury shares	(3,603)	(3,357)	-246	7.3
Profit (loss) for the year	8,371	1,635	6,736	411.9
Group shareholders' equity	**165,276**	**151,539**	**13,737**	**9.1**
Non-controlling interests	**20,785**	**19,781**	**1,004**	**5.1**
Shareholders' equity	**186,061**	**171,320**	**14,741**	**8.6**

As at 31 December 2019 the consolidated phased-in CET 1 Capital Ratio was 21.36% and fully loaded at 21.26% and does not include the profit for 2019.

Below are the tables of the Own Funds and the table relating to the capital adequacy of the Bank and its subsidiaries as at 31 December 2019 determined on the basis of the regulatory standards required for banking supervision.

Own funds

On 1 January 2014, the new regulatory standards for banking supervision (Basel III), as defined by the Basel Committee, came into force. These new standards are contained in Regulation (EU) no. 575/2013 (CRR) and in Directive 2013/36/EU (CRD IV) of 26 June 2013. In order to make these provisions applicable, the Bank of Italy has introduced two regulatory measures to adapt internal regulations to the new international regulatory framework (Circular 285 and Circular 286 of December 2013).
In addition, from 1 January 2018 IFRS9 "Financial Instruments" replaces the provisions of IAS 39 "Financial Instruments: Recognition and Measurement". In this regard, with reference to the impact on regulatory own funds, the Banca Profilo Banking Group has opted to adhere to the transitional regime provided for by Regulation (EU) no. 2017/2395 amending the CRR.

1. Common equity Tier 1 (CET1)

a) **positive elements**: equity instruments and related share premiums, retained earnings, other components of the income statement and other reserves;
b) **negative elements**: losses for the current year, intangible assets with specific rules for deduction, core tier 1 capital instruments held that the bank is required to purchase, deferred tax assets that are based on future profitability and do not result from temporary differences.

2. Additional Tier 1 (AT1)

a) **positive elements**: equity instruments and related share premiums which do not represent elements of CET1 and which comply with certain conditions set out in the Regulation (Art. 52 of the CRR);
b) **negative elements**: additional Tier 1 instruments held that the bank is required to purchase under an existing contractual obligation, additional Tier 1 instruments issued by financial sector entities under certain conditions as set out in Art. 56 of the CRR.

3. Common equity Tier 2 (CET2)

a) **positive elements**: equity instruments and subordinated loans with related share premiums under the conditions set out in Art. 63 of the CRR, adjustments for general credit risk before tax up to 1.25% of risk-weighted exposure amounts;

b) **negative elements**: own Tier 2 instruments held by the institution, the Tier 2 instruments of financial sector entities as referred to in Art. 66 of the CRR.

Own funds

(€/thousand)	Total 31/12/2019	Total 31/12/2018
A. Common equity Tier 1 (CET1) before the application of prudential filters	159,905	153,299
of which CET1 instruments subject to transitional provisions	-	-
B. CET1 prudential filters (+/-)	(931)	(1,085)
C. CET1 gross of items to be deducted and transitional regime effects (A+/-B)	158,974	152,214
D. Items to be deducted from CET1	(12,313)	(15,432)
E. Transitional regime - Impact on CET1 (+/-)	801	1,241
F. Total Common Equity Tier 1 (CET1) (C - D +/- E)	147,462	138,024
G. Additional Tier 1 (AT1) gross of items to be deducted and transitional regime effects	708	-
of which AT1 instruments subject to transitional provisions	-	-
H. Items to be deducted from AT1	-	-
I. Transitional regime - Impact on AT1 (+/-)	-	666
L. Total additional Tier 1 (AT1) - (G - H +/- I)	708	666
M. Tier 2 (T2) gross of items to be deducted and transitional regime effects	-	-
of which T2 instruments subject to transitional provisions	-	-
N. Items to be deducted from T2	-	-
O. Transitional regime - Impact on T2 (+/-)	941	925
P. Total Tier 2 (T2) (M - N +/- O)	941	925
Q. Total own funds (F + L + P)	**149,111**	**139,615**

Capital adequacy

Categories / Values (€/thousand)	Non weighted amounts		Weighted amounts/Requirements	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
A. RISK ASSETS				
A.1 CREDIT AND COUNTERPARTY RISK	**1,243,468**	**1,347,365**	**33,848**	**35,463**
1. Standardised approach	1,243,468	1,347,365	33,848	35,463
2. IRB approach	-	-	-	-
2.1. Basic	-	-	-	-
2.2. Advanced	-	-	-	-
3. Securitisations	-	-	-	-
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 CREDIT AND COUNTERPARTY RISK			**33,848**	**35,463**
B.2 CREDIT VALUATION ADJUSTMENT RISK			619	628
B.3 REGULATION RISK			-	-
B.4 MARKET RISK			**11,961**	**13,704**
1. Standardised approach			11,961	13,704
2. IRB approach			-	-
3. Concentration risk			-	-
B.5 OPERATIONAL RISK			**8,813**	**7,776**
1. Basic approach			8,813	7,776
2. Standardised approach			-	-
3. Advanced approach			-	-
B.6 OTHER CALCULATION ELEMENTS			**-**	**-**
B.7 TOTAL CAPITAL REQUIREMENTS			**55,242**	**57,570**
C. RISK ASSETS AND CAPITAL RATIOS			**-**	**-**
C.1 Risk-weighted assets			690,526	719,630
C.2 Common Equity Tier 1 (CET1) capital/Risk-weighted assets (CET1 capital ratio)			**21.36%**	**19.18%**
C.3 Tier 1 capital/Risk-weighted assets (Tier 1 Capital ratio)			**21.46%**	**19.27%**
C.4 Total own funds/Risk-weighted assets (Total capital ratio)			**21.59%**	**19.40%**

It should be noted that the Parent Company of the Banca Profilo Banking Group is Arepo BP S.p.A. and it is the Company required to report to the Supervisory Body on a consolidated basis on its own funds and prudential ratios in accordance with current regulations.

Commentary on Consolidated Economic Results

Banca Profilo's consolidated performance during 2019 is illustrated below with reference to the main aggregates that are compared with those for the previous year, in the order of the reclassified income statement.

Net interest income

The **Net interest income** as at 31 December 2019, amounting to € 16.7 million, was down by € 1.1 million compared to € 17.8 million as at 31 December 2018 (-6.4%). The decrease is mainly due to the lower contribution of government securities to the trading and HTCS portfolios, only partially offset by the increase in the Bank's HTC portfolio (€ +1.8 million) and the **loans** undertaken by Banca Profilo and its Swiss subsidiary (€ +0.8 million).

Net interest income

(€/thousand)	2019	2018	Changes	
			Absolute	%
Interest income and similar revenues (*)	20,008	21,872	-1,865	-8.5
Interest expenses and similar charges	(3,306)	(4,020)	714	-17.8
Net interest income	**16,702**	**17,852**	**-1,151**	**-6.5**

** the item is shown net of the economic effects deriving from the redemption of inflation-linked securities included in "Net result from financial activities and dividends" for an amount of € 3.6 million.*

Other net revenues

Other net revenues as at 31 December 2019 amounted to € 54.2 million, up by € 18.0 million compared to € 36.2 million as at 31 December 2018 (+49.6%). The main components of the aggregate are detailed and commented on in the table below.

Other net revenues

(€/thousand)	2019	2018	Changes	
			Absolute	%
Fee and commission income	36,438	31,667	4,771	15.1
Fee and commission expenses	(4,099)	(3,603)	-496	13.8
Net fee and commission income	**32,339**	**28,064**	**4,275**	**15.2**
Net result from financial activities and dividends	20,457	7,203	13,254	184.0
Other operating income/expenses	1,370	944	426	45.2
Total Other Net Revenues	**54,166**	**36,211**	**17,955**	**49.6**

As already described, **Net Fee and Commission Income** amounted to € 32.3 million, up € 4.2 million compared to € 28.1 million as at 31 December 2018 (+15.2%). This increase is mainly due to *i)* the result of the subsidiary Banque Profil de Gestion for € 1.9 million, partly due to the consolidation of Dynagest; *ii)* the higher contribution of Banca Profilo, which saw its net fee and commission income increase year-on-year by € 2.3 million, in particular due to the contribution of performance fees in relation to Private Banking managed mandates and the contribution of placement, advanced advisory and investment banking commissions.

Net result from financial activities and dividends amounted to € 20.5 million, an increase of € 13.3 million (+184%) compared to € 7.2 million as at 31 December 2018. The increase is mainly attributable to the combined effects of an increase in income from the **higher returns** recorded on Banca Profilo's trading book thanks to the strategies implemented, which positively exploited the more **favourable financial**

market environment compared to last year (€ +11.5 million) and the **brokerage and trading** activity carried out by the Swiss subsidiary (€ +0.9 million).

Operating expenses

Operating expenses amounted to € 58.7 million, **an increase** of € 6.4 million compared to € 52.3 million as at 31 December 2018 (+12.2%).

Operating expenses and operating income

(€/thousand)	2019	2018	Changes	
			Absolute	%
Personnel expenses	(34,717)	(29,580)	-5,137	17.4
Other administrative expenses	(20,693)	(20,579)	-114	0.6
Net value adjustments on property, plant and equipment and intangible assets	(3,289)	(2,155)	-1,134	52.7
Operating expenses	**(58,699)**	**(52,313)**	**-6,386**	**12.2**
Operating income	**12,169**	**1,750**	**10,419**	**595.3**

Within the aggregate, **personnel expenses** increased by € 5.1 million (+17.4%), rising from € 29.6 million as at 31 December 2018 to € 34.7 million as at 31 December 2019. The increase is attributable for € 1.4 million to the accounts of the Swiss subsidiary following the new personnel resulting from the acquisition of Dynagest S.A. in July 2018 and for € 3.8 million to the accounts of Banca Profilo also due to higher provisions relating to the variable component of remuneration, resulting from the results recorded during the year. Other **administrative expenses**, amounting to € 20.7 million, were substantially in line with the figures as at 31 December 2018. It should be noted that the item was affected by the new IFRS 16 standard, which led to the recognition in this item of **lower charges** deriving from the rental and lease of property, plant and equipment for an amount of € 1.1 million with a consequent increase of € 1.1 million in the item "value adjustments on property, plant and equipment" following the depreciation process of the "right of use" recorded in Assets under "Property, plant and equipment", as well as higher interest expenses relating to the related financial liability of € 0.1 million. Net of this impact, **other administrative expenses** increased by € 1.2 million (+6.1%) compared with € 20.6 million as at 31 December 2018, due to higher advertising expenses, higher fees for the use of the technology platform and the impact of regulatory projects.

Value adjustments on property, plant and equipment and intangible assets amounted to € 3.3 million, net of the above-mentioned effect of the new IFRS 16 standard, and were in line with those of the same period of previous year of € 2.2 million.

Operating income came to € 12.2 million, an increase of € 10.4 million (+595.3%) compared to € 1.8 million as at 31 December 2018.

Provisions and adjustments

Total provisions and adjustments as at 31 December 2019 were negative by € 0.5 million compared to € 0.1 million as at 31 December 2018.

Profit (loss) for the year before tax

(€/thousand)	2019	2018	Changes	
			Absolute	%
Net provisions for risks and charges	(538)	135	-673	n.s.
Net value adjustments/reversals for credit risk relating to financial assets measured at amortised cost	422	90	332	n.s.
Net value adjustments/reversals on financial assets measured at fair value through other comprehensive income	13	(353)	366	n.s.
Total provisions and adjustments	**(104)**	**(129)**	**25**	**-19.5**
Value adjustments to goodwill	(497)	-	-497	n.s.
Current profit before tax	**11,568**	**1,621**	**9,947**	**n.s.**

During the year, **net provisions for risks and charges** were negative by € 538 thousand and referred to higher provisions made by Banca Profilo following disputes in the last quarter of the year, together with the net effect of the impairment of guarantees and commitments. The value as at 31 December 2018 amounted to a positive € 135 thousand.

Net value adjustments/reversals for credit risk relating to financial assets measured at amortised cost were equal to € 422 thousand in reversals. The result is due to the combined effect of the provisions and reversals recorded during the year as a result of the impairment test on loans and positions in the HTC securities portfolio. The value as at 31 December 2018 amounted to € 90 thousand of net reversals.

Net value adjustments/reversals on financial assets measured at fair value through other comprehensive income amounted to € 13 thousand of net reversals and referred to the combined effect of provisions and reversals recorded during the year at the end of the process of determining impairment on positions in the HTC&S portfolio. The figure as at 31 December 2018 was € 353 thousand in costs.

Value adjustments to goodwill of € 497 thousand referred to the year-end impairment of goodwill arising from the acquisition of the lending and custody business unit in 2003.

The consolidated financial statements of Banca Profilo as at 31 December 2019 showed a **pre-tax profit** of € 11.6 million, an increase of € 9.9 million (+613.5%) compared to € 1.6 million as at 31 December 2018.

Consolidated profit for the year

Taxes for the year amounted to € 2.8 million, equal to a consolidated tax rate of 24.6%, also thanks to the realignment of deferred taxes on the Swiss subsidiary following the reduction in the tax rate in force since 2020.

(€/thousand)	2019	2018	Changes	
			Absolute	%
Tax on income for the year for continuing operations	(2,840)	(366)	-2,475	n.s.
(Profit) loss for the year attributable to non-controlling interests	(357)	379	-736	n.s.
Parent company's net profit for the year	**8,371**	**1,635**	**6,736**	**411.9**

Banca Profilo and its subsidiaries closed the year with a net profit for the year of € 8.4 million, an increase of € 6.7 million compared to € 1.6 million as at 31 December 2018 (+411.9%). The result for the year attributable to non-controlling interests is a profit of € 357 thousand.

The following table shows the reconciliation between Banca Profilo's shareholders' equity and profit for the year and the corresponding figures at consolidated level.

Reconciliation between Banca Profilo's financial statements and the consolidated financial statements

(€/thousand)	Shareholders' equity	of which Profit for the year
Balances as at 31.12.2019 as per Banca Profilo's financial statements	**152,594**	**6,726**
Value adjustment to the book value of consolidated equity investments:		
- Pro-rata results of investees consolidated on a line-by-line basis	1,670	1.670
- Other reserves as a result of consolidation	22,849	-
Amortisation of positive consolidation differences:		
- for the current year	-	-
- pertaining to previous years	(11,740)	-
Adjustments to dividends collected during the period		
Other consolidation adjustments:		
- elimination of intra-group profits/losses	5	5
- other	(103)	(30)
Balances as at 31.12.2019 as per the Consolidated financial statements	**165,275**	**8,371**

Results by Operating Segments

Representation by business segments was chosen as the primary reporting method, based on the requirements of IFRS 8, as it reflects the responsibilities for making operational decisions, based on the Group's organisational structure.

The defined sectors of activity are:

- **Private Banking & Investment banking** relating to the activities of the Private Banking Area with administered and managed Italian private and institutional customers, as well as the Investment Banking activities and the activities of the subsidiary Arepo Fiduciaria;
- **Finance**, relating to the management and development of trading activities on own account and on behalf of third parties in financial instruments and services related to their issue and placement;
- **Digital channels**, relating to the activities carried out in partnership with Tinaba on a digital platform;
- **Activities Abroad**, includes activities on the foreign market in which the Group currently operates (Switzerland), which includes the activities of the subsidiaries Banque Profil de Gestion S.A. and Dynamic Asset Management S.A.;
- **Corporate Centre**, which oversees the guidance, coordination and control functions of the entire Group; this sector includes overheads, intra-group eliminations and the activities of the subsidiary Profilo Real Estate.

Breakdown by operating segment: income statement figures

(€/thousand)	Private & Inv. Banking		Finance		Activities Abroad		Digital Channels		Corporate Centre	
	12 2019	12 2018	12 2019	12 2018	12 2019	12 2018	12 2019	12 2018	12 2019	12 2018
Net interest income	3,583	3,048	10,652	13,025	2,617	2,300	(16)	-	(133)	(522)
Other net revenues	25,099	22,373	18,790	7,683	10,247	7,041	(185)	(173)	214	(713)
Total net revenues	**28,682**	**25,421**	**29,442**	**20,708**	**12,865**	**9,343**	**(200)**	**(173)**	**81**	**(1,235)**
Total operating expenses	(20,499)	(18,049)	(10,741)	(9,556)	(12,912)	(10,925)	(2,939)	(2,395)	(11,607)	(11,387)
Operating income	**8,183**	**7,372**	**18,700**	**11,152**	**(47)**	**(1,584)**	**(3,140)**	**(2,566)**	**(11,527)**	**(12,623)**
Result before taxes	**8,166**	**7,363**	**18,928**	**10,848**	**167**	**(1,107)**	**(3,140)**	**(2,566)**	**(12,553)**	**(12,915)**

Breakdown by operating segment: balance sheet figures

(€/thousand)	Private & Inv. Banking		Finance		Activities Abroad		Digital Channels		Corporate Centre	
	12 2019	12 2018	12 2019	12 2018 (*)	12 2019	12 2018	12 2019	12 2018 (*)	12 2019	12 2018
Loans	286,717	282,177	499,658	423,589	65,953	87,256	-	34	-	-
Direct funding	675,622	774,048	394,762	430,997	188,516	167,976	11,160	2,019	-	-
Indirect funding	4,519,110	4,423,423	47,618	84,072	2,474,215	2,298,453	5,648	3,421	-	-

(*) Some 2018 figures have been reclassified for a better comparison with 2019 figures

A) Private Banking & Investment Banking

The area closed with **revenues** of € 28.7 million compared to € 25.4 million as at 31 December 2018 (+12.8%), supported by Corporate Advisory, Investment Banking and Fiduciary activities and performance fees, the latter amounting to 0.1% of assets.

The **operating income** rose to € 8.2 million compared with € 7.4 million in the same period of the previous year (+11.0%).

Total Private Banking assets amounted to € 5.2 billion (-0.1% YoY and +5.4% net of net fiduciary assets); net funding over the twelve months decreased to a negative € 85 thousand. Net of the withdrawals related to several extraordinary transfers in 2018, net funding was positive and amounted to € 110 million. **Fiduciary funding** through the subsidiary Arepo Fiduciaria decreased to € 0.8 billion compared to € 1.1 billion as at 31 December 2018 (-21.7%).

Private Banking includes specialist advisory services and personalised management of the overall assets of Italian clients. This model provides an integrated offer of services for the management of all the components of customers' assets, thus moving from the traditional product logic mainly focused on the management of the financial component to a Bank model for the management of financial, corporate, property and household assets.

The main activities are detailed below.

Funding Activities

Total Private Banking assets, including net fiduciary funding, amounted to € 5.2 billion, in line with the previous year's figures.

Direct funding decreased during the year, which stood at € 675.6 million as at 31 December 2019 compared with € 774 million as at 31 December 2018 (-12.7%), while **indirect funding** (including net fiduciary funding) increased from € 4,423.4 million as at 31 December 2018 to € 4,519.1 million as at 31 December 2019 (+2.2%). Within the latter, total assets under management increased by € 11.1 million (+1.4%) and the share of assets under custody also increased by € 313.1 million (+12%). The net fiduciary funding assets fell by € 228.4 million (-21.7%) from € 1,054 million as at 31 December 2018 to € 825.8 million as at 31 December 2019.

Total funding - Private & Inv. Banking

(€/thousand)	12 2019	12 2018	YoY change	
			Absolute	%
Direct funding	675,622	774,048	-98,426	-12.7
Indirect funding	3,693,338	3,369,226	324,112	9.6
- of which asset management	779,937	768,875	11,062	1.4
- of which assets under custody	2,913,401	2,600,351	313,050	12.0
Total Funding	**4,368,960**	**4,143,275**	**225,685**	**5.5**
Net Funding Flows	**(85,300)**	**525,858**	**-611,158**	**-116.2**
Net Fiduciary Funding	**825,772**	**1,054,197**	**-228,425**	**-21.7**

Lending Activities

Loans increased from € 282.2 million as at 31 December 2018 to € 286.7 million as at 31 December 2019 (+1.6%).

Lending activities are instrumental to Private Banking activities, in line with the service logic envisaged by the Bank's business model. Secured loans in particular are key. The table below shows the aggregate values by technical form.

Net loans and advances to customers - Private & Inv. Banking

(€/thousand)	12 2019	12 2018	YoY change	
			Absolute	%
Short-term current accounts	255,108	260,072	-4,965	-1.9
Mortgages	31,157	21,229	9,928	46.8
Total interest-bearing loans and advances to customers	286,264	281,301	4,964	1.8
Total Loans	**286,717**	**282,177**	**4,540**	**1.6**

Fiduciary Activity

The fiduciary activity is carried out through the company **Arepo Fiduciaria Srl**, which offers a series of qualified services, such as consolidated reporting, corporate and succession planning and trusts.

During the year ended 31 December 2019, the company's fiduciary assets decreased by € 211 million (-15.2%).

B) Finance

Net revenues amounted to € 29.4 million, up 42.2% from € 20.7 million in 2018. Trading increased to € 10.0 million, up from € 0.2 million in 2018, in relation to (i) **Credit Trading**, which recorded revenues of € 6.4 million, up compared to almost zero revenues in 2018, thanks to the strategies adopted by the desk on long positions in anticipation of the new QE and the relative value transactions on the BTP and rate curve, (ii) **Market Making** which recorded revenues of € 2.3 million, up compared to € 1.8 million thanks to the exploitation of the peaks of volatility recorded on stock markets, and (iii) **Equity Trading**, which recorded revenues of € 1.2 million compared to negative revenues in 2018 thanks to the diversification of satellite portfolio strategies negatively correlated to the core portfolio with equal directional risk.

The Finance area closed the twelve months of 2019 with an **operating income** of € 18.7 million, an increase of 67.7% compared with € 11.1 million as at 31 December 2018.

C) Activities Abroad

Revenues from Activities Abroad amounted to € 12.9 million, up by € 3.5 million compared to 2018. The growth is attributable both to the contribution of the new institutional assets acquired with Dynagest and to the growth of private assets.

The area closed with a negative **operating income** of € 47 thousand, a significant improvement on the loss of € 1.6 million recorded as at 31 December 2018 and a **net profit** of € 0.9 million, an increase on the loss of € 1 million recorded in 2018. Taxes recorded a positive balance of € 0.7 million thanks to the realignment of deferred taxes following the reduction in the tax rate in force since the beginning of 2020.

Total funding reached € 2,663 million, up year-on-year by € 196 million (+8.0%) compared to € 2,466 million as at 31 December 2018.

Total funding - activities abroad

(€/thousand)	12 2019	12 2018	YoY change	
			Absolute	%
Direct funding	188,516	167,976	20,540	12.2
Indirect funding	2,474,215	2,298,453	175,762	7.7
Total Funding	**2,662,732**	**2,466,429**	**196,303**	**8.0**

Loans decreased by € 21.3 million (-24.4%), from € 87.3 million in 2018 to € 66.0 million in 2019.

Net loans and advances to customers - activities abroad

(€/thousand)	12 2019	12 2018	YoY change	
			Absolute	%
Short-term current accounts	16,368	30,771	-14,403	-46.8
Mortgages	15,486	16,371	-885	-5.4
Other receivables	34,099	40,114	-6,015	-15.0
Total interest-bearing loans and advances to customers	**65,953**	**87,256**	**-21,303**	**-24.4**

D) Digital Channels

During 2019 the costs for the development of the Digital Channels Area, in collaboration with Tinaba S.r.l., amounted to € 2.9 million. The development of the financial services offer continues through the Robo-management and remunerated "piggy bank" service as well as the development of consumer and merchant customers also through the extension of the agreement with Alipay.

E) Corporate Centre

The Corporate Centre, which mainly incorporates structural costs, closed the twelve months of 2019 with a negative **operating income** of € 11.5 million compared to a loss of € 12.6 million as at 31 December 2018.

Results of Group Companies

Below are the results by group company presented for comparison with those of 2018. Figures are provided in thousands of euro.

Main income statement data for subsidiaries

(€/thousand)	Banca Profilo		BPdG		Arepo Fiduciaria		Profilo RE	
	12 2019	12 2018	12 2019	12 2018	12 2019	12 2018	12 2019	12 2018
Net interest income	17,851	15,832	2,617	2,300	(15)	-	(249)	(281)
Other net revenues	39,912	32,667	10,247	7,041	2,271	1,709	2,232	2,096
Total net revenues	**57,764**	**48,500**	**12,865**	**9,342**	**2,256**	**1,709**	**1,983**	**1,815**
Total operating expenses	(46,988)	(45,405)	(12,912)	(10,925)	(1,930)	(1,392)	(824)	(987)
Operating income	**10,776**	**3,094**	**(47)**	**(1,584)**	**326**	**317**	**1,159**	**828**
Net profit (loss)	**6,726**	**2,265**	**906**	**(969)**	**202**	**204**	**917**	**660**

Banca Profilo S.p.A.
For the results of Banca Profilo S.p.A. see the Separate Report on Operations.

Banque Profil de Gestion S.a. (BPdG)
Banque Profil de Gestion is a Swiss bank based in Geneva listed on the Zurich Stock Exchange, 60.4% owned by Banca Profilo.
The Bank is focused on Private Banking and specialises in brokerage and asset management services and activities for high-end customers.
The figures in the above table refer to the consolidated economic situation of BPdG, parent company of DAM S.A.
The company closed the year with a **net profit of € 906 thousand**, calculated in accordance with IAS/IFRS.

Profilo Real Estate S.r.l.
Profilo Real Estate is 100% owned by Banca Profilo and is subject to the management and coordination of the parent company Arepo BP pursuant to Article 2497 *et seq.* of the Italian Civil Code.

The company closed 2019 with a **profit of € 917 thousand**.

The Board of Directors resolved to submit the following proposal for the allocation of profit to the Shareholders' Meeting:

- 5% to the Legal Reserve, equal to € 45,851;
- the remainder, equal to € 871,167, to be carried forward.

Arepo Fiduciaria S.r.l.
Arepo Fiduciaria S.r.l. is 100% owned by Banca Profilo and is subject to the management and coordination of the parent company Arepo BP pursuant to Article 2497 *et seq*. of the Italian Civil Code.

The company offers fiduciary services to customers of both the Bank and third parties and has assets under trust of € 1,184 million. During the year ended 31 December 2019, the company saw a decrease in net fiduciary assets of € 211 million (-15.1%).

The company closed with a **net profit of € 202 thousand**.

The Board of Directors resolved to submit to the Shareholders' Meeting a proposal to **carry forward the profit for the year**.

Main Risks and Uncertainties

Information on the risks and uncertainties to which the Group is exposed is detailed in Part E of the Notes to the Consolidated Financial Statements.

Risks related to the national and international economic context and financial market trends are discussed in the section "Reference Macroeconomic Scenario and Commentary on Markets".

As is well known, since January 2020, the national and international scenario has been characterised by the spread of the Coronavirus and the consequent restrictive measures for its containment, implemented by the public authorities of the countries concerned. These circumstances, extraordinary in nature and extent, have direct and indirect repercussions on economic activity and have created a context of general uncertainty, the evolution and effects of which are difficult to predict.
The potential effects of this phenomenon on the financial statements cannot be determined at present and will be constantly monitored throughout the year.

Information on financial and operational risks, and the related hedging instruments and policies, are detailed in Part E of the Notes to the Consolidated Financial Statements.

Part E of the Notes to the Consolidated Financial Statements under point 1.2 "Other information on financial risks" also includes a table representing the sovereign risk exposure of Banca Profilo and its subsidiaries.

Climate Change

As part of the periodic assessment of risks, including those of a non-financial nature, the Bank's Management has also taken into account any risks related to climate change.
The preliminary analyses conducted lead to the qualification of these risks as not particularly relevant for the Group and not having significant financial implications in the short and medium term.
In view of business activities, it is considered that climate change may also represent an opportunity to offer new products/services.
Given the importance of this issue, the Group has deepened the preliminary analyses carried out on the financial implications of risks and related opportunities in the 2020-2022 business plan, also in light of the constant evolution of the reference regulatory context.

Corporate Report

Governance

With regard to the information referred to in Article 123-*bis* of the Consolidated Finance Act (TUF - *Testo Unico della Finanza*) relating to the Corporate Governance system, please refer to the specific document "**Report on corporate governance and ownership structures**" approved and published, together with these financial statements, in the Corporate Governance section of the Bank's website at the following address: www.bancaprofilo.it.

Human Resources

During the year, Banca Profilo and its subsidiaries continued their recruiting activities aimed both at meeting the need to strengthen their staff in specific areas and at meeting the need to replace staff that had been dismissed, where necessary. In Italy, 13 employees were hired; in particular, i) 8 in Business Areas and ii) 5 in Operational and Staff Areas. With regard to Banque Profil de Gestion, and Dynamic Asset Management S.A. (DAM), the management company in Luxembourg, 8 staff have been added, namely i) 3 in Business Areas and ii) 5 in Operational and Staff Areas.
Banca Profilo Group's workforce as at 31 December 2019 numbered 211 employees, of which 169 in Italy, 39 in Switzerland and 3 in Luxembourg, and with the distribution by classification as specified in the table below, also taking into account regradings during the year.

	Number of employees 2019	Number of employees 2018
Employees		
a) executives	53	51
b) middle managers	96	98
c) remaining staff	62	68
Other staff	-	-
Total	**211**	**217**

Finally, the workforce has a distribution of 131 men and 80 women, with an overall average age of 45 years.
As far as training is concerned, the investment in supporting activities and professional development of the resources was significant, including interventions with a cross-cutting content for all personnel and more specific activities to consolidate the technical-specialist skills of the various structures. Furthermore, through the financing of interprofessional funds for continuous training, employees participated in a total of 5,280 training hours in the classroom and/or online.

Charity Initiatives

Once again this year, in line with its values and corporate culture, Banca Profilo has supported various bodies operating in the social, health and psychological support and care sectors through the provision of contributions.

Security

In 2019, work was carried out to maintain the technological standards of IT security systems and to eliminate any risk factors present in the performance of the Group's employees' work activities; the control mechanisms for software modification were maintained, both in the case of code developed internally and externally.

Organisation and Information Systems

During 2019, the Bank, through the Digital Channels Area and the partner Tinaba S.p.A., continued to develop the high added value digital service project, which can be integrated with traditional and innovative banking and financial products and services. In particular, in 2019 the activities of the Digital Channels Area focused on the development and implementation of the offer application for companies, with the opportunity to create common funds and pay employee salaries. Initiatives relating to remunerated "piggy banks" and products for minors and the commercial development of the robo advisor were carried out. In addition, the technological architecture of all services has been completely revised and adapted to PSD2 requirements. The Bank will continuously evaluate the possible expansion of its range of products and services, in particular in the area of loans, according to the needs of its customers.
The analysis for the renewal of the Finance Area's information system has been completed, and the complete overhaul of the processes in the Private Banking Area's operating chain has been launched, with the intention of adapting them to the most modern technological standards. Furthermore, the procedures impacted by PSD2, CSDR, SFTR and other newly introduced legislation have been brought into line with the new regulatory requirements. Finally, with a view to constantly focusing on making operating processes more efficient, a process of robotisation of certain administrative and control processes has been launched with the aim of reducing the time needed to carry out activities and minimising operating risks.

Shareholding, Share Performance and Other Market Information

Shareholding

As at 31 December 2019, based on the evidence in the shareholders' register and other information in the possession of the Issuer, the shareholders of Banca Profilo holding more than 3% of the shares were as follows:

Shareholder	No. of shares	% on share capital
Arepo BP S.p.A. *	423,088,505	62.40%
Market	254,909,351	37.60%
Total	**677,997,856**	**100.00%**

** Company 100% owned by Sator Investments S.à.r.l., fully owned by Sator Private Equity Fund "A" L.P. (SPEF) or "Fondo Sator", a fund managed by Sator Capital Limited.*

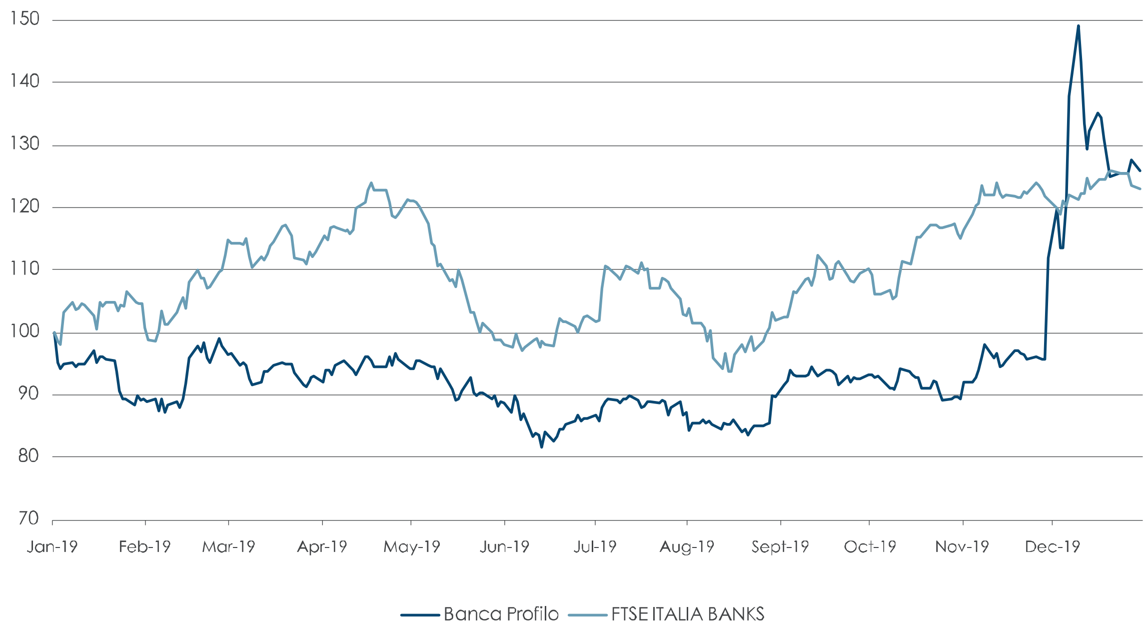
The figures shown in the above table are gross of Banca Profilo shares held by the same. The figures include the 13,148,089 shares of Banca Profilo S.p.A. held by the Bank as at 31 December 2019, equal to 1.94% of the share capital.

Share performance

During 2019, the Stoxx Europe 600 index rose 23.1% while the Italian index, the FTSE Italia All Shares, rose 25.4%. With regard to the sectorial sub-funds, the European banking index, the Stoxx 600 Banks, recorded a positive performance of 11.1% during the year.

The Banca Profilo share price recorded a positive performance of 25.9% during the year, significantly better than the European sector index and in line with the Italian index. The share price closed 2019 at € 0.224, compared to a price of € 0.178 on 28 December 2018 and an average of € 0.1675 in 2019. The maximum price was recorded in December and was € 0.265. Average daily volumes were 940,954 units, up on the previous year.

Relative performance of the Banca Profilo share price (base 100)



Disclosure in relation to high-risk financial instruments

In line with the recommendations of the Financial Stability Forum in its report issued on 7 April 2008 and with the Bank of Italy's request in its communication no. 671618 of 18 June 2008 in relation to market disclosure, it is hereby declared that, as at 31 December 2019, neither the Bank nor its subsidiaries had no outstanding exposure in financial instruments considered to be high risk or involving greater risk than previously commonly believed, including Collateralised Debt Obligations (CDOs), Residential Mortgage-Backed Securities (RMBS), Commercial Mortgage-Backed Securities (CMBS), Special Purpose vehicles and other leveraged finance instruments.

Other market information

Certification pursuant to Art. 2.6.2 of the Italian Stock Exchange Regulations, with regard to the adjustment to the conditions set out in Art. 15 of the Market Regulations

Banca Profilo, in its capacity as listed company controlling a company based in a non-EU country - Banque Profil de Gestion S.A. - which is of significant importance within the meaning of Article 36 of the Consob Market Regulations, has established a specific procedure to ensure compliance with the provisions of the aforementioned regulations on controls and information flows between the non-EU subsidiary and the Italian listed company.

Certification pursuant to Article 2.6.2. of the Stock Exchange Regulations regarding the existence of the conditions set out in Article 16 of the Consob Market Regulations

Banca Profilo S.p.A. is subject to the management and coordination of the parent company Arepo BP S.p.A. pursuant to Art. 2497 *et seq.* of the Italian Civil Code.

With reference to the provisions of Article 16 of the Consob Market Regulation, the conditions set out in paragraph 1, letters a), b), c) and d) for maintaining the listing have been met. With particular reference to paragraph 1 letter d) of the Consob Market Regulations, it should be noted that Banca Profilo has set up internal board committees, composed exclusively of Independent Directors. In particular, the Bank has set up the Control and Risk Committee, the Remuneration Committee and the Appointments Committee.

Disclosure on the purchase/sale of treasury shares

During the year, the Bank carried out transactions to purchase and sell treasury shares as part of the activity authorised by the Shareholders' Meeting of 18 April 2019 to support exchanges, using a third-party intermediary (Equita SIM S.p.A.). As at 31 December 2019, 5,084,844 treasury shares, equal to 0.75% of the share capital, had been purchased as part of this activity.

Further movements of treasury shares were made as part of the implementation of the shareholding plans in favour of the Bank's employees.

In addition to the treasury shares deriving from the execution of the aforementioned resolution, 8,063,245 treasury shares remain in Banca Profilo's portfolio, in relation to previous authorisations from the Shareholders' Meeting. Therefore, as at 31 December 2019, the Bank holds 13,148,089 treasury shares, equal to 1.94% of the share capital.

Equity investments held by Directors, Statutory Auditors and Key Management Personnel in Banca Profilo and its subsidiaries

Equity investments held directly or indirectly in Banca Profilo S.p.A. and its subsidiaries, in compliance with the provisions of Consob Regulation 11971 of 14 May 1999, are reported in the Remuneration Report published on the Bank's website within the time limits and in the manner prescribed by law. Part H of the Notes to the consolidated financial statements provides information on the remuneration paid to members of the Board of Directors, the Board of Statutory Auditors, the General Manager and Key Management Personnel.

Other Relevant Information

The Bank qualifies as a Small and Medium-Sized Enterprise (SME) pursuant to and for the purposes of Consob Resolution no. 20621 of 10 October 2018 implementing Article 1, paragraph 1, letter w-quater.1) of Legislative Decree no. 58/98 (TUF).

Management and Coordination Activities and Transactions with related parties

Banca Profilo is subject to the management and coordination of the parent company Arepo BP S.p.A. pursuant to Art. 2497 *et seq.* of the Italian Civil Code. Coordination and control over the Bank are exercised on the basis of the Banca Profilo Banking Group Regulations issued by Arepo BP and implemented by all subsidiaries. Any activity carried out with Related Parties, either directly or through subsidiaries, takes into account the regulations and internal procedure regarding transactions with related parties and related disclosure obligations in force at the reference date. In this regard, it should be noted that the Board of Directors of Banca Profilo of 28 June 2012 implemented the Parent Company Directive on risk activities, conflicts of interest and transactions with related parties, which came into force on 1 January 2013 pursuant to the 9th update of Bank of Italy Circular no. 263 of 27 December 2006. The Directive is addressed to all the companies of the Banca Profilo banking group. In implementation of the same, the Bank has adopted a specific procedure for the management of transactions (i) with related parties, (ii) in conflict of interest, (iii) in which the Director has an interest. This procedure was last updated by resolution of the Board of Directors on 24 January 2019.

Without prejudice to compliance with the principle set out in Article 2391 of the Italian Civil Code with regard to the interest of the director, the provisions of Article 136 and the new wording of Article 53, paragraph 4, of Legislative Decree 385/93 (Consolidated Banking Law or TUB), with regard to the obligations of bank representatives, apply. Intragroup transactions are carried out on the basis of reciprocal assessments of convenience and the conditions to be applied are defined in compliance with the criteria of substantial correctness, with the aim of creating value for the entire Group.

During the year, a number of transactions with related parties (RP) were carried out, information on which is provided in Part H, which summarises the Group's economic and financial transactions as at 31 December 2019 with non-consolidated investees and other related parties.

Information on Stock Option and Stock Grant Plans

The April 2015 Shareholders' Meeting of Banca Profilo approved a Stock Grant Plan in favour of its employees both to comply with the requirements of the regulatory bodies for the payment of the variable component of the remuneration for "key employees", under the definition provided by the Bank of Italy on the subject of remuneration (see Circular 285/2013) and to provide for motivational and retention mechanisms for the remaining personnel, if certain conditions are met. The Plan was subsequently extended by the 2017 Shareholders' Meeting.

The Plan provides for: (i) the assignment of shares, both for the upfront and deferred components, once the malus conditions for each individual deferral period have been exceeded (detailed in the Bank's Remuneration Policy in force at the time - see Remuneration Report available at the following web address - www.bancaprofilo.it/CorporateGovernace/Documenti Societari/Remunerazioni) and in the absence of individual malus situations and (ii) the attribution of the same, after the retention periods, as a result of the relationship and absence of individual malus situations.

The Beneficiaries of the Plan are the Chief Executive Officer, the General Manager and the other employees of the Bank and its subsidiaries who have joined the Plan, or the executive directors of the latter; the operating procedures of the Plan are differentiated according to whether or not the staff fall under the category of "key employees".

In particular, for "key employees" the retention and deferral periods provided for by the Remuneration Policy in force at the time apply.

Under the existing stock grant plan, **1,556,462** Banca Profilo's shares were allocated in April 2019 and **236,024** in November 2019; in both cases, the treasury shares held in the portfolio by Banca Profilo were used as planned.

During the 2016 financial year, the Swiss subsidiary also approved a stock option plan in favour of key employees in order to focus their commitment on achieving important strategic objectives, to which the exercise of the options themselves is linked. The plan, active since November 2016, provides for the assignment of 1,800,000 exercisable options for the purchase of the same number of BPdG shares. The exercise price is determined on the basis of the stock exchange price of the security on the taking up date for the beneficiary. A capital increase of 1,800,000 shares with a nominal value of CHF 1 was also approved to service the plan. The plan will run for 5 years, with the first operating window on 1 November 2018. From that date until November 2022, on the basis of the results achieved, options for the purchase of 360,000 BPdG shares will become exercisable every year, on every 1st November, for a total of 1,800,000 options at the end of the plan. The fair value of the plan is then periodically reviewed on the basis of the probability of achieving the objectives set. No options have been exercised since the Plan was activated.

Significant Events subsequent to Year End

There are no significant events occurring after the end of the financial year that would require an adjustment to the financial statement values.

Outlook

On the basis of the 2020-2022 Business Plan guidelines approved by the parent company and with the aim of further improving profitability and facing new challenges in the various markets, Banca Profilo and its subsidiaries will continue their process of consolidating their core business, maintaining a priority on satisfying new customer needs. In particular, the Private Banking component will be strengthened in terms of staff, customer segmentation and range of services and products offered by confirming the focus on alternative products in the industrial, real estate and financial sectors, aimed at offering returns and decorrelation from listed markets. In relation to investment banking, it is expected that there will be a further development in the range of services in the area of equity investment, in lending activities and in niche security intermediation. The consolidation of the current business is anticipated in the Finance segment, maintaining a balance between the different components of revenues, both in terms of business and asset class as well as through the reactivation of the development of intermediation. In addition to the enhancement of the Group's activities abroad, the development of the digital channel aimed at the growth of the customer base will continue through the development of partnerships, investment solutions offered to customers, corporate services and the third-party products market place.

On the operational front, further investments are planned for the automation of business and operational processes, including advanced robotics software, artificial intelligence and the use of cloud computing, while paying due attention to cost items in order to achieve a cost income capable of ensuring adequate profitability.

The Group will develop two further strategic pillars in order to align itself with the highest international standards and corporate best practices in terms of human capital, through a strengthening of corporate welfare and civil liability through the implementation of ESG (Environment Social Governance) policies aimed at optimising both its direct contribution in terms of environmental impact and through the activation of products with ESG aspects aimed at its customers.

On the basis of the information available to date, it should be noted that the timing of implementation of the aforementioned actions and their effects could be affected by the spread of the Coronavirus and the consequent restrictive measures necessary to contain it.

Consolidated Financial Statements

Consolidated Balance Sheet

(Amounts in €/thousand)

Assets	31/12/2019	31/12/2018
10. Cash and cash equivalents	41,548	39,523
20. Financial assets measured at fair value through profit and loss	532,391	507,974
a) financial assets held for trading	532,348	507,931
b) financial assets designated at fair value	-	-
c) other financial assets mandatorily measured at fair value	43	43
30. Financial assets measured at fair value through other comprehensive income	311,714	440,547
40. Financial assets measured at amortised cost	1,127,001	1,173,361
a) loans and advances to banks	274,673	380,304
b) loans and advances to customers	852,328	793,057
50. Hedging derivatives	1,271	2,985
90. Property, plant and equipment	54,509	50,874
100. Intangible assets	8,883	10,001
of which:		
- goodwill	5,645	6,028
110. Tax assets	8,225	14,250
a) current	1,499	2,023
b) deferred	6,726	12,227
130. Other assets	22,395	16,154
Total Assets	**2,107,937**	**2,255,668**

(Amounts in €/thousand)

Liabilities and Shareholders' equity	31/12/2019	31/12/2018
10. Financial liabilities measured at amortised cost	1,717,292	1,857,235
a) deposits from banks	447,232	482,196
b) deposits from customers	1,270,060	1,375,039
c) debt securities issued	-	-
20. Financial liabilities held for trading	129,405	164,404
40. Hedging derivatives	38,925	29,259
60. Tax liabilities	2,332	2,232
a) current	448	115
b) deferred	1,884	2,117
80. Other liabilities	26,762	25,893
90. Employee severance indemnity	1,717	1,701
100. Provisions for risks and charges	5,443	3,624
a) commitments and guarantees issued	7	19
b) pension and similar obligations	4,518	3,237
c) other provisions for risks and charges	918	368
120. Valuation reserves	(2,559)	(9,538)
150. Reserves	25,991	25,723
160. Share premium	82	82
170. Share capital	136,994	136,994
180. Treasury shares (-)	(3,603)	(3,357)
190. Non-controlling interests (+/-)	20,785	19,781
200. Profit (Loss) for the year (+/-)	8,371	1,635
Total Liabilities and Shareholders' Equity	**2,107,937**	**2,255,668**

Consolidated Income Statement
(Amounts in €/thousand)

Items	2019	2018
10. Interest income and similar revenues	23,623	21,872
of which: interest income calculated using the effective interest rate method	17,681	14,793
20. Interest expenses and similar charges	(3,306)	(4,020)
30. Net interest income	**20,317**	**17,852**
40. Fee and commission income	36,438	31,667
50. Fee and commission expenses	(4,099)	(3,602)
60. Net fee and commission income	**32,339**	**28,065**
70. Dividends and similar income	20,299	14,157
80. Net profit (loss) from trading	(10,241)	(15,644)
90. Net profit (loss) from hedging	(468)	(311)
100. Income (loss) from disposal or repurchase of:	7,252	9,018
a) financial assets measured at amortised cost	495	-
b) financial assets measured at fair value through other comprehensive income	6,757	9,018
110. Net profit (loss) from other financial assets and liabilities measured at fair value through profit and loss	-	(18)
b) other financial assets mandatorily measured at fair value	-	(18)
120. Net interest and other banking income	**69,498**	**53,119**
130. Net value adjustments/reversals for credit risk relating to:	435	(263)
a) financial assets measured at amortised cost	422	90
b) financial assets measured at fair value through other comprehensive income	13	(353)
150. Net result from financial activities	**69,933**	**52,856**
180. Net result from financial and insurance activities	**69,933**	**52,856**
190. Administrative expenses:	(59,250)	(53,952)
a) personnel expenses	(34,717)	(29,580)
b) other administrative expenses	(24,533)	(24,372)
200. Net provisions for risks and charges	(538)	135
a) commitments and guarantees issued	12	91
b) other net provisions	(550)	44
210. Net value adjustments/reversals on property, plant and equipment	(1,930)	(964)
220. Net value adjustments/reversals on intangible assets	(1,359)	(1,191)
230. Other operating income/expenses	5,209	4,738
240. Operating expenses	**(57,868)**	**(51,234)**
270. Value adjustments to goodwill	(497)	-
290. Profit (loss) before tax from continuing operations	**11,568**	**1,622**
300. Tax on income for the year for continuing operations	(2,840)	(366)
310. Profit (loss) after tax from continuing operations	**8,728**	**1,256**
330. Profit (loss) for the year	**8,728**	**1,256**
340. Profit (loss) for the year attributable to non-controlling interests	(357)	379
350. Parent company's profit (loss) for the year	**8,371**	**1,635**
Basic earnings per share	0.013	0.002
Diluted earnings per share	0.013	0.002

Consolidated Statement of Comprehensive Income

(Amounts in €/thousand)

Condensed statement

Items	2019	2018
10. Profit (loss) for the year	**8,728**	**1,256**
Other comprehensive income after tax without reversal to Income Statement	**(273)**	**1,147**
20. Equity securities measured at fair value through other comprehensive income	618	(29)
70. Defined benefit plans	(891)	1,176
Other comprehensive income after tax with reversal to Income Statement	**7,296**	**(12,561)**
110. Exchange differences	47	
140. Financial assets (other than equity securities) measured at fair value through other comprehensive income	7,249	(12,561)
170. Total other comprehensive income after tax	**7,023**	**(11,414)**
180. Comprehensive income (Item 10 + 170)	**15,750**	**(10,158)**
190. Consolidated comprehensive income attributable to non-controlling interests	386	(459)
200. Consolidated comprehensive income attributable to the Parent Company	**15,364**	**(9,699)**

Consolidated Statement of Changes in Equity

(Amounts in €/thousand)

Consolidated statement of changes in equity - 2019

(€/thousand)	Balances as at 31.12.2018 Group shareholders' equity	Balances as at 31.12.2018 Non-controlling interests	Change in the opening balances of Group shareholders' equity	Change in the opening balances of non-controlling interests	Balances as at 1.1.2019 Group shareholders' equity	Balances as at 1.1.2019 Non-controlling interests	Changes during the year: Allocation of previous year's result										Comprehensive income for 2019	Group shareholders' equity as at 31.12.2019	Non-controlling interests as at 31.12.2019
										Transactions on shareholders' equity									
							Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary dividend distribution	Changes in equity instruments	Derivatives on treasury shares	Stock options	changes in shareholdings			
Share capital	*136,994*	*5,015*			*136,994*	*5,015*			*192*									*136,994*	*5,206*
a) ordinary shares	136,994	5,015			136,994	5,015			192									136,994	5,206
b) other shares																			
Share premium	82				82													82	*0*
Reserves	25,723	15,672			25,723	15,672	(753)		1,088									25,991	15,742
a) profit	25,723	15,672			25,723	15,672	(753)		1,088									25,991	15,742
b) other																			
Valuation reserves	*(9,538)*	*(236)*			*(9,538)*	*(236)*			*(24)*								*7,023*	*(2,559)*	*(216)*
Equity instruments																			
Treasury shares	*(3,357)*	*(292)*			*(3,357)*	*(292)*			*557*		*(813)*							*(3,603)*	*(303)*
Profit (loss) for the year	*1,635*	*(379)*			*1,635*	*(379)*	*753*	*(2,009)*									*8,728*	*8,371*	*357*
Group shareholders' equity	**151,539**				**151,539**		**379**	**(2,009)**	**805**		**(802)**						**15,364**	**165,276**	
Non-controlling interests		**19,781**				**19,781**	**(379)**		**1,009**		**(11)**						**386**		**20,785**

Consolidated statement of changes in equity - 2018

(€/thousand)	Balances as at 31.12.2017 Group shareholders' equity	Balances as at 31.12.2017 Non-controlling interests	Change in the opening balances of Group shareholders' equity	Change in the opening balances of non-controlling interests	Balances as at 1.1.2018 Group shareholders' equity	Balances as at 1.1.2018 Non-controlling interests	Allocation of previous year's result		Changes during the year									Group shareholders' equity as at 31.12.2018	Non-controlling interests as at 31.12.2018
										Transactions on shareholders' equity									
							Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Purchase of treasury shares	Extraordinary dividend distribution	Changes in equity instruments	Derivatives on treasury shares	Stock options	changes in shareholdings	Comprehensive income for 2018		
Share capital	136,994	4,829			136,994	4,829			186									136,994	5,015
a) ordinary shares	136,994	4,829			136,994	4,829			186									136,994	5,015
b) other shares																			
Share premium	82				82													82	
Reserves	23,380	15,472			22,831	15,131	1,533		1,609									25,723	15,672
a) profit	23,380	15,472	(549)	(60)	22,831	15,131	1,533		1,609									25,723	15,672
b) other																			
Valuation reserves	(144)	(167)	1,940	11	1,796	(156)											(11,414)	(9,538)	(236)
Equity instruments																			
Treasury shares	(3,723)	(281)			(3,723)				366									(3,357)	(292)
Profit (loss) for the year	5,224	233			5,224	233	(2,118)	(3,339)									1,256	1,635	(379)
Group shareholders' equity	**161,813**		**1,391**		**163,204**			**(3,339)**	**1,373**								**(9,699)**	**151,539**	
Non-controlling interests		**20,086**		**(49)**		**20,037**	**(585)**		**788**								**(459)**		**19,781**

Consolidated Cash Flow Statement (indirect method)

(Amounts in €/thousand)

	2019	2018 *
A. OPERATING ACTIVITIES		
1. Cash flows from operations	**41,334**	**10,059**
- profit (loss) for the year (+/-)	8,727	1,256
- net result of the merged companies (+/-)	-	-
- capital gains/losses on financial assets held for trading and other financial assets/liabilities at fair value through profit and loss (-/+)	8,793	3,866
- capital gains/losses on hedging operations (-/+)	11,639	(612)
- net value adjustments/reversals for credit risk (+/-)	(435)	263
- net value adjustments/reversals on property, plant and equipment and intangible assets (+/-)	3,289	2,155
- net provisions for risks and charges and other costs/revenues (+/-)	6,438	2,765
- outstanding taxes, duties and tax credit (+/-)	2,840	366
- net value adjustments/reversals on discontinued operations net of tax effect (+/-)	-	-
- other adjustments (+/-)	41	-
2. Cash flows from (used in) financial assets	**138,940**	**(565,976)**
- financial assets held for trading	(33,210)	(50,025)
- financial assets designated at fair value	-	-
- other financial assets mandatorily measured at fair value	-	-
- financial assets measured at fair value through other comprehensive income	135,812	101,816
- financial assets measured at amortised cost	46,794	(620,385)
- other assets	(10,455)	2,619
3. Cash flows from (used in) financial liabilities	**(177,096)**	**571,546**
- financial liabilities measured at amortised cost	(145,882)	530,783
- financial liabilities held for trading	(34,999)	48,090
- financial liabilities designated at fair value	-	-
- other liabilities	3,785	(7,327)
Cash flows from (used in) operating activities	**3,179**	**15,629**
B. INVESTMENT ACTIVITIES		
1. Cash flows from	**774**	**-**
- sales of equity investments	-	-
- collected dividends on equity investments	-	-
- sales of property, plant and equipment	774	-
- sales of intangible assets	-	-
- sales of business units	-	-
2. Cash flows used in	**(368)**	**(6,236)**
- purchases of equity investments	-	-
- purchases of property, plant and equipment	(127)	(603)
- purchases of intangible assets	(241)	(4,448)
- purchases of business units	-	(1,185)
Cash flows from (used in) investment activities	**406**	**(6,236)**
C. FUNDING ACTIVITIES	**(1,559)**	**(2,520)**
- issue/purchase of treasury shares	(839)	365
- issue/purchase of equity instruments	-	-
- dividend distribution and other purposes	(720)	(2,885)
Net cash flows from (used in) funding activities	**(1,559)**	**(2,520)**
NET CASH FLOWS GENERATED (USED IN) IN THE YEAR	**2,025**	**6,874**

** The figures as at 31 December 2018 have been restated as reported in Part A - Accounting policies*

RECONCILIATION	31/12/2019	31/12/2018 *
Cash and cash equivalents at the beginning of the year**	39,523	32,649
Net cash flows generated (used in) in the year	2,025	6,874
Cash and cash equivalents at the end of the year**	**41,548**	**39,523**

** The figures as at 31 December 2018 have been restated as reported in Part A - Accounting policies*
*** The item "Cash and cash equivalents" corresponds to item 10 of Assets in the Balance Sheet*

Notes to the Consolidated Financial Statements

PART A – Accounting policies

A.1- GENERAL CRITERIA

Section 1 - Statement of compliance with international accounting standards

The consolidated financial statements of the Banca Profilo Group have been prepared in accordance with IAS/IFRS accounting standards[1] issued by the International Accounting Standards Board (IASB) and the relative interpretations of the International Financial Reporting Committee (IFRIC), approved by the European Commission and in force as at 31 December 2019, implemented in our system by Legislative Decree no. 38 of 28 February 2005, which exercised the option provided for by Regulation (EC) no. 1606/2002 on international accounting standards. The financial statements have also been prepared in accordance with the provisions of the Bank of Italy in circular no. 262 of 22 December 2005 and subsequent updates[2].

Section 2 - General preparation principles

The consolidated financial statements consist of the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement and the Notes to the Consolidated Financial Statements, and is accompanied by the directors' report on operations, financial results achieved, and the consolidated financial situation.

With reference to the Cash Flow Statement, it should be noted that as at 31 December 2019 it was prepared using the "indirect" method and, for the purpose of comparison on a consistent basis, the comparative format as at 31 December 2018, prepared using the "direct" method, has been restated. For both years, the cash flows from/used in financial liabilities, which represents cash flows deriving from financing/funding activities in accordance with IAS 7 para. 44A, is classified, as required by Bank of Italy Circular no. 262/2005, within cash flows from operating activities.

In compliance with the provisions of Art. 5(2) of Legislative Decree no. 38 of 28 February 2005, the consolidated financial statements have been prepared using the euro as the accounting currency. In particular, in line with the instructions issued by the Bank of Italy, all the figures shown in the financial statements and in the Notes to the Consolidated Financial Statements are expressed in thousands of euros.

In order to take account of the changes that have occurred in the provisions of the Italian Civil Code regarding financial statements following the entry into force of the reform of company law (Legislative Decree no. 6 of 17 January 2003 and delegated measures under Law no. 366 of 3 October 2001), the information in the Notes to the Consolidated Financial Statements, unless otherwise provided for by the special regulations of the Bank of Italy, has been suitably and consistently supplemented.

The Consolidated Report on Operations and the Notes to the Consolidated Financial Statements provide the information required by international accounting standards, the law, the Bank of Italy and the National Commission for Companies and the Stock Exchange (*Commissione Nazionale per le Società e la Borsa* - Consob), as well as other information that is not mandatory but considered equally necessary for a correct and truthful representation of the Group's assets and liabilities, financial position and results of operations.

With particular reference to the financial statements and the Notes to the Consolidated Financial Statements, pursuant to Art. 9 of Legislative Decree no. 38 of 28 February 2005, the Bank has applied the provisions of Bank of Italy Circular no. 262 of 22 December 2005 and subsequent updates, integrating information where required by international accounting standards or deemed appropriate in terms of materiality or significance.

The assessment criteria are adopted with a view to going concern and comply with the principles of accrual accounting, relevance and materiality of information and priority of economic substance over juridical form.

[1] These standards, as well as the related interpretations, are applied according to the occurrence of events regulated by them from the date of their mandatory application, unless otherwise specified.
[2] In particular, reference is made to the 6th update of 30 November 2018.

In accordance with the provisions of the joint Bank of Italy/Consob/Isvap Document no. 2 of 6 February 2009 concerning disclosure on a going concern basis and in compliance with the requirements of IAS 1 revised for the same subject, the Directors did not identify any uncertainties that could give rise to doubts about the company's ability to continue as a going concern in the foreseeable future and consequently prepared these consolidated financial statements on a going concern basis.
With respect to the criteria used in the consolidated financial statements as at 31 December 2018, we note the entry into force, as from 1 January 2019, of IFRS 16, for which the following paragraph explains the main new elements and impacts for the Group, as well as the amendment to IAS 39 published on 26 September 2019 and subject to early adoption by the Group.

IFRS 16 - Leases
On 13 January 2016, the IASB published the standard "IFRS 16 - Leases" replacing IAS 17 - Leases, as well as the interpretations IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. On 31 October 2017, the European Parliament approved the standard, applicable for reporting periods after 1 January 2019. This Standard amends the scope of accounting standards and interpretations on leases and, in particular, IAS 17.

IFRS16 in fact, while confirming the current distinction between the two types of leases (operating and finance) with reference to the accounting model to be applied by the lessor, introduces significant changes to the lessee's financial statements. For the latter, the new standard requires that, for each type of lease contract (operating and finance), an asset representing the right of use of the leased asset must be recognised in the financial statements and, at the same time, the liability for future lease payments must be recognised as a liability. The Standard therefore establishes a single model for the recognition and evaluation of lease contracts for the lessee, which provides for the recognition of the leased asset, including operating assets, as assets with a counter-entry to a financial liability.

At the time of initial recognition, this asset is then valued on the basis of the cash flows associated with the lease contract, while after initial recognition it will be valued in accordance with the provisions for property, plant and equipment and intangible assets in the standards applicable to them (IAS38, IAS16 or IAS40).

In this context, the Group has launched an internal project to ensure full compliance with the new accounting standard, particularly with regard to the calculation and accounting for the right of use and the associated lease liability, which represent the main discontinuity with respect to the accounting model envisaged by IAS17. At the end of 2018, preparatory work on the definition and development of the rules and standards to ensure the correct determination of the right of use and lease liabilities linked to contracts falling within the scope of application of the new standard was substantially finalised. As regards the subsequent measurement and determination of the related effects on the income statement of these balance sheet items, in early 2019, the appropriate refinements with the CSE service centre were completed in order to proceed with the correct implementation of the new requirements introduced by IFRS 16.

The Group has decided, for the purposes of First-Time Adoption (FTA) of the standard, to apply the so-called modified full retrospective approach, which provides that the value of the right of use is assumed to be equal to the lease liability at the date of first adoption of the standard. In particular, the Group has accounted for, in relation to lease contracts previously classified as operating:

a) A financial liability, equal to the present value of future payments remaining at the transition date, discounted using the Incremental Borrowing Rate applicable at the transition date for each contract;
b) A right of use equal to the value of the financial liability referred to in the previous point, net of any accrued income and prepaid expenses or deferred income relating to the lease and recognised in the balance sheet as at 31 December 2018.

The impact on the balance sheet balances resulting from this standard, in terms of the recognition of rights of use and related lease liabilities, is illustrated later in this section.

Given the perfect overlap between the financial liabilities and the rights of use as at 1 January 2019, previously not recorded in the accounts of the Group companies, no discontinuity effects were found with respect to the balance sheet as at 31 December 2018, which would require the recognition of an effect deriving from the application of the standard in shareholders' equity as at 1 January 2019.

The Group has also decided, in accordance with the rules and simplifications provided for by the standard, not to apply the rules of IFRS16 to the lease of intangible assets, to short-term leases of less than 12 months and to the lease of assets with a modest unit value (so-called low value, set at € 5 thousand).

For the purposes of estimating the debt for lease contracts outstanding at 1 January 2019 and the associated "right of use", the Group has discounted future lease payments at an appropriate interest rate. It should be noted that in this context the future lease payments to be discounted have been determined in light of the provisions of the lease contract and calculated net of the VAT component by virtue of the fact that the obligation to pay this tax will arise at the time the lessor issues the invoice and not on the effective date of the lease contract itself. These flows are therefore discounted at a rate equal to the interest rate implicit in the lease or, if the latter is not available, at the incremental borrowing rate. The latter is determined on the basis of the cost of funding for liabilities of duration and guarantees similar to those implicit in the lease contract.

For the purposes of determining the duration of the lease, the non-cancellable period set out in the contract during which the lessee has the right to use the underlying asset shall be considered, taking into account any renewal options where the lessee has reasonable certainty of renewal. In particular, with reference to contracts that provide for the lessee's right to tacitly renew the lease at the end of an initial period, the duration of the lease is determined considering elements such as the duration of the initial period, the existence of any business plans for the disposal of the leased assets and any other circumstance indicative of the existence of reasonable certainty of renewal.
Finally, it should be noted that, by applying the modified retrospective approach, as required by section C7 of the Standard, the Group is not required to represent comparatives, but to recognise the cumulative effect of the initial application of the Standard as an adjustment to balance sheet balances at the date of initial application.

With reference to the accounting shareholders' equity, in relation to the fact that the Group has adopted the modified full retrospective approach, for which at the date of first-time adoption the book value of the right of use is assumed to be equal to that of the financial liability for the lease, no impact on the accounting shareholders' equity has been recorded.
With reference to the structure of the balance sheet assets and liabilities, it should be noted that the first-time adoption of the standard has led to an increase in property, plant and equipment in relation to the rights of use of property, cars and other capital goods that the Group has recognised, as well as an increase in financial liabilities measured at amortised cost in relation to the so-called "lease liabilities" arising from outstanding contracts on 1 January 2019 and falling within the scope of IFRS 16.
In relation to the impact of this standard on risk-weighted assets (RWA) following the recognition of rights of use, a slight decrease in the Group's CET 1 Ratio by 16 bps was determined.

Reconciliation schedule - First-time adoption of IFRS 16

The following table shows the reconciliation between the Group's balance sheet balances as at 31 December 2018 (where IAS 17 was applied) and the balance sheet balances as at 1 January 2019 following the first-time adoption of IFRS 16.

Assets Item (amounts in €/thousand)	31/12/2018	IFRS 16 FTA impact	01/01/2019
10 Cash and cash equivalents	39,523		39,523
20 Financial assets measured at fair value through profit and loss	507,974		507,974
30 Financial assets measured at fair value through other comprehensive income	440,547		440,547
40 Financial assets measured at amortised cost	1,173,361		1,173,361
50 Hedging derivatives	2,985		2,985
60 Change in value of macro-hedged financial assets (+/-)	-		-
70 Equity investments	-		-
80 Reinsurance technical reserves	-		-
90 Property, plant and equipment	50,874	6,154	57,028
100 Intangible assets	10,001		10,001
110 Tax assets	14,250		14,250
120 Non-current assets and disposal groups held for sale	-		-
130 Other assets	16,154	-60	16,094
Total Assets	**2,255,669**	**6,094**	**2,261,763**

Liabilities Item (amounts in €/thousand)	31/12/2018	IFRS 16 FTA impact	01/01/2019
10 Financial liabilities measured at amortised cost	1,857,235	6,094	1,863,329
20 Financial liabilities held for trading	164,404		164,404
30 Financial liabilities measured at fair value	-		-
40 Hedging derivatives	29,259		29,259
50 Value adjustments to financial liabilities subject to macro hedge (+/-)	-		-
60 Tax liabilities	2,233		2,233
70 Liabilities associated with assets held for sale	-		-
80 Other liabilities	25,893		25,893
90 Employee severance indemnity	1,701		1,701
100 Provisions for risks and charges	3,624		3,624
Total liabilities	**2,084,349**	**6,094**	**2,090,443**
120 Valuation reserves	-9,538		-9,538
150 Reserves	25,723		25,723
160 Share premium	82		82
170 Share capital	136,994		136,994
180 Treasury shares (-)	-3,357		-3,357
190 Non-controlling interests	19,781		19,781
200 Profit for the year	1,635		1,635
Total shareholders' equity	**171,320**	**-**	**171,320**
Total liabilities	**2,255,669**	**6,094**	**2,261,763**

The increase in item 90. Property, plant and equipment is derived from the recognition of rights of use relating to:

- Property for € 5,475 thousand
- Cars for € 343 thousand
- Other capital goods for € 336 thousand

As no significant improvements to third party assets were recorded by the Group companies in the past, no appreciable effects were found on

other assets, which historically included such improvements.
For the sake of completeness, it should be noted that, prior to the application of IFRS 16, no property, plant and equipment deriving from finance leases recognised in accordance with IAS 17 were present in the Group's consolidated financial statements.

Disclosure on the incremental borrowing rate used
The weighted average of the incremental borrowing rate used to measure the lease liability at the date of first-time adoption is 1.113%.

Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform
On 26 September 2019, the IASB adopted an amendment, endorsed on 16 January 2020, to IFRS 9 - Financial Instruments and IAS 39 - Financial Instruments: Recognition and Measurement, as well as IFRS 7 - Financial Instruments: Disclosures. More specifically, the amendment modifies some of the requirements for the application of hedge accounting, providing for temporary derogations, in order to mitigate the impact of the uncertainty of the IBOR reform (still in progress) on future cash flows in the period prior to its completion. The amendment also requires companies to provide additional information in their financial statements on their hedging relationships which are directly affected by the uncertainties generated by the reform and to which the above derogations apply.
The amendments shall enter into force on 1 January 2020, but companies are free to opt for early adoption of the amendment. The changes are significant for the Group considering that it applies hedge accounting to its exposures to changes in benchmark interest rates. The Group chose to apply the amendments to IAS 39 in advance for the financial statements as at 31 December 2019.
With reference to the Group's existing hedging strategies, the Group holds investments in fixed-rate or inflation-linked debt securities, denominated in euros/pounds sterling/dollars: a) under the "held to collect and sell" business model, measured at fair value with changes in fair value recognised under "other comprehensive income"; b) under the "held to collect" business model, measured at amortised cost.
The interest rate and inflation risk of debt securities is hedged using "Euribor", "USD LIBOR" and "GBP LIBOR" interest rate swaps (IRS) and, as mentioned above, the amendment allows hedging to continue even if the hedged benchmark interest rate, Euribor/USD LIBOR/GBP LIBOR, can no longer be separately identifiable in the future.
The adoption of these amendments allows the Group to continue hedge accounting during the period of uncertainty due to the interest rate reform.

Financial risks
The Group is exposed to the following benchmark interest rates within hedge accounting relationships subject to the interest rate reform: GBP Libor, USD Libor, EURIBOR (together "IBORs"). The following are hedged: fixed-rate or inflation-linked debt instruments issued in euros, pounds sterling or US dollars.
The Group is closely monitoring the market and the results obtained by the various working groups in the sector that are managing the transition to the new reference rates.
In response, the Group has defined an IBOR transition programme to understand which business areas are exposed to IBOR and to prepare and deliver an action plan that will allow a smooth transition to alternative interest rates. For the Group's derivatives, ISDA (International Swaps and Derivatives Associations) fallback clauses were made available at the end of 2019; the Group will begin discussions with banks with the aim of adopting this language in the ISDA agreements in 2020.
Below, in detail, are the hedging and hedged instruments in the scope of the IAS39 amendments following the reform on benchmark interest rates, broken down by type of hedge. The maturities of the hedged instruments correspond to those of the related hedging instruments.

Type of hedge	Type of instrument	Portfolio	Maturity	Nominal	Currency	Hedged item
Fair value hedge	Pay fixed or inflation-linked swap rate, receive 3M EURIBOR rate	HTC	2023	12,000,000	EUR	Fixed-rate or inflation-linked debt securities, held in the HTC portfolio with the same maturity and nominal value as the hedging swaps
			2024	25,500,000	EUR	
			2025	5,000,000	EUR	
			2026	18,000,000	EUR	
			2028	25,000,000	EUR	
			2041	3,000,000	EUR	
	Pay fixed swap rate, receive USD 3M LIBOR rate		2024	2,500,000	USD	
			2027	3,000,000	USD	
	Pay fixed or inflation-linked swap rate, receive 3M EURIBOR rate	HTC&S	2021	1,622,000	EUR	Fixed-rate or inflation-linked debt securities, held in the HTC&S portfolio with the same maturity and nominal value as the hedging swaps
			2022	1,622,000	EUR	
			2023	1,622,000	EUR	
			2024	14,622,000	EUR	
			2025	10,122,000	EUR	
			2026	1,622,000	EUR	
			2027	6,622,000	EUR	
			2028	15,622,000	EUR	
			2029	1,622,000	EUR	
			2030	21,622,000	EUR	
			2031	1,622,000	EUR	
			2032	1,622,000	EUR	
			2033	690,000	EUR	
			2034	690,000	EUR	
			2035	690,000	EUR	
			2036	690,000	EUR	
			2037	690,000	EUR	
			2038	690,000	EUR	
			2039	690,000	EUR	
			2040	690,000	EUR	
			2041	690,000	EUR	
			2046	3,000,000	EUR	
			2047	2,500,000	EUR	
			2049	10,000,000	EUR	
			2066	2,500,000	EUR	
	Pay fixed swap rate, receive GBP 3M LIBOR rate		2024	5,000,000	GBP	
	Pay fixed swap rate, receive USD 3M LIBOR rate		2027	2,000,000	USD	
			2028	7,000,000	USD	

The Group will continue to apply the amendments relating to IAS39 until the uncertainties arising from the reform of the benchmark interest rates to which the Group is exposed, with specific reference to maturities and the amount of the underlying cash flow, are resolved. The Group expects that the uncertainty will remain until the Group's contracts, indexed to IBOR, are modified to specify the date after which the benchmark interest rate will be replaced and the cash flows linked to the new rate and the related spread adjustment. In part this will depend on the introduction of fallback clauses that have not yet been added to Group contracts and on negotiations with creditors and bond holders.

IAS/IFRS accounting standards and SIC/IFRS interpretations entered into force as at 1 January 2019

The following entered into force on 1 January 2019:

- Amendment **to IFRS 9 "Prepayment Features with Negative Compensation"** (issued on 12 October 2017). This document specifies that instruments providing for early repayment could comply with 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 a "negative compensation" for the lender.
- "**Uncertainty over Income Tax Treatments** (IFRIC Interpretation 23)" interpretation (issued on 7 June 2017). The interpretation addresses the uncertainties surrounding the tax treatment to be adopted in the area of income taxes. In particular, the Interpretation requires an entity to analyse uncertain tax treatments (individually or as a whole, depending on the characteristics) assuming that the tax authority examines the tax position in question, having full knowledge of all relevant information. If the entity considers it unlikely that the tax authority will accept the tax treatment followed, the entity shall reflect the effect of the uncertainty in measuring its current and deferred income taxes. In addition, the document does not contain any new disclosure requirements but stresses that the entity shall determine whether it will be necessary to provide information about management's considerations regarding the uncertainty inherent in accounting for taxes in accordance with IAS 1.
- "**Annual Improvements to IFRSs 2015-2017 Cycle**" document (issued on 12 December 2017) which incorporates the amendments to certain standards as part of the annual improvement process. The main amendments concern IFRS 3 Business Combinations and IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing costs.
- "**Plant Amendment, Curtailment or Settlement (Amendments to IAS 19)**" document (issued on 7 February 2018). The document clarifies how an entity should recognise an amendment (e.g. a curtailment or settlement) to a defined benefit plan. The amendments require the entity to update its assumptions and remeasure the net liability or net asset arising from the plan. The amendments clarify that after the occurrence of such an event, an entity uses updated assumptions to measure current service cost and interest for the remainder of the reporting period following the event.
- "**Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)**" document (issued on 12 October 2017). This document clarifies the need to apply IFRS 9, including impairment requirements, to other long-term interests in associates and joint ventures for which the equity method is not applied.

Given the Group's operations, the entry into force of the above documents has not had a significant effect.

As required by IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors, the new standards and interpretations already issued but not yet mandatory and not yet adopted in advance by the Group as at 31 December 2019 are indicated below.

- **"Definition of Material (Amendments to IAS 1 and IAS 8)"** document (issued on 31 October 2018). The document introduced an amendment to the definition of "material" contained in IAS 1 - Presentation of Financial Statements and IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors. The purpose of this amendment is to make the definition of "material" more specific and to introduce the concept of "obscured information" alongside the concepts of omitted or incorrect information already present in the two standards being amended. The amendment clarifies that information is "obscured" if it has been described in such a way as to produce for the primary readers of financial statements an effect similar to that which would have occurred if the information had been omitted or incorrect.

  The amendments introduced were approved on 29 November 2019 and apply to all transactions after 1 January 2020. The Directors do not expect a significant effect on the Group's consolidated financial statements from the adoption of this amendment.

- Amendment to the "**References to the Conceptual Framework in IFRS Standards**" (issued on 29 March 2018). The amendment is effective for periods beginning on or after 1 January 2020, but early adoption is permitted.
  The Conceptual Framework defines the fundamental concepts for financial reporting and guides the Board in the development of IFRS standards. The document helps to ensure that the Standards are conceptually consistent and that similar transactions are treated in the same way so as to provide useful information to investors, lenders and other creditors.
  The Conceptual Framework supports companies in developing accounting standards when no IFRS standard is applicable to a particular transaction and, more generally, helps stakeholders to understand and interpret the Standards. The Directors do not expect a significant effect on the Group's consolidated financial statements from the adoption of this amendment.

It should also be noted that at the date of these consolidated financial statements, the competent bodies of the European Union had not yet completed the endorsement process necessary for the adoption of the amendments and standards described below.

- IFRS 17 - **Insurance Contracts** (issued on 18 May 2017 by the IASB) which is intended to replace IFRS 4 - Insurance Contracts. The objective of the new standard is to ensure that an entity provides relevant information that faithfully represents the rights and obligations arising from insurance contracts issued. The IASB developed the standard to eliminate inconsistencies and weaknesses in existing accounting policies, providing a single principle-based framework to take account of all types of insurance contracts, including reinsurance contracts that an insurer holds. The new standard also includes presentation and disclosure requirements to improve comparability between entities in this segment. The Directors do not expect the adoption of this standard to have any impact on the Group's consolidated financial statements.
- "**Definition of a Business** (Amendments to IFRS 3)" document (issued on 22 October 2018). The document provides a number of clarifications on 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 meet the business definition, an integrated set of activities/processes and assets must include, as 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 make it clear that a business can exist even without the presence of all the necessary inputs and processes to create an output. The amendment also introduced a test ("concentration test"), optional for the entity, to determine whether a set of activities/processes and assets purchased is not a business. If the test provides a positive result, the set of activities/processes and assets purchased does not constitute a business and the standard does not require further testing. In the event that the test provides a negative result, the entity shall perform further analysis of the activities/processes and assets purchased to identify the presence of a business. The amendments apply to all business combinations and acquisitions of activities after 1 January 2020, but early adoption is permitted. The Directors do not expect the Group's consolidated financial statements to be affected by the adoption of this amendment.
- **Amendment to IFRS 10 and IAS 28 Sales or Contribution of Assets between an Investor and its Associate or Joint Venture** (issued on 11 September 2014). The document was published in order to resolve the current conflict between IAS 28 and IFRS 10 concerning the measurement of profit or loss resulting from the sale or contribution of a non-monetary asset to a joint venture or associate in exchange for a share in the latter's capital. The IASB has currently suspended the application of this amendment. The IASB has currently suspended the application of this amendment. The Directors are currently assessing the possible effects of the introduction of these amendments on the Group's consolidated financial statements.

Section 3 – Scope and methods of consolidation

This section sets out the criteria and standards used to prepare the consolidated financial statements as at 31 December 2019.
The consolidated financial statements include the balance sheet and income statement results of Banca Profilo and its direct and indirect subsidiaries, in accordance with IFRS 10, which requires control for the consolidation of all types of entities. This requirement is fulfilled when the Parent Company meets all the following requirements:

- power to decide on the entity's significant activities;
- exposure to variable returns arising from the relationship with the entity;
- ability to exercise its power to influence the amount of its returns (link between power and returns).

The requirement of control therefore implies that the Parent Company must have the ability to direct the controlled entity, by virtue of a legal right or a mere de facto situation, and also be exposed to the variability of results deriving from this power. Consequently, the determination of the scope of consolidation requires consideration of all factors and circumstances that provide the investor with the practical ability to unilaterally conduct the entity's significant activities (de facto control). There have been no changes in the scope and in the method of consolidation since 31 December 2018.

1. Equity investments in wholly-owned subsidiaries

The following table shows the equity investments included in the scope of consolidation (all consolidated on a line-by-line basis):

Company name	Registered office	Type of relationship (1)	Shareholding relationship		Voting rights (2)
			Investing company	%	
1. Profilo Real Estate S.r.l.	Milan	1	Banca Profilo S.p.A.	100%	100%
2. Banque Profil de Géstion S.A.	Geneva	1	Banca Profilo S.p.A.	60.41%	60.84%
3. Arepo Fiduciaria S.r.l.	Milan	1	Banca Profilo S.p.A.	100%	100%
4. Dynamic Asset Management S.A.	Luxembourg	1	Banque Profil de Géstion S.A.	65%	65%

Key
(1) Type of relationship
1 = majority of voting rights at ordinary shareholders' meetings
(2) Votes available in the ordinary shareholders' meeting, distinguishing between actual and potential

2. Significant assessments and assumptions for determining the scope of consolidation

Preparation criteria and scope of consolidation

The consolidated financial statements include the balance sheet and income statement results of the parent company and its subsidiaries. The financial statements of subsidiaries are prepared using the same accounting standards for each accounting year-end as those of their parent company. Any consolidation adjustments are made to make items that are affected by the application of different accounting standards consistent.

The book value of equity investments in fully consolidated companies, held by the parent company, is offset against the assets and liabilities of the investee companies - with the corresponding portion of shareholders' equity attributable to Banca Profilo and its subsidiaries, adjusted if necessary to align them to the reference accounting standards. Assets and liabilities, off-balance sheet transactions, income and expenses, and significant profits and losses between companies included in the scope of consolidation have been eliminated.

The operating results of a sold subsidiary are included in the consolidated income statement until the date of sale, i.e. the date on which the parent company ceases to have control of the subsidiary. The difference between the sale price of the subsidiary and the book value of its assets minus its liabilities at the date of sale is recognised in the consolidated income statement as a gain or loss on sale of the subsidiary. There were no disposals of equity investments during the year.

Non-controlling interests are presented in the consolidated balance sheet separately from the liabilities and shareholders' equity of the parent company. Non-controlling interests are also presented separately in the income statement.

3. Equity investments in wholly-owned subsidiaries with significant non-controlling interests.

Interests are considered significant when the accounting data of the investee company is relevant to the reader of the consolidated financial statements.

3.1 Non-controlling interests, availability of third-party votes and dividends distributed to third parties

Company name	Non-controlling interests %	Availability of third-party votes % (1)	Dividends distributed to third parties
1. Banque Profil de Gestion. S.A.	39.59	39.16	-

(1) Votes available in the ordinary shareholders' meeting

3.2 Investments with significant non-controlling interests: accounting information

Company name	Total assets	Cash and cash equivalents	Financial assets	Property, plant and equipment and intangible assets	Financial liabilities	Shareholders' equity	Net interest income	Net interest and other banking income	Operating expenses	Profit (loss) before tax from continuing operations	Profit (loss) after tax from continuing operations	Total profit (loss) after tax from discontinued operations	Profit (loss) for the year (1)	Other comprehensive income after tax (2)	Comprehensive income (3) = (1) + (2)
1. Banque Profil de Géstion. S.A.	252,907	34,017	210,601	6,086	189,235	52,990	2,617	12,417	(12,464)	167	908	-	906	50	956

4. Significant restrictions

As at 31 December 2019, there were no legal or substantive constraints or restrictions that could hinder the rapid transfer of capital resources within the Group. The only constraints are those that are attributable to legislation, which may require the maintenance of a minimum amount of own funds, or to the provisions of the Italian Civil Code on distributable profits and reserves.

It should also be noted that there are no protective rights held by minority shareholders that could limit the Group's ability to access or transfer assets between Group companies or settle the Group's liabilities, also in relation to the fact that there are no subsidiaries with significant non-controlling interests, as explained in the previous paragraph.

5. Other information

All subsidiaries prepare financial statements as at 31 December 2019.

Management and coordination activities

Banca Profilo and its subsidiaries are subject to the management and coordination of the Parent Company Arepo BP pursuant to Art. 2497 *et seq.* of the Italian Civil Code.

Any relations between the Bank and other Group companies with Arepo BP are indicated in "Part H - Transactions with related parties" to which reference should be made.

As at the date of preparation of these financial statements, the figures for the financial statements as at 31 December 2019 of Arepo BP S.p.A. are not available, as required by Article 2497-*ter* of the Italian Civil Code, as they have not yet been approved. The figures relating to the financial statements as at 31 December 2018 are therefore attached.

Section 4 - Significant events subsequent to the reporting period

On 12 March 2020, the Board of Directors of Banca Profilo examined these draft consolidated financial statements and authorised their publication.
Referring to the Report on Operations for a general discussion on developments after the end of the financial year, it should be noted that after 31 December 2019 and up to the date of approval of this report, no facts or events have occurred that would lead to an adjustment to the results of the financial statements as at 31 December 2019.

On the other hand, it should be noted that, in accordance with IAS 10, **the declaration of the international emergency due to the Coronavirus epidemic**, as such event and its consequences occurred after the reporting date, does not require adjustments to be made to the financial statements. In fact, on 30 January 2020 the World Health Organization declared the Coronavirus epidemic as an international public health emergency. Given the absolute randomness of the spread of the epidemic and the consequent manoeuvres that will be put in place by Governments to counter it, it is not possible to exclude significant effects on the Italian and international economy that could entail the need to make a new estimate of the financial statement values in light of the information that will become available. For further details on the related elements of uncertainty, please refer to Section 5 "Other aspects" in Part A of the Notes to the Consolidated Financial Statements.

Section 5 - Other matters

The preparation of the consolidated financial statements also requires the use of estimates and assumptions that can have a significant impact on the balance sheet and income statement amounts, as well as on disclosure of contingent assets and liabilities reported in the financial statements. The preparation of these estimates involves the use of available information and the adoption of subjective evaluations, also based on historical experience, used for the formulation of reasonable assumptions for the recognition of operating events. By their nature, the estimates and assumptions utilised may vary from one period to another and, therefore, it cannot be ruled out that in subsequent periods the actual amounts stated in the financial statements may differ, even to a significant extent, as a result of changes in subjective assessments made.

Among the main factors of uncertainty that could affect the future scenarios in which the Group will operate, there are the possible developments on the global and Italian economy directly or indirectly related to the Coronavirus epidemic (COVID-19), whose impacts to date cannot be estimated. It is believed that the information and sensitivity analyses provided with reference to the main items of the financial statements subject to estimate are capable of reflecting the impacts related to the elements of uncertainty assumed at the date of preparation of this Financial Report.

The main cases for which the use of subjective assessments by management was necessary are as follows:

- use of valuation models to measure the fair value of financial instruments not listed in active markets;
- the quantification of expected losses on receivables, securities, guarantees issued and commitments;
- the determination of the fair value of financial instruments to be used for financial statement reporting purposes;
- assessment of the fairness of the value of goodwill and other intangible assets;
- the quantification of provisions for risks and charges and the assessment of contingent liabilities;
- the quantification of personnel funds;
- estimates and assumptions on the recoverability of deferred tax assets.

It should be noted that the adjustment of an estimate may occur as a result of changes in the circumstances on which it was based or as a result of new information or more experience.
The change in the estimate is applied prospectively and therefore has an impact on the income statement for the year in which the change takes place and, if necessary, for future years.
In this regard, it should be noted that 2019 was not characterised by changes in the estimate criteria already applied for the preparation of the Financial Statements as at 31 December 2018, except for the provisions of IFRS 9 with reference to the determination of the expected loss on receivables, securities, guarantees issued and commitments. It is also determined by information of a prospective nature such as, in particular, the development of the macroeconomic scenarios used in the calculation of value adjustments. The development of these scenarios, as well as their weighting, shall be periodically assessed and updated if necessary. For further details, please refer to the information reported in Part E of these Notes to the Consolidated Financial Statements.

The description of the accounting policies applied to the main aggregates of the financial statements provides the information necessary to identify the main assumptions and subjective assessments used in the preparation of the financial statements. For further detailed information regarding the composition and the relative book value of the items affected by the estimates in question, please refer to the specific sections of the Notes to the Consolidated Financial Statements.

Transparency requirements in reporting public disbursements

In accordance with the provisions of the so-called "Annual law for the market and competition" (Law no. 124/2017), which provides that as from 2018, companies that receive grants, contributions, remunerated assignments and in any case economic advantages of any kind from Public Administrations or parties connected to the latter, are required to indicate these amounts in the Notes to the Consolidated Financial Statements, it should be noted that, also taking into account the indications provided by the in-depth document issued by Assonime on 14 February 2018, Banca Profilo has received aid of € 95 thousand and this has been registered in the National Aid Register (*Registro Nazionale degli Aiuti* - RNA).

Disclosure in relation to high-risk financial instruments

In line with the recommendations of the Financial Stability Forum in its report issued on 7 April 2008 and with the Bank of Italy's request in its communication no. 671618 of 18 June 2008 in relation to market disclosure, it is hereby declared that, as at 31 December 2019, neither the Bank nor its subsidiaries had no outstanding exposure in financial instruments considered to be high risk or involving greater risk than previously commonly believed, including Collateralised Debt Obligations (CDOs), Residential Mortgage-Backed Securities (RMBS), Commercial Mortgage-Backed Securities (CMBS), Special Purpose vehicles and other leveraged finance instruments.

Option for tax consolidation

Banca Profilo and its subsidiaries Arepo Fiduciaria Srl and Profilo Real Estate Srl have joined the so-called "national tax consolidation" scheme provided for by articles 117-129 of the T.U.I.R. (Italian consolidated tax act), of which Arepo BP Spa is the consolidating company as the parent company. With the exercise of the option, the total net income or tax loss of each company participating in the tax consolidation, together with withholdings, deductions and tax credits, are transferred to the parent company, producing a single taxable income or a single loss that can be carried forward resulting from the algebraic sum of its own income or losses and those of the participating subsidiaries and, consequently, a single tax debit/credit.

Auditing

These consolidated financial statements as at 31 December 2019 have been audited by Deloitte & Touche S.p.A.

A.2 - MAIN ITEMS OF THE FINANCIAL STATEMENTS

The accounting standards adopted for the preparation of the consolidated financial statements are set out below.

1 - Financial assets measured at fair value through profit and loss

(a) Classification criteria

This category includes financial assets held for trading, financial instruments that are held with the intention of generating profits in the short term from variations in the prices of said instruments and derivative contracts not designated as hedges (HTS business model), in particular:
listed and unlisted debt securities;
listed equity securities;
unlisted equity securities only when their fair value can be reliably determined;
derivative contracts, with the exception of those designated as hedging instruments, which have a positive fair value at the balance sheet date; if the fair value of a derivative contract subsequently becomes negative, it is recorded under financial liabilities held for trading.

The item also includes financial assets that must be measured at fair value, represented by financial assets that do not meet the requirements for valuation at amortised cost or fair value through other comprehensive income (so-called "SPPI test" not passed) or that are not held under a HTS business model and financial assets designated at fair value, i.e. financial assets so defined at initial recognition. In relation to such cases, an entity may irrevocably designate a financial asset as measured at fair value through profit and loss if, and only if, this significantly reduces an inconsistency in measurement.

The derivative is a financial instrument or other contract with all three of the following characteristics:
its value changes in response to changes in a specific interest rate, the price of a financial instrument, the price of a good, the exchange rate of a foreign currency, an index of prices or rates, a credit rating or credit index or other variables;
it does not require an initial net investment or requires an initial net investment lower than would be required by other types of contracts from which similar responses to changing market factors can be expected;
it will be settled at a future date.

This category includes financial and credit derivatives. The former includes forward contracts for the purchase and sale of securities and currencies, derivative contracts with underlying securities and those without underlying securities linked to interest rates, indexes or other assets, and derivative contracts on currencies. Derivative contracts also include those that may be embedded in other complex financial instruments, which have been recognised separately from the host instrument because:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the primary contract;
- the embedded instruments, even if separate, meet the definition of a derivative;
- the hybrid instruments to which they belong are not measured at fair value with changes in value recognised in the income statement.

This item also includes investments subject to significant influence or joint control which, IAS 28 and IFRS 10 respectively allow for assignment to this portfolio.
Reclassifications to other categories of financial assets are only possible if the entity changes its business model for the management of financial assets. In these cases, which are expected to be highly infrequent, financial assets may be reclassified from the category 'measured at fair value through profit and loss' to one of the other two categories envisaged by IFRS 9 (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. The date of reclassification and its value will be taken into account for the calculation of the effective interest rate of the reclassified asset, and for the stage assignment credit risk allocation activity.

(b) Recognition criteria

The initial recognition of debt and equity securities takes place on the "settlement date", while derivative instruments are recognised on the "subscription date".
The initial book value is equal to the cost (purchase price) intended as the fair value of the instrument, without considering any transaction costs or revenues directly attributable to the instrument which are recorded in the income statement.

(c) Measurement criteria

Subsequent to initial recognition, financial assets held for trading are measured at fair value, with changes recognised in the income statement under item 80 "Net profit (loss) from trading" and item 110 "Net profit (loss) from other financial as-

sets and liabilities measured at fair value through profit and loss" - a) financial assets and liabilities designated at fair value and - b) other financial assets mandatorily measured at fair value.
Market prices are used to determine the fair value of financial instruments listed on active markets.
An active market is defined as one where listings, reflecting normal market transactions, are readily and regularly available through stock exchanges, brokers, intermediaries, companies in the sector, listing services or authorised bodies and express the price of actual and regular market transactions that occurred during a normal reference period.
In relation to securities, the Group has identified two conditions for a security to be considered listed on an active market, namely:

- the security must be traded on a regulated market or on an alternative stock exchange: a listing on a regulated market, therefore, is in itself neither a necessary nor sufficient condition for an active market to be considered as such;
- the price expressed by that market must be "significant", i.e. the result of regular and effective transactions between counterparties who freely decide to buy and sell and are not forced to do so by their particular stress conditions.

In the absence of an active market, for the purposes of determining the fair value of securities, all relevant market information that is in some way available is considered, favouring, where possible, the use of directly observable market parameters such as:

- prices of recent transactions or market contributions/listings available at the valuation date, even if they relate to a market considered inactive;
- valuations provided by the issuer or by a calculation agent or in any case by an external valuation service, even if, since these are not prices resulting from actual market transactions, they are considered with particular caution and are subject to verification by the Bank;
- mark to model type valuations, carried out by discounting the expected future flows of the security taking into account all available information.

With regard to other financial instruments, i.e. unlisted derivatives, the fair value corresponds to the presumed replacement cost obtained from the price of listed derivative contracts with identical characteristics (by underlying, exercise price and maturity) or by discounting future cash flows (certain or estimated) at market rates recorded by information circuits normally used internationally and/or applying best practice valuation models.

(d) Derecognition criteria

Financial assets held for trading are derecognised when the contractual rights on the cash flows arising from such assets expire or when the financial assets are sold with the transfer of substantially all related risks and rewards.
Financial assets sold are derecognised even when the bank retains the contractual right to receive the cash flows deriving from them, but at the same time assumes the contractual obligation to pay the same flows to third parties.
Securities received as part of a transaction that contractually envisages their subsequent sale and securities delivered as part of a transaction that contractually envisages their repurchase are not recorded in or written off the financial statements.

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

(a) Classification criteria

This category includes financial assets that simultaneously meet the following conditions:

- the financial asset is held according to a business model whose objective is achieved through the collection of contractually envisaged cash flows and through selling ("Hold to Collect and Sell" business model);
- the contractual terms of the financial asset envisage, on specific dates, cash flows represented solely by payments of principal and interest on the amount of capital to be repaid (so-called "SPPI test" passed).

This item also includes equity instruments, not held for trading purposes, for which the option to designate at fair value through other comprehensive income was exercised at the time of initial recognition.
Therefore, the following are included in this item

- debt securities that are part of a Hold to Collect and Sell business model and that have passed the SPPI test;
- equity stakes, which cannot be classified as representing control, an affiliation, or joint control and are not held for trading purposes, for which the fair value through other comprehensive income option was chosen;
- loans that are part of a Hold to Collect and Sell business model and that have passed the SPPI test.

Reclassifications to other categories of financial assets are only possible if the entity changes its business model for the management of financial assets. In these cases, which are expected to be highly infrequent, financial assets may be reclassified from the category 'measured at fair value through profit and loss' to one of the other two categories envisaged by IFRS 9 (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. If assets are reclassified from this category to the amortised cost category, the cumulative profit (loss) recorded in the valuation reserve is adjusted to the fair value of the financial asset at the reclassification date. In the case of reclassification in the category of fair value through profit and loss, the accrued profit (loss) previously recorded in the valuation reserve is reclassified from shareholders' equity to profit (loss) for the year.

(b) Recognition criteria

The initial recognition of debt and equity securities takes place on the "settlement date" and the disbursement date for loans.

Financial instruments are recognised on initial recognition at fair value, which generally coincides with their cost (purchase price) including any transaction costs or income directly attributable to them.

(c) Measurement criteria

Subsequent to initial recognition, financial assets are measured at fair value with the recognition in the income statement of the remuneration of the instrument calculated on the basis of the IRR method, while changes in fair value are recognised in a specific equity item (item 120 - Valuation reserve), contributing to comprehensive income (in item 140 - Financial assets other than equity securities measured at fair value through other comprehensive income), until the financial asset is derecognised or an impairment loss is recognised (in which case a loss is recognised in item 130 - Net value adjustments/reversals for credit risk); at the time of disposal the cumulative profit or loss is then reversed to the income statement under item 100 b) - Income (loss) from disposal or repurchase of financial assets measured at fair value through other comprehensive income.

The equity instruments selected for classification in this category are measured at fair value and the amounts recognised as a contra-entry to equity and contribute to comprehensive income under item 20 - Equity securities measured at fair value through other comprehensive income, and must not be subsequently transferred to the income statement, even in the event of disposal (in the event of disposal, cumulative profits and losses are recognised under item 150 - Reserves. The only component of these equity securities that is recognised in the income statement is represented by the related dividends. Fair value is determined on the basis of the criteria already illustrated for Financial assets measured at fair value through profit and loss.

Financial assets measured at fair value through other comprehensive income - both in the form of debt securities and receivables - are subject to verification of the significant increase in credit risk (impairment) as required by IFRS 9, similar to Financial assets measured at amortised cost, with the consequent recognition in the income statement of a value adjustment to cover expected losses.

All instruments are classified into three classes:

- assets with performance in line with expectations (stage 1 assigned on origination date);
- assets with performance significantly below expectations (stage 2 - performing which showed a deterioration in their creditworthiness);
- non-performing assets (stage 3 or Non-Performing).

The classification must be based on the creditworthiness of the counterparty. The creditworthiness at the date the credit arises shall be compared with the creditworthiness at the valuation date. For assets in the first merit class, a valuation process must be applied to expected losses over a 12-month time period. For assets in classes two and three, the valuation process must be applied throughout the life of the instrument. The process for stages 1 and 2 is generic while it is analytical for NP positions (stage 3). Equity securities are not subject to the impairment test.

(d) Derecognition criteria

Financial assets are derecognised when the contractual rights on the cash flows arising from such assets expire or when the financial assets are sold with the transfer of substantially all related risks and rewards. The economic result of the sale of financial assets is charged to the income statement except for equity instruments.

3 - Financial assets measured at amortised cost

(a) Classification criteria

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

- the financial asset is held according to a business model whose objective is

achieved through the collection of contractually envisaged cash flows ("Hold to Collect" business model);
- the contractual terms of the financial asset envisage, on specific dates, cash flows represented solely by payments of principal and interest on the amount of capital to be repaid (so-called "SPPI test" passed).

The following are included in this item once the two requirements set out above have been met:
- loans and advances to banks in various technical forms;
- loans and advances to customers in various technical forms;
- debt securities.

This category also includes operating receivables connected with the provision of financial services and activities.
Reclassifications to other categories of financial assets are only possible if the entity changes its business model for the management of financial assets. In these cases, which are expected to be highly infrequent, financial assets may be reclassified from the category 'measured at amortised cost' to one of the other two categories envisaged by IFRS 9 (Financial assets measured at fair value through profit and loss 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. In the event of reclassification from the category in question to fair value through profit and loss, the cumulative profit (loss) will be recognised in the income statement. If, instead, assets are reclassified to the fair value through other comprehensive income category, the cumulative profit (loss) will be recognised in shareholders' equity under the appropriate valuation reserve.

(b) Recognition criteria
Receivables are initially recognised at the disbursement date or, in the case of a debt security, at the settlement date, on the basis of the fair value of the financial instrument, which is equal to the amount disbursed, or subscription price, including costs or revenues directly attributable to the instrument and determinable from inception, even if paid at a later date. All charges that are reimbursed by the debtor counterparty or that are attributable to internal administrative costs are excluded. In the case of credit transactions concluded at conditions other than market conditions, the fair value is determined using specific valuation techniques; the difference with respect to the amount disbursed or the subscription price is charged directly to the income statement.

(c) Measurement criteria
Subsequent to their initial recognition, "Financial assets held to maturity" are measured at amortised cost, using the effective interest rate method. The result of the application of this method is posted through profit and loss under item 10. Interest income and similar revenues.
Profits or losses relative to these assets are posted to the income statement when the assets are derecognised or impaired.
When preparing the financial statements or interim reports, positions in this category are subject to impairment, with the value adjustments identified recorded in the income statement.
All instruments are classified into three classes:
- assets with performance in line with expectations (stage 1 assigned on origination date);
- assets with performance significantly below expectations (stage 2 - performing which showed a deterioration in their creditworthiness);
- non-performing assets (stage 3 or Non-Performing).

The classification must be based on the creditworthiness of the counterparty. The creditworthiness at the date the credit arises shall be compared with the creditworthiness at the valuation date. For assets in the first merit class, a valuation process must be applied to expected losses over a 12-month time period. For assets in classes two and three, the valuation process must be applied throughout the life of the instrument. The process for stages 1 and 2 is generic while it is analytical for NP positions (stage 3). If the financial assets in question are performing (stages 1 and 2), they are subjected to an assessment, aimed at defining the value adjustments to be recorded in the financial statements, at the level of individual credit relationships (or "securities tranches"), on the basis of the risk parameters represented by probability of default (PD), loss given default (LGD) and exposure at default (EAD). The valuation also takes into account the guarantees received in place.
Loans and securities for which no objective evidence of loss has been individually identified fall within the so-called "performing loans" (performing positions) and are subject to collective valuation.
The valuation model for the generic fund is established on the basis of the following formula:
ECL = EAD x PD x LGD
where:
ECL = Expected Credit Loss EAD = Exposure at Default PD = Probability of Default LGD = Loss given Default

Collective write-downs of securities and loans are therefore calculated according to the following principles:

- at each reporting date, if the credit risk of a financial instrument has not significantly increased with respect to the date of disbursement or purchase (stage 1), the expected loss for that financial instrument should be measured as the amount of expected losses in the following 12 months;
- at each reporting date, if the credit risk of a financial instrument has significantly increased with respect to the date of disbursement or purchase (stage 2), the expected loss for that financial instrument is measured as the amount of expected losses over the remaining life of the instrument (lifetime).

For the purposes of staging financial assets, each asset is classified at the origination date in "stage 1" and subsequently:

- with regard to securities, the deterioration of three notches on the rating attributed to the instrument itself by external rating agencies, together with a final speculative grade rating, is considered evidence of a significant increase in credit risk, and therefore a move to "stage 2" for the security;
- with regard to loans, the deterioration of three notches on the internal rating assigned to the position is considered evidence of a significant increase in credit risk. In this regard, it is considered that, in relation to loans, the credit risk of an instrument may not be considered significantly increased if, at the measurement date, the credit risk of the instrument itself is considered low on the basis of the assessments made by the Credit Committee.

The PDs used are estimated starting from the construction of Pit (Point in time) migration matrices from historical databases on which future PDs are built based on simulations of different macroeconomic scenarios. Finally, PD averages weighted by the probability of occurrence of the scenarios are calculated.
The LGDs used are estimated by models that make them Point in Time and forward looking and can be adjusted based on the guarantees received.
An exception is made for trade receivables, for which the simplified approach provided for by the standard is applied, according to which the credit classification takes place directly in stage 2 (therefore no staging activities are envisaged with reference to performing loans), and the calculation of the Expected Credit Loss (ECL) lifetime on the basis of a provision matrix mechanism linked to each individual loan relationship, depending on the status of the fiduciary mandate (the ECL varies depending on whether the customer relationship is still active or terminated) and the seniority of the loan (the ECL is increased on loans exceeding certain seniority thresholds).
For the classification of non-performing exposures into the various risk categories (bad loans, unlikely to pay, non-performing past-due and/or overdrawn exposures), the Bank and its consolidated companies refer to the relevant regulations issued by the Bank of Italy. Non-performing loans are subject to an analytical valuation process regardless of the amounts involved. The amount of the value adjustment to be made to each loan is equal to the difference between its book value at the time of measurement (amortised cost) and the present value of expected future cash flows, calculated by applying the original effective interest rate. The envisaged cash flows take into account the expected recovery, estimated recovery times and estimated realisable value of any guarantees. Cash flows relative to loans that are expected to be repaid in the short term are not discounted. The original effective rate of each loan is unvaried over time, even if there has been a restructuring of the agreement which has led to a change in the contractual rate and even if the loan becomes, in practice, contractually non-interest-bearing. Impairment losses are posted to the income statement under this item.

(d) Derecognition criteria

Financial assets measured at amortised cost are derecognised when the contractual rights on the cash flows arising from such assets expire or when the financial assets are sold with the transfer of substantially all related risks and rewards.
For all positions classified as bad loans, the Group assesses whether it is appropriate to continue to maintain the bad loan as the out-of-court or legal actions underway allow a reasonable expectation of recovery, even partial, or whether it is appropriate to proceed with a total or partial write-off or derecognition, respectively, by virtue of the conclusion of the recovery process or the circumstance that there is no reasonable prospect of recovery.
A write-off, in accordance with IFRS 9, is the reduction of the gross book value of the loan resulting from the acknowledgement that there are no reasonable expectations of its recovery for amounts exceeding those considered collectable or already collected.
It does not imply a waiver by the bank of its legal right to recover the loan and must be effected 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 Group has identified in order to determine whether a position is among those to be assessed for the purposes of a possible write-off depend on the possible presence of bankruptcy proceedings, the levels of coverage and the seniority of the position in the bad loan status.

4 - Hedging transactions

The Banca Profilo Group avails itself of the possibility, provided for by IFRS 9, to continue to fully apply the provisions of IAS 39 on hedge accounting.
Hedging transactions are defined as the designation of a financial instrument capable of neutralising, in whole or in part, the profit or loss (related to market risks, such as interest rate risk, exchange rate risk or price risk, or the issuer's credit risk) deriving from a change in the fair value or cash flows of the hedged instrument. The hedging intent must be formally defined, not retroactive and be consistent with the risk hedging strategy set out by the Group's Management. At each balance sheet and mid-year reporting date, it is required to verify that the hedge implemented through the use of the derivative instrument is highly effective in offsetting changes in fair value or expected cash flows of the hedged item; this verification must be prospective and retrospective.
Initial recognition of hedging derivatives takes place on the "trade date", based on their fair value on that date.
The accounting of derivatives as hedging instruments is permitted by IAS 39 only under specific conditions, i.e. when the hedging relationship is:

- clearly defined and documented;
- measurable;
- currently effective.

The coverage relationship ceases when

- the derivative expires, is sold, terminated or exercised;
- the hedged item is sold, expires, or is repaid;
- it is no longer highly likely that the hedged future transaction will occur.

The fair value of the derivative financial instruments designated as hedging is recognised under item 50 - Hedging derivatives under assets if the fair value of the derivative is positive, while if the fair value of the hedging instrument is negative it is recognised under item 40 - Hedging derivatives under liabilities.
IAS 39 recognises three types of hedging:

- hedging of the fair value of an asset or liability already recorded in the financial statements; in this case the profit or loss deriving from changes in the fair value of the hedging instrument is immediately reflected in the income statement, as are the profits or losses from the valuation of the hedged instrument;
- cash flow hedging; in this case the effective portion of the profit or loss on the hedging instrument is initially recognised in shareholders' equity (recognising it in the income statement as the hedged instrument reflects the related flows in the income statement); the ineffective portion of the profit or loss on the hedging instrument is instead recognised directly in the income statement;
- hedging of a net investment in a foreign entity; the accounting is the same as for cash flow hedging transactions.

5 - Equity investments

The Banca Profilo Group does not hold equity stakes classifiable under this item.

6 - Property, plant and equipment

(a) Classification criteria

These are property, plant and equipment (technical plant, furniture, furnishings and equipment of all kinds) used in the business and which are expected to be used for more than one period.
Property, plant and equipment include the costs of leasehold improvements; when these costs can be separated from the assets themselves and if they do not have independent functionality and usability but future benefits are expected from them, they are recorded under "other assets" and are depreciated over the shortest period between the expected useful life of the improvement and the residual lease term.
As from 1 January 2019, the item also includes a) rights of use acquired by the lessee through lease contracts and relating to the use of a tangible asset, b) assets granted under operating leases by the lessor and c) improvements and incremental expenses incurred on owned assets or rights to use property, plant and equipment relating to lease contracts.

(b) Recognition criteria

Property, plant and equipment are recorded at cost, including any additional charges directly attributable to the purchase and start-up of the asset. Non-recurring expenditures for maintenance which involve an increase in future eco-

nomic benefits are booked as an increase in the value of the assets, while expenses for ordinary maintenance are booked to the income statement. Property, plant and equipment, including rights of use acquired through lease contracts, are recognised only when future economic benefits associated with the asset acquired are identified, as well as when the cost of the asset acquired can be reliably determined.
The rights of use acquired through lease contracts arise from the lessee's commitment to pay a fee for a certain period of time for the use of a tangible asset. The right of use is recorded in the Balance Sheet on the date on which the lease contract commences, i.e. on the date on which the lessee can exercise the right of use. The book value of the right of use is determined considering the sum of the financial liability for the lease, the initial direct costs as well as any costs that the lessee will have to incur to restore the leased asset. At the same time, financial liabilities measured at amortised cost will include a financial liability arising from the signing of the lease contract, calculated as the present value of the payments to which the lessee has committed, discounted at the interest rate implicit in the contract or at the lessee's incremental borrowing rate.
For the purpose of recording the right of use deriving from a lease contract, components not directly related to the lease, such as, for example, ancillary services provided by the lessor, must be separated and recognised in the income statement in the financial year in which they are accrued. The lessee is exempt from the recognition of the right of use deriving from a lease contract if the contract is short-term (with a residual term of 12 months or less) and does not provide for an option to purchase the asset by the lessee, and if the asset covered by the contract is of low value.
When registering the right of use, an assessment is made of the expected duration of the contract, also taking into account the presence of extension options and termination options, as well as the relative probability of their exercise.

(c) Measurement criteria and revenue recognition criteria

Property, plant and equipment are valued at cost less accumulated depreciation and any impairment losses in accordance with IAS 16. The same criterion is also adopted for investment property, having opted for the option of valuation after cost.
Property, plant and equipment are systematically depreciated over their useful life, understood as the period of time over which the asset is expected to be usable by the company, using the straight-line method. Works of art are not subject to depreciation as their value is generally expected to increase with the passage of time.
In view of the fact that property, plant and equipment may include components with different useful lives, land, whether separate or included in the value of the building, is not subject to depreciation as a fixed asset with an indefinite useful life.
At the end of each financial year or interim period, in the presence of situations that indicate the existence of lasting impairment losses, the recoverable value of the asset, which corresponds to the greater of its value in use (current value of the economic functions of the asset) and its exchange value (presumed disposal value net of transaction costs), is compared with its book value net of depreciation. Any adjustments are posted to the income statement under item 210 "Net value adjustments/reversals on property, plant and equipment". Where the reasons for impairment cease to exist, a reversal is made, which may not exceed the value that the asset would have had, net of depreciation in the absence of previous impairment losses.
With reference to the rights of use resulting from the application of IFRS 16, during the term of the contract from which the right of use originates, it is necessary to restate the liability recorded on the liabilities side of the balance sheet if there are changes in the payments due for the contract; in return, the book value of the right of use will be modified by the amount equal to the restatement of the liability.

(d) Derecognition criteria

Property, plant and equipment is derecognised from the balance sheet upon disposal, or when the asset is permanently removed from use, and no future economic benefits are expected from its disposal. Gains and losses deriving from the disposal or sale of property, plant and equipment are calculated as the difference between the net sale price and the book value of the asset and are recorded in the income statement on the same date in which they are eliminated from the accounts.
As far as the right of use deriving from lease contracts is concerned, it is derecognised from the Balance Sheet at the end of the contract.

7 - Intangible assets

(a) Classification criteria

IAS 38 defines intangible assets as non-monetary assets, without physical substance but identifiable, used in the performance of the company's business and with a long-term duration. The characteristics necessary to meet the definition of intangible assets are:

- identifiability
- control of the resource in question
- existence of future economic benefits.

In the absence of one of the aforementioned characteristics, the expenditure to acquire or generate the same internally is recognised as a cost in the year in which it is incurred. Intangible assets include software for long-term use and goodwill.
Goodwill is classified under intangible assets. Goodwill represents the positive difference between the purchase cost and the fair value of assets and liabilities acquired as part of business combinations.

(b) Recognition criteria
Intangible assets are recorded at purchase cost including any additional charges and increased by subsequent expenses incurred to increase their initial economic functionality.

(c) Measurement criteria
Intangible assets of limited duration are valued at cost net of amortisation, recorded under item 220 "Net value adjustments/reversals on intangible assets", as governed by IAS 38.
At the end of each financial year or interim period, in the presence of situations indicating the existence of lasting impairment losses, the recoverable value of the asset is estimated, with the difference between the book value of the asset and its recoverable value recognised in the income statement under item 220 "Net value adjustments/reversals on intangible assets".
Intangible assets with an indefinite useful life, such as goodwill, are not amortised but subjected to an impairment test at least once a year, even if no indication of significant impairment has been found.
With the exception of goodwill, for which the impairment losses found can no longer be reinstated in subsequent years, the other intangible assets previously written down may be reversed, but the new book value may not exceed the net book value that would have been determined at the same date in the absence of impairment in previous years.

(d) Derecognition criteria
Intangible assets are derecognised following disposals or when they have exhausted their full economic functionality and no future economic benefits are expected.

Intangible assets - Goodwill

(a) Classification criteria
Goodwill included in intangible assets, recognised in accordance with the criteria established by IFRS 3, represents the positive difference between the purchase cost and the fair value, at the same date, of the assets and liabilities acquired as part of business combinations.

(b) Recognition criteria
An intangible asset can be recorded as goodwill when the positive difference between the fair value of the assets acquired and the purchase cost of the equity investment (including additional charges) is representative of the future income generating capacity of the equity investment (goodwill). If the difference proves to be negative (badwill) or in the event that the goodwill is not justified by the equity investment's future income capacity, said difference is recognised directly in the income statement.

(c) Measurement criteria
Every year (or whenever there is evidence of impairment) a test is carried out to verify the adequacy of the value of goodwill (impairment test). To this end, the cash generating unit to which goodwill is allocated is identified, known as CGU, which represents the minimum level at which goodwill is monitored at Group level in accordance with the business model adopted.
The amount of the impairment loss is determined by the difference between the book value of goodwill and its recoverable value, if lower. This recoverable value is equal to the higher of the fair value of the cash generating unit, net of any selling costs, and its value in use. The resulting value adjustments are posted to the income statement under item 270 "Value adjustments to goodwill". These impairment losses can no longer be reversed in subsequent years.

(d) Derecognition criteria
Intangible assets are derecognised from the balance sheet upon disposal or when no future economic benefits are expected.

Allocation of the cost of a business combination to the assets acquired and to the liabilities and contingent liabilities assumed

The acquiring entity shall:
a) recognise goodwill acquired in a business combination as an asset;
b) measure this goodwill at its cost, considering that it represents the excess of the cost of the business combination over the acquiring entity's interest in the fair value of

the identifiable assets, liabilities and contingent liabilities.

Goodwill acquired in a business combination represents a payment made by the acquiring entity in anticipation of future economic benefits from assets that are not individually identifiable and cannot be recognised separately.
After initial recognition, the acquiring entity measures the goodwill acquired in a business combination at its cost, net of accumulated impairment losses.
Goodwill acquired in a business combination is an asset with an indefinite useful life and should not be amortised. Instead, it is required to verify whether goodwill has been impaired, on an annual basis, or more frequently in the event of specific events or changed circumstances that indicate that it may have been impaired, in accordance with the relevant accounting standard.
The standard states that an asset, including goodwill, is impaired when its recoverable value, defined as the higher of its fair value less selling costs and its value in use, as defined in paragraph 6 of IAS 36, is lower than its book value.
For the purposes of impairment testing, goodwill must be allocated to cash generating units (CGUs) or groups of units, in compliance with the maximum combination requirement that may not exceed the segment of assets identified in accordance with IFRS 8.

8 - Non-current assets and disposal groups held for sale

Banca Profilo and its subsidiaries do not hold assets classified as non-current assets and disposal groups held for sale or liabilities associated with assets held for sale, nor does it hold equity interests classifiable under this item, which meet the criteria set out in IFRS 5.

9 - Current and deferred taxes

Current taxes are determined by applying the tax rates and tax regulations in force and, to the extent that they have not been paid, are recognised as a liability. Income taxes are posted to the income statement, excluding those relating to items directly credited or charged to shareholders' equity. Income tax provisions are determined on the basis of a prudential forecast of current tax expense, deferred tax assets and liabilities.
With regard to deferred taxation, the balance sheet liability method was adopted. In particular, prepaid and deferred taxes are calculated on the basis of temporary differences – without time limits – between the value attributed to an asset or liability according to statutory criteria and the corresponding value adopted for tax purposes.
Deferred tax assets are recognised in the financial statements to the extent that there is a likelihood of their recovery, assessed on the basis of the Bank's ability to continuously generate positive taxable income. They are recorded under item 110 b) of the assets. Deferred tax liabilities are recorded under item 60 b) of liabilities and represent the tax charge corresponding to all taxable temporary differences existing at the end of the year.
Deferred tax assets and deferred tax liabilities are constantly monitored and are recognised at the tax rates that are expected to apply in the year in which the tax asset will be realised or the tax liability settled, based on the tax rates and tax regulations in force. The balancing entry for accounting assets and liabilities, both current and deferred, generally consists of the income statement under item 290 "Tax on income for the year for continuing operations".
In addition, the tax reserve is adjusted to cover the charges which might result from any already notified tax assessments or litigation pending with the tax authorities.

10 - Provisions for risks and charges

Commitments and guarantees issued

Sub-item a) commitments and guarantees issued includes provisions for credit risk recognised against commitments to disburse funds and guarantees issued, which fall within the scope of application of the rules on impairment pursuant to IFRS 9. For these cases, in principle, the same allocation methods are adopted between the three stages (credit risk stages) and calculation of the expected loss shown with reference to financial assets measured at amortised cost or measured at fair value through other comprehensive income.

Pension funds and similar obligations

The provisions for risks and charges referred to in liability item 100 b) include pensions funds, i.e. provisions for employee benefits to be paid out after the end of the employment relationship, which are linked to company agreements and qualify as defined benefit plans. A defined benefit plan provides certain benefits linked to factors such as the beneficiary's age, years of service and the remuneration policies adopted by the company. As a result, the company bears the actuarial and investment risk. The obligations incumbent on the company are determined by discounting future payments in proportion to the variables previously stated (age, years of service rendered) in addition to other actuarial variables such as life expectancy and seniority at the time of termination of employment, and consequently accounted for in accordance with IAS 19 Revised: actuarial gains and losses arising from the measurement of defined benefit liabilities are recorded as a contra-entry to shareholders' equity under item "120. Valuation reserves" and shown in the Statement of comprehensive income.

Other provisions
Sub-item c) other provisions for risks and charges include provisions made for legal or employment obligations or for disputes, including those tax-related, arising from a past event for which it is probable that economic resources will be required to fulfil the obligations, provided that a reliable estimate can be made of the amount involved. Provisions are determined in order to represent the best estimate of the expenditure required to meet obligations. In determining the estimate, the risks and uncertainties relating to the facts and circumstances under consideration are taken into account.

11 - Financial liabilities measured at amortised cost

(a) Classification criteria
The liabilities included here are Deposits from banks and Deposits from customers; they consist of the various financial instruments through which the Bank and its subsidiaries realise interbank and customer funding, net of any amounts repurchased.
Interest expenses are recorded in the income statement under item 20 "Interest expenses and similar charges".

(b) Recognition criteria
The liabilities in question are recorded upon receipt of the amounts collected or, in the case of debt securities, at the time of issue or at the time of a new placement, or cancelled, even in the case of repurchase, on the "settlement date" principle and cannot be transferred to the portfolio of liabilities held for trading. The initial recognition is carried out on the basis of fair value, normally equal to the amount collected or issue price, adjusted for any costs and revenues directly attributable to the various collection or issue transactions. Internal administrative costs are excluded. The fair value of any financial liabilities issued at less than market conditions is estimated and the difference with respect to the market value is booked directly to the income statement. Structured securities are separated into their constituent elements, which are recorded separately, when the derivative components implicit in them have an economic nature and risks different from those of the underlying securities and can be configured as autonomous derivative instruments.

(c) Measurement criteria
After initial recognition, the valuations of financial liabilities are based on the principle of amortised cost using the effective interest rate method, with the exception of short-term liabilities where the time factor is negligible, which remain recognised at the value collected and any costs charged to the income statement on a straight-line basis over the contractual duration of the liabilities.

(d) Derecognition criteria
Financial liabilities are derecognised upon maturity or extinction. Derecognition also occurs when previously issued securities are repurchased; the difference between the book value of the liabilities and the amount paid to purchase them is recorded in the income statement. A new placement in the market of own securities after their repurchase is considered as a new issue and posted at the new price of placement, with no impact on the income statement.

12 - Financial liabilities held for trading

(a) Classification criteria
This item includes trading derivatives with a negative fair value, including implicit derivatives present in structured financial instruments and separated from them for accounting purposes. Also included are any "technical overdrafts" arising from trading in securities.

(b) Recognition criteria
Derivatives are recognised on the "trade date" while transactions in securities are recognised on the "settlement date".
Financial liabilities held for trading are initially recorded at fair value, i.e. at purchase price.

(c) Measurement criteria
Subsequent to initial recognition, financial liabilities held for trading are measured at fair value determined in the manner described in the section on "Financial assets measured at fair value through profit and loss". Financial instruments for which it is not possible to determine the fair value reliably in accordance with the above, are kept at cost. The results of measurement and trading are recorded in the income statement under item 80 "Net profit (loss) from trading".

(d) Derecognition criteria
Financial liabilities held for trading are derecognised when the contractual rights to the cash flows deriving from the liabilities expire or when the financial instruments are sold.

13 - Financial liabilities designated at fair value

Banca Profilo and its subsidiaries currently have no liabilities classifiable under this item.

14 - Foreign currency transactions

(a) and (b) Classification and initial recognition criteria
Foreign currency transactions are represented by all assets and liabilities denominated in currencies other than the euro, which is the functional currency used by the parent company Banca Profilo corresponding to that of the economic environment in which it operates. They are initially recognised in the currency of account using the spot foreign-exchange rates on the date of each transaction.

(c) Measurement criteria
At the end of each financial year or interim period, financial statement items in foreign currency are measured as follows:

- monetary items are converted using the exchange rate on the closing date;
- non-monetary items valued at historical cost are converted using the exchange rate on the date of the transaction;
- non-monetary items that are measured at fair value are converted at the exchange rate on the closing date.

The exchange rate differences resulting from settlement of monetary items or from the conversion of monetary items at rates other than the initial conversion rates, or at the conversion rates of the prior financial statements, are recorded in the income statement under item 80 "Net profit (loss) from trading".
Exchange rate differences relating to items for which measurements are recognised in shareholders' equity, for example Financial assets measured at fair value through other comprehensive income, are recognised in the income statement.
When a profit or a loss on a non-monetary element is recognised in shareholders' equity, the exchange rate difference in relation to said element is also posted to shareholders' equity. Conversely, when a profit or loss is recognised in the income statement, the relative exchange rate difference is also recognised there.

15 - Insurance assets and liabilities

Banca Profilo and its subsidiaries currently have no assets and liabilities classifiable under this item.

16 - Other information

Employee severance indemnity
On the basis of the new rules governing employee severance indemnity, introduced by the Legislative Decree of 5 December 2005, the employee severance indemnity, referred to under item 110 of liabilities as regards the amounts accrued up to 31 December 2006, is configured as a defined benefit plan and is therefore subject to actuarial valuation using the Projected Unit Credit Method (PUCM), which provides for the projection of future disbursements on the basis of historical, statistical and probabilistic analyses as well as the adoption of appropriate demographic technical bases; the financial discounting of flows is also based on a market interest rate. This actuarial calculation is carried out by independent actuaries.
The costs for the plan are recorded among personnel expenses item 180 "Administrative expenses; a) personnel expenses" as the net amount of contributions paid, contributions of prior periods not yet recorded, accrued interest, expected revenues from the assets of the plan. Actuarial gains and losses, as required by IAS 19, are recognised in a valuation reserve.

Treasury shares
Any treasury shares held are recorded as a reduction of shareholders' equity.
Gains or losses resulting from the purchase, sale, issue or cancellation of treasury shares are not recorded in the income statement, but are recorded in shareholders' equity.

Costs and revenues
Costs are recorded in the accounts at the time they are incurred. Costs directly attributable to financial instruments valued at amortised cost and determinable from the outset, regardless of when they are settled, are charged to the income statement by applying the effective interest rate, for a definition of which reference should be made to "Financial assets measured at amortised cost".
Revenues, in compliance with IFRS 15, derive from contractual obligations with customers and are recognised in the financial statements only if

all of the following criteria are met simultaneously:

- the parties to the contract have approved the contract and are committed to fulfilling the relative obligations;
- the entity can identify the rights of each of the parties as regards the goods or services to be transferred;
- the entity can identify the payment terms of the goods or services to be transferred;
- the contract has commercial substance (risk, timescale or amount of future cash flows of the entity are destined to change after the contract);
- the entity is likely to receive the consideration to which it is entitled in exchange for the goods or services that will be transferred to the customer. In evaluating the likelihood of receiving the amount of the consideration, the entity must only take account of the customer's intention and capacity to pay the amount of the consideration when due.

If the consideration is variable, the amount of the consideration to which the entity will be entitled may be recognised if it can be reliably estimated and it is highly probable that the consideration will not be reversed in subsequent periods.
The consideration for the contract, the collection of which as mentioned above must be probable, is allocated to the individual obligations arising from the same. If a contract with customers provides for the provision of a package of services to the customer against a total annual fee, these services constitute different "performance obligations" for the purposes of recording the consideration in the financial statements, among which the Bank allocates the price of the transaction on the basis of the relevant separate sale price.
Revenues are recognised over time, depending on the timing of fulfilment of the obligations, either in a lump sum or alternatively over the duration of the period for fulfilment of the various obligations.

With reference to revenues from financial assets, the following should be noted:

- Interest is recognised according to a time criterion that considers the actual yield of the asset. Negative income components accrued on financial assets are recorded under "Interest expenses and similar charges"; positive income components accrued on financial liabilities are recorded under "Interest income and similar revenues".
- Interest on arrears is posted to item "10. Interest income and similar revenues", exclusively at the moment it is actually collected.
- Dividends are accounted for when the right of shareholders to receive the payment arises.

Costs or revenues deriving from the buying/selling of financial instruments, determined by the difference between the consideration paid or collected of the transaction and the fair value of the instrument are booked to the income statement at the time of recognition of the financial instrument solely where the fair value is determined:

- by making reference to current and observable market transactions regarding the same instrument;
- through valuation techniques that use, as variables, solely data deriving from observable markets.

Employee stock option plans
The stock option plans are divided into two types, with different accounting methods depending on the characteristics of the plan:

- equity settled: these are plans in which the beneficiary is granted the right to purchase shares in the company at a fixed price if specific conditions are met. In such cases, the fair value of the option, determined at the time it is granted, is recognised as a cost in the income statement over the life of the plan, with a contra-entry increase in equity reserves;
- cash settled: these are plans in which the beneficiary directly receives the monetary value of the benefit deriving from the theoretical exercise of the stock option. The fair value of the option, determined at the time it is granted, is recognised as a cost in the income statement over the life of the plan, with a contra-entry payable in the balance sheet. The relative entitled amounts of the total cost are recalculated at each reporting date on the basis of the fair value recognition adjustment which, when due, is equivalent to the payment to be made to the employee.

A.3 - Disclosure on transfers between portfolios of financial assets

A.3.1 Reclassified financial assets: change in business model, book value and interest income
The Banca Profilo Group has not changed its "business model" relating to the management of financial instruments, defined on first-time adoption of IFRS 9. No reclassifications were carried out among financial assets during the year.

A.3.2 Reclassified financial assets: change in business model, fair value and effects on comprehensive income
The Banca Profilo Group has not changed its "business model" relating to the management of financial instruments, defined on first-time adoption of IFRS 9. No reclassifications were carried out among financial assets during the year.

A.3.3 Reclassified financial assets: change in business model and effective interest rate
The Banca Profilo Group has not changed its "business model" relating to the management of financial instruments, defined on first-time adoption of IFRS 9. No reclassifications were carried out among financial assets during the year.

A.4 - Information on fair value

QUALITATIVE INFORMATION

A.4.1 – Fair value level 2 and 3: measurement techniques and inputs used
If a financial instrument cannot be listed on an active market, Risk Management determines its fair value by applying a measurement technique. For this purpose, all relevant market information available in any way shall be taken into account.

As part of the process of determining the fair value of a security not traded in an active market, the following measurement techniques are commonly applied:

- prices of recent transactions or market contributions/listings available at the valuation date, even if they relate to a market considered inactive;
- measurements provided by the issuer or by a calculation agent or in any case by an external evaluation service in the specific manner described below;
- mark-to-model measurements, i.e. obtained using a pricing model appropriate for the type of financial instrument to be valued, fed by market data relevant to the valuation.

When calculating the fair value of a financial instrument not listed on an active market, first of all the existence of recent transactions on the same or a similar financial instrument (by issuer, duration and degree of subordination) shall be verified. Appropriate adjustments are made to the price of these transactions in order to determine their fair value:

- time differences between the observed transaction day and the measurement day: adjustments shall take account of movements in market factors that have occurred in the meantime (e.g. movements in interest rate curves) or changes in factors specific to the financial instrument being measured (e.g. downgrading of the issuer of a security);
- differences between the instrument being measured and the similar instrument on which the transaction was recorded: the adjustments take into account the different duration of the two instruments or the greater complexity of one compared to the other (which may lead market participants to request a higher liquidity premium on one instrument compared to the other, especially in particular market conditions).

The measurements provided by the issuer or by a calculation agent or external valuation service, since they are not prices resulting from actual market transactions, are considered with particular caution and subject to consistency checks by the Bank, based on available market information.

The most commonly used measurement models are the so-called discounted cash flow models. There are two different methodologies in this regard: a) calculation of contractual cash flows and subsequent discount with a market return consistent with the riskiness of the financial instrument; b) calculation of cash flows already weighted for the probability of survival of the counterparty (so-called non-default probability) and subsequent discount on the basis of a free risk rate of return. The factors that are taken into account in determining the risk-adjusted rate of return or the probability of survival of the counterparty are as follows:

- the maturity date of the expected cash flows;
- any uncertainty regarding the amount or maturity of cash flows;
- the credit risk;
- the liquidity of the instrument;
- the reference currency in which payments are to be made.

With particular reference to credit risk, the spreads recorded on listed securities of the same issuer with similar duration and liquidity characteristics, those recorded on credit default swaps on the same issuer with the same maturity or those recorded on issuers with similar risk characteristics (by rating, sector, country) are alternately taken into account.

In the case of the use of a measurement technique that includes a parameter not directly observable on a market (for example, the liquidity spread of a security or the volatility for some unlisted options), this parameter will normally be determined on the basis of the price of the initial transaction, so as to have a valuation on the day of the transaction equal to the actual price of the same (so-called day one profit equal to zero). In such cases, the non-observable parameter shall be kept constant in subsequent valuations unless other transactions on the same or a similar instrument give clear indications that market conditions have changed since the initial situation.

A.4.2 Measurement processes and sensitivity

The financial instruments classified as level 3 amount to a total gross value of € 24.8 million in the financial statements. Based on the criteria set out in the paragraph below, the following were classified as fair value level 3:

- inflation zc securities which, in the sensitivity tests carried out, following a spread movement of 10 basis points, recorded a price change determined at model level of more than 1% (for a total value of the portfolio ranging between € 6.8 and € 7.0 million);
- two model-rated index CDSs which, in the sensitivity test carried out, following a spread movement of 50 basis points, recorded a change in fair value of more than 1% of the nominal value (for a valuation of the derivative ranging between € -13.5 and € -20.9 million).

A.4.3 Fair value hierarchy

Financial instruments are classified in three hierarchical levels, depending on how their fair value is determined and the observability of the parameters used for their valuation.

In particular, the three classes of fair value are as follows:

- Level 1: financial instruments listed on active markets and valued on the basis of their market price, without adjustment. By way of example, this category usually includes listed shares, government securities, bonds listed on active markets (identified on the basis of the parameters indicated below) and regulated derivatives;
- Level 2: financial instruments valued on the basis of techniques and models that use observable input data on an active market; instruments in this category are valued using: a) market prices of similar instruments or prices of the same instruments found on markets considered inactive; b) valuation techniques where all inputs that have a significant impact on the valuation are directly or indirectly based on observable market data. By way of example, this category includes some unlisted or delisted shares, bonds listed on markets deemed inactive for which there are in any case recent market transactions or contributions deemed sufficiently indicative, the majority of the **over-the-counter** derivatives concluded by the Bank;
- Level 3: financial instruments valued using techniques and models using at least one input parameter that is not based on observable market data and that has a significant impact on their overall valuation. The significance of the impact is judged on the basis of predetermined thresholds and a sensitivity analysis. By way of example, this category may include some unlisted or delisted shares, some structured bonds not listed on active markets, structured or exotic over-the-counter derivatives for the valuation of which an input parameter that cannot be inferred from market data is significant.

For the purpose of identifying Level 1 instruments, a financial instrument shall be considered to be listed on an active market if prices are readily and regularly available and represent actual market transactions, which take place in normal trading between two counterparties. In relation to this definition, the Bank has identified two conditions for a financial instrument to be considered listed on an active market:

1. the instrument must be traded on a regulated market or an alternative stock exchange;
2. the price expressed by that market must be "significant", i.e. the result of regular and effective transactions between counterparties who freely decide to buy and sell and are not forced to do so by their particular stress conditions.

The listing on a regulated market, therefore, is in itself neither a necessary nor sufficient condition for an active market to be considered as such. Verifying the significance of the price and the degree of market activity is a complex process, which requires the intervention of a subjective valuation: it is not possible, in fact, to establish rigid rules, to be applied automatically regardless of market conditions and/or the specific characteristics of the financial instrument to be valued. The judgement, however, although subjective, is not arbitrary and is expressed taking into account a series of objective reference parameters, of a qualitative and quantitative nature, relating to the size and depth of the market and the price formation mechanisms. In particular, the following parameters are taken into account:

- trading volumes and frequency of trading: where available, these parameters constitute a direct index of market depth and the significance of the listing price;
- price variability: the measurement of price variations over time must be compatible with that of securities of the same currency, similar duration and creditworthiness; in other words, the price must vary according to a dynamic traceable to the market variables that determine its return and must not present discontinuities of such a magnitude that they cannot be justified by the trend of the relevant market factors;
- price availability and frequency of updating: the historical price series must be continuously and frequently updated; in principle, this condition is deemed to be met if, over the last month, different prices have been found in at least half of the working days of the period;
- in the case of a security being traded on an alternative stock exchange, existence of a sufficient number of market makers and relevant listings: the security must be traded by a sufficient number of intermediaries to ensure the constancy of price formation and its effective executability; in principle, this condition is deemed to be met if: i) listings from at least three different brokers are available; ii) the bid/ask spreads of the brokers' listings are not more than 1%; iii) the mid-prices of the different brokers are within a range not exceeding 1%.

From an organisational point of view, the classification according to the fair value hierarchy of all financial instruments included in the Bank's portfolio is carried out by the Risk Management Function.

With particular reference to several bond index CDSs, which are part of an arbitrage strategy (in which Banca Profilo simultaneously takes a CDS position on an index and a CDS opposite sign position on the single names that make up the same index), the model valuation is based on the following steps:

1. on the day of the transaction, on the basis of the upfront collected on the "package" (index CDS + single names CDS) and therefore of the difference between the market value of the index CDS and the sum of the market values of the single names CDS, the amount of the skew expressed in basis points on the credit curve is determined; this value, which cannot be observed in the market prices and therefore not detectable except with a new transaction on the same "package", is kept constant in subsequent valuations;
2. on the day of the valuation, based on the sum of the current market values of the single names CDS, the intrinsic spread is determined, i.e. the credit curve that would determine a CDS valuation on the index equal to the sum of the single names CDS valuations;
3. to the intrinsic spread determined in point 2), the skew referred to in point 1) is then added, calculated on the day of the transaction and kept constant; the credit curve thus obtained (sum of the current intrinsic spread and the original skew) is that used for the index CDS model valuation.

A 4.4 Other information

Almost all transactions in OTC derivatives are backed by collateralisation contracts with daily margining that substantially mitigate counterparty risk. The criteria for the valuation of the derivative portfolio take account of these guarantees with particular reference to the determination of CVA and DVA. For information on the so-called "highest and best use" required by IFRS 13, please refer to that described at the end of table "A.4.5.4".

QUANTITATIVE INFORMATION

A.4.5 Fair value hierarchy

A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: breakdown by 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 and loss	390,074	142,274	43	417,785	90,146	43
a) Financial assets held for trading	390,074	142,274	-	417,785	90,146	-
b) financial assets designated at fair value	-	-	-	-	-	-
c) other financial assets mandatorily measured at fair value	-	-	43	-	-	43
2. Financial assets measured at fair value through other comprehensive income	261,466	40,732	9,515	411,734	22,021	6,793
3. Hedging derivatives	-	1,271	-	-	2,985	-
4. Property, plant and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	**651,540**	**184,277**	**9,558**	**829,519**	**115,152**	**6,836**
1. Financial liabilities held for trading	47,036	67,087	15,283	104,454	57,857	2,094
2. Financial liabilities designated at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	38,925	-	-	29,259	-
Total	**47,036**	**106,012**	**15,283**	**104,454**	**87,116**	**2,094**

The impact of the "CVA" and "DVA" on the determination of the fair value of derivative financial instruments at consolidated level amounts to € 116 thousand and € 79 thousand respectively.

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 and loss				Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Property, plant and equipment	Intangible assets
	Total	of which: a) financial assets held for trading	of which: b) financial assets designated at fair value	of which: c) other financial assets mandatorily measured at fair value				
1. Opening balances	43	**-**	**-**	**43**	**6,793**	**-**	**-**	**-**
2. Increases	**-**	**-**	**-**	**-**	**2,722**	**-**	**-**	**-**
2.1. Purchases	-	-	-	-	-	-	-	-
2.2. Profits recognised in:	-	-	-	-	1,474	-	-	-
2.2.1. Income Statement	-	-	-	-	121	-	-	-
- of which capital gains	-	-	-	-	-	-	-	-
2.2.2. Shareholders' equity	-	X	X	X	1,353	-	-	-
2.3. Transfers from other levels	-	-	-	-	1,248	-	-	-
2.4. Other increases	-	-	-	-	-	-	-	-
3. Decreases	-	-	-	-	-	-	-	-
3.1. Sales	-	-	-	-	-	-	-	-
3.2. Refunds	-	-	-	-	-	-	-	-
3.3. Losses recognised in:	-	-	-	-	-	-	-	-
3.3.1. Income Statement	-	-	-	-	-	-	-	-
- of which capital losses	-	-	-	-	-	-	-	-
3.3.2. Shareholders' equity	-	X	X	X	-	-	-	-
3.4. Transfers from other levels	-	-	-	-	-	-	-	-
3.5. Other decreases	-	-	-	-	-	-	-	-
4. Closing balances	**43**	**-**	**-**	**43**	**9,515**	**-**	**-**	**-**

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

	Financial liabilities held for trading	Financial liabilities designated at fair value	Hedging derivatives
1. Opening balances	2,094	-	-
2. Increases	**15,283**	-	-
2.1. Issuance	-	-	-
2.2. Losses recognised in:	15,283	-	-
2.2.1. Income Statement	15,283	-	-
- of which capital losses	-	-	-
2.2.2. Shareholders' equity	X	-	-
2.3. Transfers from other levels	-	-	-
2.4. Other increases	-	-	-
3. Decreases	**2,094**	-	-
3.1. Redemptions	-	-	-
3.2. Repurchases	-	-	-
3.3. Profits recognised in:	2,094	-	-
3.3.1. Income Statement	2,094	-	-
- of which capital gains	-	-	-
3.3.2. Shareholders' equity	X	-	-
3.4. Transfers to other levels	-	-	-
3.5. Other decreases	-	-	-
4. Closing balances	**15,283**	-	-

The table includes CDS derivatives that are part of the arbitrage structures described above.

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

Assets/liabilities not measured at fair value or measured at fair value on a non-recurring basis	31/12/2019				31/12/2018			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Financial assets measured at amortised cost	1,127,001	322,880	10,390	807,548	1,173,361	151,916	2,959	1,014,913
2. Property, plant and equipment held for investment	1,371	-	1,683	-	1,992	-	1,992	-
3. Non-current assets and disposal groups classified as held for sale	-	-	-	-	-	-	-	-
Total	**1,128,372**	**322,880**	**12,073**	**807,548**	**1,175,353**	**151,916**	**4,951**	**1,014,913**
1. Financial liabilities measured at amortised cost	1,717,291	-	-	1,729,894	1,857,235	-	-	1,857,235
2. Liabilities associated with disposal groups classified as held for sale	-	-	-	-	-	-	-	-
Total	**1,717,291**	**-**	**-**	**1,729,894**	**1,857,235**	-	**-**	**1,857,235**

With regard to the determination of the fair value of financial instruments, reference should be made to Part A.1 section 4 of the Bank's accounting policies.

Financial assets measured at amortised cost include both securities held by Banca Profilo (broken down by level) and loans and advances to banks and customers, all of which have been classified at level 3. Since these are mainly non instalment transactions or transactions with a maturity of less than one year, the book value is considered an adequate approximation of fair value, which entails classification in level 3 of the hierarchy. Exposures in mortgages and Lombard loans are also classified as level 3 in loans and advances to customers.

A.5 Information on "Day one profit/loss"

As at 31 December 2019 there were no day one profit transactions in place.

PART B - Information on the Consolidated Balance Sheet

ASSETS

Section 1 – Cash and cash equivalents – Item 10

1.1 Cash and cash equivalents: breakdown

	Total 31/12/2019	Total 31/12/2018
a) Cash	34,256	35,359
b) Demand deposits with Central banks	7,292	4,164
Total	**41,548**	**39,523**

Section 2 - Financial assets measured at fair value through profit and loss - Item 20

2.1 Financial assets held for trading: breakdown by product

Items/Amounts	Total 31/12/2019			Total 31/12/2018		
	L1	L2	L3	L1	L2	L3
A. On-balance sheet assets						
1. Debt securities	272,472	61,876	-	304,544	35,558	-
1.1 Structured securities	9,249	12,142	-	10,770	5,853	-
1.2 Other debt securities	263,223	49,734	-	293,774	29,705	-
2. Equity securities	86,490	-	-	70,170	-	-
3. Units of UCITS	133	1,141	-	83	1,053	-
4. Loans	-	-	-	-	-	-
4.1 Reverse repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total (A)	**359,095**	**63,017**	**-**	**374,797**	**36,611**	**-**
B. Derivative Instruments	-	-	-	-	-	-
1. Financial derivatives	30,979	39,398	-	42,988	45,309	-
1.1 trading	30,979	39,398	-	42,988	45,309	-
1.2 connected with the fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	-	39,859	-	-	8,226	-
2.1 trading	-	39,859	-	-	8,226	-
2.2 connected with the fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total (B)	**30,979**	**79,257**	**-**	**42,988**	**53,535**	**-**
Total (A+B)	**390,074**	**142,274**	**-**	**417,785**	**90,146**	**-**

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

Items/Amounts	Total 31/12/2019	Total 31/12/2018
A. On-balance sheet assets		
1. Debt securities	334,348	340,101
a) Central Banks	-	-
b) Public administration	233,276	264,288
c) Banks	91,345	42,776
d) Other financial companies	7,333	15,752
of which: insurance companies	17	2,108
e) Non-financial companies	2,393	17,285
2. Equity securities	86,490	70,171
a) Banks	51,773	21,924
b) Other financial companies	7,071	12,635
of which: insurance companies	38	8,406
c) Non-financial companies	27,646	35,612
d) Other issuers	-	-
3. Units of UCITS	1,274	1,136
4. Loans	-	-
a) Central Banks	-	-
b) Public administration	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total (A)	**422,112**	**411,408**
B. Derivative Instruments		
a) Central Counterparties	30,997	42,967
b) Other	79,239	53,557
Total (B)	**110,236**	**96,524**
Total (A+B)	**532,348**	**507,932**

Derivative instruments activity mainly refers to Banca Profilo.

2.5 Other financial assets mandatorily measured at fair value: breakdown

Items/Amounts	Total 31/12/2019			Total 31/12/2018		
	L1	L2	L3	L1	L2	L3
1. Debt securities	-	-	-	-	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	-	-	-	-	-
2. Equity securities	-	-	43	-	-	43
3. Units of UCITS	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total	-	-	43	-	-	43

The item "Equity securities" - level 3 - only includes the financial instruments subscribed as part of the support to Banca Carige through the Voluntary Scheme.

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

	Total 31/12/2019	Total 31/12/2018
1. Equity securities	43	43
of which: banks	-	-
of which: other financial companies	-	-
of which: non-financial companies	43	43
2. Debt securities	-	-
a) Central Banks	-	-
b) Public administration	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
3. Units of UCITS	-	-
4. Loans	-	-
a) Central Banks	-	-
b) Public administration	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	43	43

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

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

Items/Amounts	Total 31/12/2019			Total 31/12/2018		
	L1	L2	L3	L1	L2	L3
1. Debt securities	**260,557**	**40,380**	**7,271**	**410,839**	**21,669**	**4,709**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	260,557	40,380	7,271	410,839	21,669	4,709
2. Equity securities	**909**	**352**	**2,244**	**894**	**352**	**2,084**
3. Loans	**-**	**-**	**-**	**-**	**-**	**-**
Total	**261,466**	**40,733**	**9,515**	**411,733**	**22,021**	**6,793**

The Group has classified in this category, in addition to debt securities, certain equity securities deriving from minority interests.

Debt securities include € 47.4 million in bonds held by the subsidiary Banque Profil de Gestion SA, while the remainder relates to securities held by Banca Profilo.

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

Items/Amounts	Total 31/12/2019	Total 31/12/2018
1. Debt securities	**308,209**	**437,218**
a) Central Banks	-	-
b) Public administration	219,029	359,803
c) Banks	65,629	49,362
d) Other financial companies	1,483	14,001
of which: insurance companies	-	2,085
e) Non-financial companies	22,068	14,051
2. Equity securities	**3,505**	**3,330**
a) Banks	-	-
b) Other issuers:	3,505	3,330
- other financial companies	914	898
of which: insurance companies	-	-
- non-financial companies	2,239	2,079
- other	352	352
3. Loans	**-**	**-**
a) Central Banks	-	-
b) Public administration	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**311,714**	**440,547**

3.3 Financial assets measured at fair value through other comprehensive income: gross value and overall value adjustments

	Gross value				Overall value adjustments			
	Stage 1	of which: Instruments with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Total partial write-offs
Debt securities	308,243	297,554	-	-	322	-	-	-
Loans	-	-	-	-	-	-	-	-
Total 31/12/2019	**308,243**	**297,554**	**-**	**-**	**322**	**-**	**-**	**-**
Total 31/12/2018	**437,922**	**427,003**	**-**	**-**	**704**	**-**	**-**	**-**
of which: impaired financial assets, acquired or originated	X	X	-	-	X	-	-	-

A portion of the bonds in the portfolio of financial assets measured at fair value through other comprehensive income (HTCS) is subject to micro hedge. The strategy for managing this portfolio is to immunise its fair value from movements in interest rates and inflation rate, leaving it exposed only to movements in the credit spreads of the issuers of the securities purchased. To this end, in the event of the purchase of fixed-rate or inflation-linked securities, special hedging derivatives were entered into which transformed the overall payoff of the investment (security plus derivative) into that of a variable-rate security. As at 31 December 2019, out of a notional amount of bonds in the HTCS portfolio of € 301.1 million, € 118.2 million is subject to micro hedge.

Section 4 – Financial assets measured at amortised cost – Item 40

4.1 Financial assets measured at amortised cost: breakdown of loans and advances to banks

Type of transactions/Amounts	Total 31/12/2019						Total 31/12/2018					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Stage 1 and 2	Stage 3	of which: impaired, acquired or originated	L1	L2	L3	Stage 1 and 2	Stage 3	of which: impaired, acquired or originated	L1	L2	L3
A. Loans to Central Banks	-	-	-	-	-	-	-	-	-	-	-	-
1. Time deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Compulsory reserve	-	-	-	X	X	X	-	-	-	X	X	X
3. Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	-	-	-	X	X	X	-	-	-	X	X	X
B. Loans and advances to banks	**274,673**	-	-	**9,718**	**9,367**	**255,759**	**380,304**	-	-	**6,865**	**1,952**	**371,053**
1. Loans	255,759	-	-	-	-	255,759	371,053	-	-	-	-	371,053
1.1 Current accounts and demand deposits	133,310	-	-	X	X	X	232,576	-	-	X	X	X
1.2. Time deposits	22,845	-	-	X	X	X	33,647	-	-	X	X	X
1.3. Other loans:	99,604	-	-	X	X	X	104,830	-	-	X	X	X
- Reverse repurchase agreements	54,066	-	-	X	X	X	55,466	-	-	X	X	X
- Financing for lease	-	-	-	X	X	X	-	-	-	X	X	X
- Other	45,538	-	-	X	X	X	49,364	-	-	X	X	X
2. Debt securities	18,914	-	-	9,718	9,367	-	9,251	-	-	6,865	1,952	-
2.1 Structured securities	844	-	-	-	872	-	753	-	-	-	770	-
2.2 Other debt securities	18,070	-	-	9,718	8,495	-	8,498	-	-	6,865	1,182	-
Total	**274,673**	-	-	**9,718**	**9,367**	**255,759**	**380,304**	-	-	**6,865**	**1,952**	**371,053**

Loans and advances to banks decreased by € 105.6 million, from € 380.3 million as at 31 December 2018 to € 274.7 million as at 31 December 2019.
This item contains securities issued by banks classified as financial assets at amortised cost. As at 31 December 2019 on a nominal value of bonds, issued by banks, in the HTC portfolio of € 18.9 million, € 10 million were subject to micro hedge.
With regard to current accounts, deposits and reverse repurchase agreements, since these are short-term receivables and are settled at market conditions, it is believed, also on the basis of a precise valuation of the counterparties involved, that the carrying amount approximates their fair value.

The amounts deposited as collateral with the counterparties with which the Bank carries out derivative contracts are classified under the sub-item "Loans - other". The amount of these deposits relating to the previous year, amounting to € 46.7 million, previously classified under "Time deposits", has been reclassified for a correct comparison.
The aggregate also includes the amount of € 7.2 million relating to the deposit, made indirectly by Banca Profilo, for the compulsory reserve, in accordance with the Bank of Italy regulations.

4.2 Financial assets measured at amortised cost: breakdown of loans and advances to customers

Type of transactions/Amounts	Total 31/12/2019						Total 31/12/2018					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Stage 1 and 2	Stage 3	of which: impaired, acquired or originated	L1	L2	L3	Stage 1 and 2	Stage 3	of which: impaired, acquired or originated	L1	L2	L3
1. Loans	**546,785**	**1,480**	**-**	**-**	**-**	**551,790**	**640,626**	**1,059**	**-**	**-**	**-**	**641,685**
1.1. Current accounts	243,937	387	-	X	X	X	252,324	420	-	X	X	X
1.2. Reverse repurchase agreements	150,118	-	-	X	X	X	247,516	-	-	X	X	X
1.3. Mortgages	50,513	971	-	X	X	X	50,702	476	-	X	X	X
1.4. Credit cards and personal loans, incl. fifth-of-salary backed loans	34,086	14	-	X	X	X	40,114	-	-	X	X	X
1.5 Financing for lease	-	-	-	X	X	X	-	-	-	X	X	X
1.6. Factoring	-	-	-	X	X	X	-	-	-	X	X	X
1.7. Other loans	68,131	108	-	X	X	X	49,970	163	-	X	X	X
2. Debt securities	**304,064**	**-**	**-**	**313,162**	**1,023**	**-**	**151,371**	**-**	**-**	**145,051**	**1,007**	**-**
2.1. Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2. Other debt securities	304,064	-	-	313,162	1,023	-	151,371	-	-	145,051	1,007	-
Total	**850,849**	**1,480**	**-**	**313,162**	**1,023**	**551,790**	**791,997**	**1,059**	**-**	**145,051**	**1,007**	**641,685**

Loans and advances to customers increased by € 59.2 million from € 793.1 million as at 31 December 2018 to € 852.3 million as at 31 December 2019.

This item contains securities of "customer" issuers classified as financial assets at amortised cost. As at 31 December 2019 on a nominal value of bonds, issued by "customers", in the HTC portfolio of € 280.0 million, € 176 million were subject to micro coverage.

Impaired assets classified in stage 3 have a gross exposure of € 7,648 thousand against which specific value adjustments of € 6,168 thousand have been made with a hedge of 80.6%. Impaired assets are attributable to bad loans, unlikely to pay and past due loans to private and corporate customers.

Impaired assets include the bad loans of the subsidiary Banque Profil de Gestion SA for € 1,091 thousand written down by € 535 thousand. On the remaining amount, the Geneva bank is waiting for the recovery of the entire amount thanks to the enforcement of the guarantee (property mortgage) that will take place during the year 2020.

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

Type of transactions/Amounts	Total 31/12/2019			Total 31/12/2018		
	Stage 1 and 2	Stage 3	of which: impaired assets, acquired or originated	Stage 1 and 2	Stage 3	of which: impaired assets, acquired or originated
1. Debt securities	**304,064**	**-**	**-**	**151,372**	**-**	**-**
a) Public administration	290,937	-	-	135,063	-	-
b) Other financial companies	8,915	-	-	6,861	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	4,212	-	-	9,447	-	-
2. Loans to:	**546,785**	**1,480**	**-**	**640,626**	**1,059**	**-**
a) Public administration	6	-	-	1,224	-	-
b) Other financial companies	239,341	3	-	320,066	3	-
of which: insurance companies	-	1	-	-	-	-
c) Non-financial companies	113,244	499	-	133,994	573	-
d) Households	194,194	978	-	185,341	482	-
Total	**850,849**	**1,480**	**-**	**791,997**	**1,059**	**-**

4.4 Financial assets measured at amortised cost: gross value and overall value adjustments

	Gross value				Overall value adjustments			Total partial write-offs
	Stage 1	of which: Instruments with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	323,173	323,172	-	-	194	-	-	-
Loans	799,651	799,651	3,270	7,648	371	8	6,168	683
Total 31/12/2019	**1,122,823**	**1,122,823**	**3,271**	**7,648**	**565**	**8**	**6,168**	**683**
Total 31/12/2018	**1,169,932**	**1,168,518**	**3,295**	**7,104**	**908**	**17**	**6,045**	**683**
of which: impaired financial assets, acquired or originated	X	X	-	-	X	-	-	-

Section 5 - Hedging derivatives - Item 50

5.1 Hedging derivatives: breakdown by type of hedge and levels

	Fair value 31/12/2019			NA 31/12/2019	Fair value 31/12/2018			NA 31/12/2018
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives								
1. Fair value	-	1,271	-	37,698	-	2,985	-	61,470
2. Cash flows	-	-	-	-	-	-	-	-
3. Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives								
1. Fair value	-	-	-	-	-	-	-	-
2. Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**1,271**	**-**	**37,698**	**-**	**2,985**	**-**	**61,470**

NA = Nominal or Notional Amount
FV = Fair Value.

5.2 Hedging derivatives: breakdown by hedged portfolios and type of hedge

Transactions/Type of hedge	Fair value							Cash flows		Foreign investments
	Specific						Macro-hedge	Specific	Macro-hedge	
	Debt securities and interest rates	Equity securities and stock indices	Currencies and gold	Credit	Commodities	Other				
1. Financial assets measured at fair value through other comprehensive income	948	-	-	-	X	X	X	-	X	X
2. Financial assets measured at amortised cost	323	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	-	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**1,271**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Financial liabilities	-	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	X	-	X	-	-

Section 9 - Property, plant and equipment - Item 90

9.1 Property, plant and equipment used in the business: breakdown of assets measured at cost

Assets/Amounts	Total 31/12/2019	Total 31/12/2018
1. Owned assets	**48,245**	**48,882**
a) land	36,215	36,215
b) buildings	10,784	11,074
c) furniture and furnishings	133	270
d) electronic equipment	68	213
e) other	1,045	1,110
2. Right-of-use of leased assets	**4,893**	**-**
a) land	-	-
b) buildings	4,512	-
c) furniture and furnishings	-	-
d) electronic equipment	-	-
e) other	381	-
Total	**53,138**	**48,882**
of which: obtained by enforcing guarantees received	-	-

The amounts shown in the table in respect of item 1. Owned assets - sub-items "land" and "buildings", refer to the building for the headquarters of Banca Profilo located in Via Cerva (Milan), owned by the company Profilo Real Estate Srl.

Item 2. Right-of-use of leased assed relates to the entry into force of the new accounting standard IFRS 16 and the consequent recognition of rights to use property, motor vehicles and capital goods. For details on the application of the aforementioned accounting standard, reference should be made to the section "Disclosure on first-time adoption of IFRS 16 - Leases", contained in Part A of these Notes to the Consolidated Financial Statements.

In order to verify the fairness of the carrying amount (€ 46.8 million), an appraisal was carried out on the **property in Via Cerva (Milan)** by external consultants which determined the value of the properties on the basis of generally accepted valuation methods and principles. In particular, the valuation of the property was carried out using the synthetic-comparative method at market values. The comparative procedure arrives at the estimate of the asset by comparing it with properties recently bought or currently for sale, comparable in terms of type, construction and positioning. The value of the property is then determined taking into account the sale prices or rents, which are the result of an in-depth market survey, to which adjustments are applied that are considered appropriate (value weighing) in relation to the intrinsic and extrinsic characteristics of the property being valued and any other factors considered relevant. For the valuation of the asset in question, the appraiser (as in previous years by different appraisers) took into account that this asset is to be counted among the properties known as "Trophy assets" because of its historical/architectural importance, located both in a prestigious area and within the main Milanese business area with quality structural features. For this reason, the synthetic comparative method has used recent transactions for properties with similar characteristics and location as a comparison parameter. The result of the valuation method described led to confirmation of the appropriateness of the carrying amount.

9.2 Property, plant and equipment held for investment: composition of assets measured at cost

Assets/Amounts	Total 31/12/2019				Total 31/12/2018			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Owned assets	**1,371**	**-**	**1,683**	**-**	**1,992**	**-**	**1,992**	**-**
a) land	-	-	-	-	580	-	580	-
b) buildings	1,371	-	1,683	-	1,412	-	1,412	-
2. Right-of-use of leased assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) land	-	-	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-	-	-
Total	**1,371**	**-**	**1,683**	**-**	**1,992**	**-**	**1,992**	**-**
of which: obtained by enforcing guarantees received	-	-	-	-	-	-	-	-

The property, plant and equipment held for investment refer exclusively to the company Profilo Real Estate Srl. This item consists mainly of the property located in Corso Mameli (Brescia).

In order to verify the appropriateness of the carrying amount, the property in **Corso Mameli (Brescia**) was subject to an appraisal by external consultants, which revealed the appropriateness of the value recorded in the financial statements, this appraisal determined the market value of the properties on the basis of generally accepted valuation methods and principles. In particular, the valuation of the property was carried out using the synthetic-comparative method at market values. The comparative procedure arrives at the estimate of the asset by comparing it with properties recently bought or currently for sale, comparable in terms of type, construction and positioning. The value of the property is then determined taking into account the sale prices or rents, which are the result of an in-depth market survey, to which adjustments are applied that are considered appropriate (value weighing) in relation to the intrinsic and extrinsic characteristics of the property being valued and any other factors considered relevant. The result of the valuation method described led to confirmation of the appropriateness of the carrying amount.

9.6 Property, plant and equipment used in the business: annual changes

	Land	Buildings	Furniture and furnishings	Electronic equipment	Other	Total
A. Gross opening balances	**36,215**	**12,853**	**5,716**	**15,181**	**1,692**	**71,656**
A.1 Total net impairment	-	(1,779)	(5,446)	(14,967)	(582)	(22,774)
A.2 Net opening balances	**36,215**	**11,074**	**270**	**213**	**1,110**	**48,882**
B. Increases:	**-**	**5,542**	**13**	**3**	**918**	**6,476**
B.1 Purchases	-	32	-	2	93	127
- of which business combinations	-	-	-	-	-	-
B.2 Capitalised expenditure on improvements	-	-	-	-	-	-
B.3 Reversals of impairment losses	-	-	-	-	-	-
B.4 Positive changes in fair value recognised in:	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Positive exchange differences	-	35	3	1	-	39
B.6 Transfer from properties held for investment	-	-	X	X	X	-
B.7 Other changes	-	5,475	10	-	825	6,310
C. Decreases:	**-**	**1,320**	**151**	**149**	**601**	**2,221**
C.1 Sales	-	-	-	-	-	-
- of which business combinations	-	-	-	-	-	-
C.2 Depreciation	-	1,187	151	149	402	1,889
C.3 Impairment losses recognised in:	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.4 Decreases in fair value booked to	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) property, plant and equipment held for investment	-	-	X	X	X	-
b) Non-current assets and disposal groups held for sale	-	-	-	-	-	-
C.7 Other changes	-	133	-	-	199	332
D. Net closing balances	**36,215**	**15,296**	**133**	**68**	**1,426**	**53,138**
D.1 Total net impairment	-	2,883	8,394	15,715	922	27,914
D.2 Gross closing balances	**36,215**	**18,179**	**8,527**	**15,783**	**2,348**	**81,052**
E. Measured at cost	-	-	-	-	-	-

Sub-item B.7 "Other changes" mainly includes the rights of use recorded on first-time adoption in accordance with accounting standard IFRS 16.

9.7 Property, plant and equipment held for investment: annual changes

	Total	
	Land	Buildings
A. Opening balances	**580**	**1,412**
B. Increases	**-**	**-**
B.1 Purchases	-	-
- of which business combinations	-	-
B.2 Capitalised expenditure on improvements	-	-
B.3 Positive changes in fair value	-	-
B.4 Reversals of impairment losses	-	-
B.5 Positive exchange differences	-	-
B.6 Transfers from properties used in the business	-	-
B.7 Other changes	-	-
C. Decreases	**580**	**41**
C.1 Sales	580	-
- of which business combinations	-	-
C.2 Depreciation	-	41
C.3 Negative changes in fair value	-	-
C.4 Impairment losses	-	-
C.5 Negative exchange differences	-	-
C.6 Transfers to:	-	-
a) properties used in the business	-	-
b) Non-current assets and disposal groups held for sale	-	-
C.7 Other changes	-	-
D. Closing balances	**-**	**1,371**
E. Measured at fair value	-	1,690

Section 10 – Intangible assets – Item 100

10.1 Intangible assets: breakdown by type

Assets/Amounts	Total 31/12/2019		Total 31/12/2018	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	X	**5,645**	X	**6,028**
A.1.1 attributable to the Group	X	4,433	X	4,861
A.1.2 attributable to non-controlling interests	X	1,212	X	1,167
A.2 Other intangible assets	**3,238**	**-**	**3,973**	-
A.2.1 Assets measured at cost:	3,238	-	3,973	-
a) intangible assets generated internally	-	-	-	-
b) other assets	3,238	-	3,973	-
A.2.2 Assets measured at fair value:	-	-	-	-
a) intangible assets generated internally	-	-	-	-
b) other assets	-	-	-	-
Total	**3,238**	**5,645**	**3,973**	**6,028**

10.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total
		FIN	INDEF	FIN	INDEF	
A. Opening balances	**16,783**	**-**	**-**	**3,973**	**-**	**20,756**
A.1 Total net impairment	(10,755)	-	-	-	-	(10,755)
A.2 Net opening balances	**6,028**	**-**	**-**	**3,973**	**-**	**10,001**
B. Increases	**114**	**-**	**-**	**625**	**-**	**739**
B.1 Purchases	-	-	-	493	-	493
- of which business combinations	-	-	-	-	-	-
B.2 Increases of internally generated intangible assets	X	-	-	-	-	-
B.3 Reversals of impairment losses	X	-	-	-	-	-
B.4 Positive changes in fair value	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
B.5 Positive exchange differences	114	-	-	54	-	168
B.6 Other changes	-	-	-	78	-	78
C. Decreases	**497**	**-**	**-**	**1,360**	**-**	**1,857**
C.1 Sales	-	-	-	-	-	-
- of which business combinations	-	-	-	-	-	-
C.2 Value adjustments	497	-	-	1,360	-	1,857
- Amortisation	X	-	-	1,360	-	1,360
- Write-downs	497	-	-	-	-	497
+ shareholders' equity	X	-	-	-	-	-
+ income statement	497	-	-	-	-	497
C.3 Negative changes in fair value:	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
C.4 Transfers to non-current assets held for sale	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
D. Net closing balances	**5,645**	**-**	**-**	**3,238**	**-**	**8,883**
D.1 Total net value adjustments	10,755	-	-	-	-	10,755
E. Gross closing balances	**16,400**	**-**	**-**	**3,238**	**-**	**19,638**
F. Measured at cost	-	-	-	-	-	-

Goodwill of € 5,645 thousand as at 31 December 2019 derives from:

- the acquisition of the lending and custody and individual asset management business unit in 2003 and 2004, for € 1,185 thousand;
- the acquisition on 27 December 2007 of 60.25% (now 60.41%) of Banque Profil de Gestion SA (formerly Société Bancaire Privée SA), a Geneva-based credit institution specialising in private banking, whose residual goodwill amounts to € 1,365 thousand;
- The acquisition by BPdG of Dynagest SA, which took place during 2018, which led to the recognition of goodwill of € 3,095 thousand following the Purchase Price Allocation procedure.

The total goodwill relating to the subsidiary BPdG as at 31 December 2019 amounted to € 4,460 million.
"Property, plant and equipment with a finite useful life" includes an intangible asset for customer relationships of CHF 1,767 thousand (equal to € 1,528 thousand at historical exchange rates and € 1,384

thousand as at 31 December 2019 net of amortisation) identified through the Purchase Price Allocation (PPA) procedure, following the acquisition of Dynagest in July 2018 and identified in the branch dedicated to the asset management of institutional customers. This asset is subject to straight-line amortisation over 10 years.

In compliance with IAS 36, the existence of a clear impairment of goodwill and property, plant and equipment with a finite useful life is verified annually by means of the so-called "impairment test", i.e. whether the book values are lower than their recoverable value.
The same principle defines the recoverable value as the greater of:

- "value in use" or the present value of future cash flows expected to arise from the continuing use of a specific asset or cash generating unit (CGU);
- "fair value", less selling costs, i.e. the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties.

Any difference between the book value of goodwill and its recoverable value, if lower, represents an impairment loss to be recognised in the entity's Income Statement.

In this regard, the cash generating unit to which goodwill is allocated is identified, known as CGU, which represents the minimum level at which goodwill is monitored at Group level in accordance with the business model adopted.

In carrying out the impairment test, the procedure was defined and approved by the Board of Directors of Banca Profilo S.p.A. prior to the approval of the financial statements, in continuity with previous years.

Impairment test on intangible assets relating to the subsidiary Banque Profil de Gestion SA

Goodwill

During the impairment test on the financial statements as at 31 December 2018, in view of the recent acquisition of Dynagest (July 2018) and therefore the existence of an organisational structure not yet integrated with a measurement of results still disaggregated in relation to the subsidiary, it was deemed appropriate to keep the two goodwill operations of the subsidiary Banque Profil de Gestion SA separate. However, during 2019, the subsidiary BPdG, which has always been considered by the Parent Company as an individual investment aimed at diversifying and growing consolidated assets by external lines, proceeded to redesign its organisational structure, rationalising the number of human resources by creating new teams made up of the staff of the two companies, with the aim of creating synergies above all through the use of the already existing staff structures to support the entire business, as well as bringing all the bank's activities into a single information system. The Swiss bank also redesigned its business strategies by providing for cross-selling activities within the different areas with the union of assets managed in relation to institutional customers. The objective of identifying new customers is carried out by the bank across all lines of business with the aim of offering new customers the various services provided by the bank.

In view of the above, Banca Profilo, thus giving precedence to its unitary management over the same, deemed it necessary to change the scope of the CGUs with respect to that carried out in the 2018 financial statements and therefore to consider the foreign investment as a single Cash Generating Unit and consequently to carry out a single impairment test on the sum of the intangible values recognised both in the separate financial statements of BPdG and on the sum of the higher values recognised in the consolidated financial statements. For this reason, the investee BPDG constitutes the group of CGUs on which the recoverability of goodwill is verified, as it is the minimum level at which: (i) the Parent Company's strategy aims to recover goodwill (and to monitor its recoverability); (ii) the allocation of goodwill is not arbitrary. It should be noted that international accounting standards identify in this segment the maximum limit to which goodwill can be tested and monitored. However, it should also be noted that the subsidiary represents a single revenue-generating entity consistent with its Segment Reporting (pursuant to IFRS 8), which is represented in its financial statements and identifies this CGU as "Activities Abroad". The existence for Banca Profilo of a single foreign structure, represented by its sole investment in BPdG, means that the same, in its entirety, is measured by the Parent Company in terms of performance against its own budget and against competing banks in the Swiss market.
Following the reorganisation, the Banca Profilo Group has not changed its segment reporting (pursuant to IFRS 8).

Moreover, the accounting standard and best practices require that, in the presence of a reorganisation of the CGUs, a double check should be carried out in order to also essentially demonstrate the result that would have been obtained under the previous CGU structure.

Impairment test under the previous CGU structure

With regard to **goodwill of € 1,365 thousand**, attributable to the acquisition of Banque Profil de Gestion S.A., which took place in 2007, since it was impossible to determine a value in use, the recoverable value was verified in continuity with the criterion used in the previous year and therefore through the determination of fair value using two methods in order to have a valuation range:

- multiples method applied to the tangible book value (in continuity with the previous year);
- assets under management market multiples method plus tangible book value.

Multiples of the tangible book value

Data from 5 Swiss banks operating in the private banking sector was observed. In detail, the median of the "share price/tangible book value" ratio of the 5 Swiss banks was calculated, equal to 1.27% which, applied to the corresponding size of BPdG, resulted in an economic value of the company of € 60.8 million. To the value thus obtained, in consideration of the different liquidity of the investee company's security in relation to comparable securities, a liquidity discount of 15% was prudentially applied, resulting in a total economic value of the investee company of € 51.7 million and a pro-rata value of € 31.2 million.

Multiples of assets under management plus tangible book value

The data of the aforementioned 5 Swiss banks operating in the Private Banking sector was observed. In detail, the median of the "Goodwill/Asset Under Management (AUM)" ratio of the five banks was calculated, equal to 1.2%, which, applied to the value of the total assets as at 31 December 2019 of BPdG (CHF 2.9 billion) - net of the assets resulting from the Dynagest acquisition (CHF 1.7 billion) - resulted in a specific value in relation to the assets of € 13 million, which, added to the tangible net equity of the Swiss bank, results in an economic value of the company of € 61.1 million. To the value thus obtained, in consideration of the different liquidity of the investee company's security in relation to comparable securities, a liquidity discount of 15% was prudentially applied, resulting in a total economic value of the investee company of € 51.9 million and a pro-rata value of € 31.4 million.

Consequently, on the basis of the aforementioned data obtained using the two methods described above, no write-down was made to the goodwill present in the financial statements as it was higher than the book value in both cases.

With regard to the **goodwill of € 3,095 thousand** arising from the acquisition of Dynagest in 2018, in the absence of forecast data only attributable to such business lines following the integration/cross-selling of assets in 2019, it was deemed appropriate to determine the recoverable value by determining fair value using the market multiples method linked to gross revenues (price/revenues).
The data from the aforementioned Swiss banks were observed. In detail, the median of the "Price/Revenue" ratio of 2.9x was calculated, which, when applied to the actual revenues as at 31 December 2019 associated with this business unit, resulted in a value of CHF 6.0 million.

The economic value of the business unit confirms that there would be no need to make any impairment.

Impairment test post reorganisation - Overall CGU

As described above, under international accounting standards, the amount of any impairment loss is determined by the difference between the book value of the CGU and its recoverable value, if lower.

The recoverable value is defined as the greater between:

1. Fair value, less selling costs, i.e. the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties;
2. Value in Use or the present value of future cash flows expected to arise from the continuing use of a specific asset or CGU.

Below are the criteria identified for the purposes of the impairment test.

Multiples of assets under management plus tangible book value

The value of the CGU was estimated as the sum of the tangible book value and the value of AUM outstanding at the end of the 2019 financial year, broken down into "private banking" and "institutional" components (CHF 1.2 billion and CHF 1.7 billion respectively).
The value of the multiple applied to AUM was defined as the median of the Goodwill/Asset Under Management (AUM) ratio and is 1.2% for the five Swiss banks operating in the private banking sector and 0.7% for those operating in the asset management sector. The application of the two multiples to the assets outstanding at 31 December 2019 and taking into account the tangible shareholders' equity, leads to an economic value of the subsidiary of € 71.5 million. To the value thus obtained, in consideration of the different liquidity of the investee company's security in relation to comparable securities, a liquidity discount of 15% was applied, resulting in a total economic value of the investee company of € 60.8 million and a pro-rata value of € 36.7 million.

Dividend Discount Model

According to the Dividend Discount Model (DDM) method, the value of a company is a function of the flow of dividends that it is able to generate on a forward-looking basis. In this case, the method used is the DDM in the Excess Capital variant, which assumes that the economic value of a company is equal to the sum of the present value of future cash flows (Expected Dividends) generated over the chosen planning period and distributable to shareholders while maintaining a level of capitalisation suitable to ensure the expected future development, and the perpetual capitalisation of the normalised dividend of the last year of the forecast, on the basis of a "pay-out ratio", depending on the profitability at full capacity.

The projections on which the value in use estimates are based:

- are connected with reasonable and consistent assumptions, which represent the best estimate that management can make of the possible economic conditions that may arise during the useful life of the activity in question;
- were taken from the BPdG 2020-2022 Business Plan approved in February 2020 by the subsidiary's Board of Directors;
- take into account a minimum capital level estimated on the basis of a target Common Equity Tier 1 (CET1).

In line with IAS 36, a time period of 3 years was used as the explicit forecast period. The estimation process requires appropriate analysis to be carried out for deviations between the 2019 preliminary data and the 2019 budget, in order to understand the causes of the deviations and take them into account in new calculations. The cash flows calculated with reference to the former Dynagest are inseparable. For the estimate of the terminal value, the average sustainable dividend after the explicit period was calculated according to the expected long-term profitability. The latter has been estimated with reference to a long-term growth rate of activity equal to the nominal growth rate of the economy of 0.5% while maintaining the profitability assumed in 2022.

For the discounting of dividends distributable to shareholders, a Cost of Equity was used, consistent with the return required for investments with similar characteristics to those being valued. The Cost of Equity (Ke), equal to 6%, was determined on the basis of the Capital Asset Pricing Model, according to which the return on a risky asset must be equal to the sum of a risk-free (Rf) rate and a market risk premium (MRP), depending on the specific riskiness of the asset.
In detail, the risk-free (Rf) component, which in any case encompasses the so-called "Country risk", is determined using the 1-year average of 10-year Swiss government bond yields, equal to -0.62% (average six-monthly rate), prudently set with a floor at zero.
The beta coefficient (ß) measures the riskiness of the specific company or operating sector in terms of the correlation between the actual return on a share and the overall return on the reference market. Specifically, an average indicator relating to a sample of companies active in Private Banking surveyed

by Factset was used. The value thus determined is 1.01%. The coefficient was measured monthly over a time period of 5 years.
The market risk premium (MRP) was determined at 5.96%, in line with valuation practice.

The test carried out showed that the Economic Value of the company based on the prospective profitability of the CGU, using the DDM in the Excess Capital variant, was € 62.5 million (CHF 67.8 million) and that the pro-rata value was € 37.8 million compared with a book value of the CGU of € 33.6 million.
Based on sensitivity analyses carried out using different discount rates (+/- 1%) and total capital ratio (+/- 2.5%), the value of the total CGU, pro-quota, is in a range between € 33.0 and € 44.0 million.
In light of the values determined using the two criteria, in both cases the recoverable value exceeds the book value at both consolidated and individual level.

Intangible assets with a finite useful life

With regard to the value of the customer relationship, in accordance with IAS 38, in the presence of evidence of impairment losses greater than amortisation due to the actual performance of the business unit, an impairment test was carried out using the discounting cash flow method based on the expected future profitability of this line of business envisaged in the 2020-2022 Business Plan, approved by the Board of Directors of BPdG in February 2020, considering both the original situation and the prospective situation in terms of customer base (see IAS 36 BCZ 45).
In order to discount future net results, consistent with all the valuations made in this impairment test procedure, the discount rate used was the so-called "Ke" (Cost of equity) of 6% determined on the basis of the method described above.
The application of the DCF method provides an economic value attributable to the business unit of € 3.7 million, which confirms the appropriateness of the book value as at 31 December 2019.
Based on sensitivity analyses carried out using different discount rates (+/- 1%) and attrition rate (+/- 1%), the value of the overall CGU is in a range between € 3.1 and € 4.5 million.

Impairment test on Intangible Assets related to the "lend and custody" business unit

The item "Goodwill" recorded at the beginning of the 2019 financial year for € 1,682 thousand is made up of goodwill arising from the acquisition of the lending and custody business unit and asset management in 2003 and 2004. The goodwill of the lending and custody business unit mentioned above, already written down by € 3,143 thousand in the 2008 financial statements, in accordance with the provisions of IAS 36, was subjected to an impairment test in order to identify any impairment losses according to the procedure illustrated below, indicating the basic assumptions, estimation method and parameters used.

Goodwill was attributed to the Cash Generating Unit (CGU) to which it belongs, represented by the business unit as a whole, given the substantial autonomy and independence of the cash inflows generated by the aforementioned business unit with respect to other groups of assets. As at 31 December 2019, the business unit consisted of direct and indirect funding of € 182.7 million (administered and managed).

In order to identify any impairment losses attributable to the CGU, the recoverable value was determined using the following methods:

The value in use was determined by applying the income method. The flows were determined on the basis of the assets managed and administered as at 31 December 2019, taking into account the reduction of the same expected during 2020 following the revocation of a management mandate whose disposal will take place during the first quarter of 2020. The future cash flows on residual assets were therefore determined considering the actual profitability of the same recorded in 2019 on the individual positions, net of the structural costs attributed to the business unit. For the purposes of identifying the scope of customers assigned to this business unit, customers transferred at the date of acquisition, as well as customers subsequently acquired by bankers operating in the business unit, were considered.
In order to determine the value in use, the method of discounting expected income over a ten-year period was used, in continuity with the past. In view of the strong customer loyalty attributed to the business unit and their permanent tenure over the last few years, it has been assumed that assets will fall from the sixth year to zero in the tenth year. The cost of equity (Ke) used to discount expected income, equal to 7.02%, was determined on the basis of the Capital Asset Pricing Model, taking into account a risk-free rate of 1.42% as at 31 December 2019 (10-year BTP rate), the Beta factor of 1.121 (obtained as

the average of the coefficients observed for a sample of 15 listed companies operating in the asset management and administration sector) and a market risk premium of 5.0% in line with last year. The expected income flows thus obtained, also considering the commissions for the first quarter of 2020 in relation to the outgoing customer, produce a value in use of € 1,184 thousand.
Based on **sensitivity** analyses carried out using different discount rates (+/- 1%) and profitability rates (+/- 0.05%), the value of the CGU to which goodwill is allocated ranges between € 1.038 and € 1.343 million.
The recoverable value was also estimated using the method of multiples applied to the assets outstanding at the end of the year. In this regard, multiples defined as Price/AUM were recorded as at 31 December 2019 on a sample of banks operating in private banking, with a median of 2.3%. Applying this multiple to the assets outstanding as at 31 December 2019 provides a fair value of Euro 1,160 thousand.
Considering the above, and considering that the book value of goodwill amounts to € 1,682 thousand, a write-down of € 497 thousand was recorded in the Income Statement. It should be noted that, in accordance with IAS 36, write-downs made in previous years cannot be reversed subsequently.

10.3 Other information

As at 31 December 2019, there was no property, plant and equipment as a guarantee of own debts and no commitments to purchase intangible assets.

Section 11 - Tax Assets and Liabilities - Item 110 (Assets) and Item 60 (Liabilities)

11.1 Deferred tax assets: breakdown

	IRES	IRAP	Total
Value adjustments on loans	1,599	42	1,641
Goodwill	137	28	165
Tax losses	2,263	-	2,263
Capital losses on securities classified as Financial assets through other comprehensive income	1,054	214	1,268
Liabilities for pension funds determined at the time of Purchase Price Allocation	-	-	-
Provisions for risks and charges	151	-	151
Other	1,215	23	1,238
Total	**6,419**	**307**	**6,726**

11.2 Deferred tax liabilities: breakdown

	IRES	IRAP	Total
Capital gains on securities classified as Financial assets through other comprehensive income	159	32	191
Provision for employee severance indemnity	69	-	69
Other	1,553	71	1,624
Total	**1,781**	**103**	**1,884**

11.3 Deferred tax assets: annual changes (balancing entry in the income statement)

	Total 31/12/2019	Total 31/12/2018
1. Opening balance	**7,481**	**8,227**
2. Increases	**686**	**362**
2.1 Deferred tax assets recognised during the year	658	288
a) relating to previous years	153	92
b) due to changes in accounting principles	-	-
c) reversals of impairment losses	-	-
d) other	505	196
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	28	74
3. Decreases	**3,014**	**1,107**
3.1 Deferred tax assets derecognised during the year	2,874	826
a) reversals of temporary differences	2,874	826
b) write-downs of non-recoverable items	-	-
c) due to changes in accounting principles	-	-
d) other	-	-
3.2 Decreases in tax rates	140	-
3.3 Other decreases:	-	281
a) transformation into tax credits pursuant to Law no. 214/2011	-	-
b) other	-	281
4. Closing balance	**5,153**	**7,482**

The increases referred to in point 2.1 d) other, include deferred tax assets recorded on goodwill impairment, on Directors' fees not paid in 2019 and on Provisions for risks and charges. The other increases referred to in point 2.3 are due to the Swiss franc exchange rate difference relating to the BPdG subsidiary that did not affect the income statement.
The decreases refer to the reversal of deferred tax assets pertaining to the year, including € 2,784 thousand for the current IRES for the year, offset against previous tax losses in accordance with current legislation.
As at 31 December 2019, the remaining portion of deferred tax assets related to previous tax losses amounted to € 2.3 million, compared with € 4.8 million as at 31 December 2018; the significant reduction is due to the positive economic results achieved during the year and, consequently, to the resulting higher taxable income; the probability of recovering the remaining deferred tax assets has been appreciated, also taking into account the expected income outlook.
As at 31 December 2019 the Group had no unrecognised deferred tax assets.

11.4 Deferred tax assets: changes under Italian law 214/2011

	Total 31/12/2019	Total 31/12/2018
1. Opening balance	**1,642**	**1,642**
2. Increases	**-**	**-**
3. Decreases	**-**	**-**
3.1 Reversals of temporary differences	-	-
3.2 Transformation into tax credits	-	-
a) arising from loss for the period	-	-
b) arising from tax losses	-	-
3.3 Other decreases	-	-
4. Closing balance	**1,642**	**1,642**

11.5 Deferred tax liabilities: annual changes (balancing entry in the income statement)

	Total 31/12/2019	Total 31/12/2018
1. Opening balance	**2,112**	**1,686**
2. Increases	**260**	**446**
2.1 Deferred tax liabilities recognised during the year	207	-
a) relating to previous years	-	-
b) due to changes in accounting principles	-	-
c) other	207	-
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	53	446
3. Decreases	**679**	**20**
3.1 Deferred tax liabilities derecognised during the year	-	-
a) reversals of temporary differences	-	-
b) due to change in accounting principles	-	-
c) other	-	-
3.2 Decreases in tax rates	679	-
3.3 Other decreases	-	20
4. Closing balance	**1,693**	**2,112**

The other increases referred to in point 2.3 relate to the Swiss franc exchange rate difference relating to the BPdG subsidiary that did not affect the income statement for the year.

11.6 Deferred tax assets: annual changes (balancing entry in equity)

	Total 31/12/2019	Total 31/12/2018
1. Opening balance	**4,745**	**835**
2. Increases	**1,300**	**4,729**
2.1 Deferred tax assets arising during the year	1,300	4,729
a) relating to previous years	7	215
b) due to change in accounting principles	-	-
c) other	1,293	4,514
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**4,472**	**820**
3.1 Deferred tax assets derecognised during the year	4,472	820
a) reversals of temporary differences	4,407	820
b) write-downs of non-recoverable items	65	-
c) due to changes in accounting principles	-	-
d) other	-	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**1,573**	**4,745**

11.7 Deferred tax liabilities: annual changes (balancing entry in equity)

	Total 31/12/2019	Total 31/12/2018
1. Opening balance	**5**	**874**
2. Increases	**191**	**5**
2.1 Deferred tax liabilities recognised during the year	191	5
a) relating to previous years	-	-
b) due to changes in accounting principles	-	-
c) other	191	5
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**5**	**874**
3.1 Deferred tax liabilities derecognised during the year	5	874
a) reversals of temporary differences	5	874
b) due to changes in accounting principles	-	-
c) other	-	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**191**	**5**

The deferred tax assets and liabilities referred to above relate to negative and positive fair value valuations, recorded in shareholders' equity in accordance with IAS/IFRS and pertaining to the securities portfolio classified as financial assets measured at fair value through other comprehensive income. The recovery of deferred tax assets is considered reasonable with the continued ownership of the securities.

11.8 Other information

	31/12/2019	31/12/2018
Current tax assets		
IRES prepayments	4	14
IRAP prepayments	75	321
Other receivables and withholdings	1,421	1,688
Total	**1,500**	**2,023**
Current tax liabilities		
IRES payables	47	15
IRAP payables	402	100
Total	**449**	**115**

Section 13 - Other assets - Item 130

13.1 Other assets: breakdown

	31/12/2019	31/12/2018
Receivables for security deposits	172	165
Correspondents for securities and coupons to be collected	8,446	2,192
Receivables for tax consolidation	-	69
Loans and advances to customers for invoices to be collected	1,449	221
Customers for commissions to be collected	2,682	2,387
Items to be settled with Banks and Customers for different transactions	1,258	2,461
Sundry and residual items	8,388	8,659
Total	**22,395**	**16,154**

Sundry items and residual items mainly consist of stamp duty accounts and prepaid expenses for administrative expenses.

LIABILITIES

Section 1 – Financial liabilities measured at amortised cost – Item 10

1.1 Financial liabilities measured at amortised cost: breakdown of deposits from banks

Type of transactions/Amounts	Total 31/12/2019				Total 31/12/2018			
	CA	Fair value			CA	Fair value		
		L1	L2	L3		L1	L2	L3
1. Deposits from central banks	**84,570**	X	X	X	**34,712**	X	X	X
2. Deposits from banks	**362,662**	X	X	X	**447,483**	X	X	X
2.1 Current accounts and demand deposits	6,929	X	X	X	19,429	X	X	X
2.2 Time deposits	-	X	X	X	8,964	X	X	X
2.3 Loans	340,708	X	X	X	391,251	X	X	X
2.3.1 Repurchase agreements	340,708	X	X	X	391,251	X	X	X
2.3.2 Other	-	X	X	X	-	X	X	X
2.4 Payables for 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	15,025	X	X	X	27,840	X	X	X
Total	**447,232**	**-**	**-**	**447,232**	**482,196**	**-**	**-**	**482,196**

Deposits from Central Banks refer to monetary policy transactions aimed at long-term refinancing, carried out with the European Central Bank through participation in the TLTRO II auction for € 34.6 million and to short-term transactions to optimise Banca Profilo's liquidity position for € 50 million. Item "2.6 Other payables" includes the amounts deposited as collateral with the counterparties with which Banca Profilo carries out transactions in derivative contracts. The amount of these deposits relating to the previous year, amounting to € 27.8 million, were previously classified under "Time deposits".

Since these are mainly short-term payables settled at market conditions, and given the financial characteristics of the TLTRO II transactions, the book value is considered to approximate their fair value.

1.2 Financial liabilities measured at amortised cost: breakdown of deposits from customers

Type of transactions/Amounts	Total 31/12/2019				Total 31/12/2018			
	CA	Fair value			CA	Fair value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	865,363	X	X	X	943,747	X	X	X
2. Time deposits	-	X	X	X	-	X	X	X
3. Loans	394,914	X	X	X	428,401	X	X	X
3.1 Repurchase agreements	394,914	X	X	X	428,401	X	X	X
3.2 Other	-	X	X	X	-	X	X	X
4. Payables for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Lease liabilities	4,872	X	X	X	-	X	X	X
6. Other payables	4,911	X	X	X	2,891	X	X	X
Total	**1,270,060**	**-**	**-**	**1,270,060**	**1,375,039**	**-**	**-**	**1,375,039**

Since these are short-term payables and are settled at market conditions, it is considered that the book value approximates their fair value.
The amounts deposited as collateral with the counterparties with which the Bank carries out derivative contracts have been reclassified under the sub-item "Other payables". The amount of these deposits

relating to the previous year, amounting to € 1.95 million, previously classified under "Time deposits", has been reclassified for a correct comparison.

1.6 Lease liabilities

The lease liabilities included in the aforementioned table 1.2 are representative of the present value of the residual future lease payments under contracts to which IFRS 16 applies. These contracts mainly relate to the rental of property, while the remainder relates to the rental of motor vehicles and office machinery. The Group currently has property lease contracts with a residual term of more than five years, while for vehicle and photocopier rental contracts the payable will be paid off over an average of two years.

Section 2 – Financial liabilities held for trading – Item 20

2.1 Financial liabilities held for trading: breakdown

Type of transactions/Amounts	Total 31/12/2019					Total 31/12/2018				
	NA	Fair value			Fair Value *	NA	Fair value			Fair Value *
		L1	L2	L3			L1	L2	L3	
A. On-balance sheet liabilities										
1. Deposits from banks	9	26	-	-	26	270	393	-	-	393
2. Deposits from customers	11,582	15,607	-	-	15,607	75,952	78,006	-	-	78,006
3. Debt securities	-	-	-	-	X	-	-	-	-	X
3.1 Bonds	-	-	-	-	X	-	-	-	-	X
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	X	-	-	-	-	X
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total (A)	**11,591**	**15,633**	**-**	**-**	**15,633**	**76,222**	**78,399**	**-**	**-**	**78,399**
B. Derivative Instruments										
1. Financial derivatives	X	31,403	40,269	-	X	X	26,054	50,442	-	X
1.1 Trading	X	31,403	40,269	-	X	X	26,054	50,442	-	X
1.2 Related to the fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	X	-	26,818	15,283	X	X	-	7,415	2,094	X
2.1 Trading	X	-	26,818	15,283	X	X	-	7,415	2,094	X
2.2 Related to the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total (B)	**X**	**31,403**	**67,087**	**15,283**	**X**	**X**	**26,054**	**57,857**	**2,094**	**X**
Total (A+B)	**X**	**47,036**	**67,087**	**15,283**	**X**	**X**	**104,453**	**57,857**	**2,094**	**X**

Key
FV = fair value
FV* = fair value calculated excluding value adjustments due to variations in the credit rating of the issuer since the date of issue
NA = Nominal or Notional Amount
L1 = Level 1
L2 = Level 2
L3 = Level 3

This item includes derivative financial instruments classified at level 3, consisting of Credit Default Swaps (CDS), for € 15.3 million (notional value € 170.9 million) linked to an arbitrage strategy aimed at taking a CDS position on an index and, at the same time, a CDS opposite sign position on the individual issuers that make up the same index (so-called "package").

Section 4 - Hedging derivatives - Item 40

4.1 Hedging derivatives: breakdown by type of hedge and levels

	NA 31/12/2019	Fair value 31/12/2019			NA 31/12/2018	Fair value 31/12/2018		
		L1	L2	L3		L1	L2	L3
A. Financial derivatives	**265,760**	**-**	**38,925**	**-**	**251,078**	**-**	**29,259**	**-**
1) Fair value	265,760	-	38,925	-	251,078	-	29,259	-
2) Cash flows	-	-	-	-	-	-	-	-
3) Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**265,760**	**-**	**38,925**	**-**	**251,078**	**-**	**29,259**	**-**

FV = fair value
NA = Nominal or Notional Amount
L1 = Level 1
L2 = Level 2
L3 = Level 3

Hedging derivatives outstanding as at 31 December 2019 refer only to the holding company Banca Profilo S.p.A.

4.2 Hedging derivatives: breakdown by hedged portfolios and type of hedge

Transactions/Type of hedge	Fair value							Cash flows		Foreign Investm.
	Specific						Macro-hedge	Specific	Macro-hedge	
	Debt securities and interest rates	Equity securities and stock indices	Currencies and gold	Credit	Commodities	Other				
1. Financial assets measured at fair value through other comprehensive income	14,317	-	-	-	X	X	X	-	X	X
2. Financial assets measured at amortised cost	24,608	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	-	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**38,925**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Financial liabilities	-	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	X	-	X	-	-

Section 6 – Tax liabilities – Item 60

See Section 11 of the Assets.

Section 8 – Other liabilities – Item 80

8.1 Other liabilities: breakdown

	31/12/2019	31/12/2018
Amounts to be paid to the Treasury for third parties	5,411	66
Amounts to be paid to social security institutions	575	675
Payables to Parent Company for tax consolidation	622	325
Amounts to be settled for transactions in securities and funds	1,653	4,158
Various suppliers and invoices to be received	4,001	2,782
Amounts to be paid to Personnel and Directors	7,992	5,357
Amounts to be paid for the acquisition of Subsidiaries	2,588	3,739
Non-interest bearing amounts available to customers	1,303	-
Items to be settled for different transactions	1,376	8,791
Sundry items and residual items	1,241	-
Total	**26,762**	**25,893**

The amounts to be settled for transactions in securities and funds and the items to be settled with Banks and Customers for different transactions consist of items in progress that were definitively settled after 31 December 2019. The amount of € 2,525 thousand included under "Amounts to be paid for the acquisition of Subsidiaries" refers to future tranches to be paid by BPdG to the previous shareholders of Dynagest over the next two years.

Section 9 – Employee severance indemnity – Item 90

9.1 Employee severance indemnity: annual changes

	Total 31/12/2019	Total 31/12/2018
A. Opening balances	**1,700**	**1,832**
B. Increases	**958**	**862**
B.1 Provisions for the year	844	860
B.2 Other changes	114	2
- of which business combinations	-	-
C. Decreases	**941**	**993**
C.1 Severance payments	84	141
C.2 Other changes	857	852
- of which business combinations	-	-
D. Closing balances	**1,717**	**1,701**
Total	**1,717**	**1,701**

The amount of the provision represents the actuarial estimate of employee severance indemnity charges for employees of Banca Profilo and its subsidiaries as required by the new IAS 19. Point C.2 shows the amounts which, in accordance with the reform of the welfare system described below, were paid to the INPS Treasury Fund and the Pension Fund.

9.2 Employee severance indemnity: other information

	Total 31/12/2019	Total 31/12/2018
A. Opening balances	**1,701**	**1,832**
B. Increases		
1. Service cost related to performance	862	860
2. Financial charges	-	-
3. Contribution to the plan by participants	-	2
4. Actuarial losses	90	-
5. Exchange differences	-	-
6. Service cost related to performance	-	-
7. Other changes	5	-
C. Decreases		
1. Paid benefits	(84)	(141)
2. Service cost related to performance	-	-
3. Actuarial gains	-	-
4. Exchange differences	-	-
5. Reductions	-	-
6. Repayments	-	-
7. Other changes	(857)	(852)
D. Closing balances	**1,717**	**1,701**
Total	**1,717**	**1,701**

Since 1 January 2007, in accordance with the provisions of Law no. 296 of 27 December 2006, each employee may choose to allocate their employee severance indemnity to accrue with a supplementary pension scheme or to maintain it with their employer. In the latter case, for companies with more than 50 employees, the employee severance indemnity will be deposited by the employer in a fund managed by INPS on behalf of the State.

In light of the new provisions, the bodies responsible for the technical analysis of the issue have established that the employee severance indemnity accrued since 1 January 2007 for supplementary pension schemes or the INPS treasury fund is to be considered as a "defined contribution plan" and therefore no longer subject to actuarial valuation. The employee severance indemnity of employees who, at the valuation date, do not allocate 100% of their severance indemnity to supplementary pension schemes or who, if they do, have a provision for employee severance indemnity previously accrued by the Company, are still subject to actuarial valuation. For companies with less than 50 employees (all of Banca Profilo's subsidiaries), the employee severance indemnity continues to be considered a "defined benefit plan" and is subject to the "Projected Unit Credit Method" actuarial method (paragraphs 67-69 of IAS 19R).

The amount of employee severance indemnity still subject to actuarial valuation has been estimated by an external professional firm using a model based on the projected unit credit method. The actuarial valuation was carried out on the basis of the Company's personnel data. This data also takes into account estimates of the length of time spent in the company and the expected increase in standing for each employee. In particular, the estimated length of time has been adjusted by a series of parameters such as the employee's sex, number of years in the bank, estimated future years, number of working years in companies prior to the current. The revaluation of employee severance indemnity takes into account, among other things, future increases in standing, contract improvements, if known, as well as future seniority steps calculated on the basis of the employee's grade level and the rules for the accrual of progressions differentiated according to the date of joining the company. The methodology used for the calculations is the same as that used in previous years.

As regards the actuarial estimate, the main basis for calculation used is provided below:

	2019
Mortality	ISTAT 2018 survival table by age and sex
Requirements for retirement	Achievement of the minimum requirements of the Monti-Fornero reforms
Early exit frequency	8.0% p.a
Probability of early exit	1.0% p.a
Percentage of advance payment of employee severance indemnity	70% of accrued employee severance indemnity
Annual technical discount rate	Euro Composite AA curves as at 31 December 2019
Annual inflation rate	1.5% constant
Annual salary growth rate	2.5% per annum for clerical staff
	2.1% per annum for Middle Managers
	2.4% per annum for Executives

The duration of the liability linked to Banca Profilo's provision for employee severance indemnity is as follows:

Company	Provision Duration as at 31.12.2019	Representative synthetic discount rate
Banca Profilo	6.7	0.230%
Arepo Fiduciaria	8.8	0.420%

As at 31 December 2019, the total value of the provision for employee severance indemnity was € 1,717 thousand; the results in terms of the final value of the provision for employee severance indemnity are provided below, as well as sensitivity analyses carried out when the main valuation parameters change. 129

Changing parameters (figures in €)	+50 basis points		-50 basis points	
	New amount	Change	New amount	Change
Change in discount rate curve	1,660,730	(55,818)	1,775,689	59,142
Change in salary increases	1,717,317	770.00	1,715,813	(734)
Change in inflation rate	1,751,713	35,165	1,682,388	(34,160)
Change in the probability of termination	1,683,214	(33,333)	1,770,119	53,571
Change in the percentage of the advance payment of employee severance indemnity	1,714,730	(1,817)	1,718,407	1,859

As at 31 December 2019, the total value of the service cost was € 10.8 thousand; the results in terms of total cost are shown below, as well as sensitivity analyses carried out when the main valuation parameters change.

Changing parameters (figures in €)	+50 basis points		-50 basis points	
	New amount	Change	New amount	Change
Change in discount rate curve	7,788	(367)	8,552	397
Change in salary increases	8,294	139	8,023	(132)
Change in inflation rate	8,300	145	8,014	(141)
Change in the probability of termination	7,755	(400)	8,833	678
Change in the percentage of the advance payment of employee severance indemnity	8,206	51	8,103	(52)

The estimated future cash flows of Banca Profilo and the consolidated companies as at 31 December 2019 are provided below.

Company	1 year	2 years	3 years	4 years	over 4 years
Banca Profilo	170,664	164,285	154,096	146,306	1,086,640
Arepo Fiduciaria	3,446	3,310	3,284	3,113	40,060

Section 10 – Provisions for risks and charges – Item 100

10.1 Provisions for risks and charges: breakdown

Items/Components	Total 31/12/2019	Total 31/12/2018
1. Provisions for credit risk relating to commitments and financial guarantees issued	7	19
2. Provisions on other commitments and other guarantees issued	-	-
3. Corporate pension funds	4,518	3,237
4. Other provisions for risks and charges	918	368
4.1 legal and tax disputes	1	-
4.2 personnel charges	-	-
4.3 other	917	368
Total	**5,443**	**3,624**

The funds referred to in point "3. Corporate pension funds" are entirely attributable to the commitments undertaken in relation to the external "fully insured" pension plan of the subsidiary Banque Profil de Gestion Sa valued as at 31 December 2019 in accordance with IAS 19R, with the characteristics of a defined benefit plan. The actuarial valuation was carried out on the basis of the Company's data. The methodology used for the calculations is the same as that used in previous years. The reconciliations between the value of the obligation and the assets of the plan and the financial statement figures are shown below, together with the main actuarial assumptions used for the calculation. It should be noted that the figures include the values of the commitments undertaken in relation to the pension plan from Dynagest acquired by BPdG during the year.

RECONCILIATION OF THE PRESENT VALUE OF THE OBLIGATION **Figures in €/thousand**	
Present value of the obligation as at 1 January 2019	12,395
Present value of the obligation as at 1 January 2019 from Dynagest	13,963
Service cost	1,202
Interest cost	309
Benefits paid/received	(2,823)
Remeasurement effect	2,506
Present value of the obligation as at 31 December 2019 (A)	27,552

RECONCILIATION OF THE PRESENT VALUE OF THE PLAN ASSETS **Figures in €/thousand**	
Present value of plan assets as at 1 January 2019	9,933
Present value of the obligation as at 1 January 2019 from Dynagest	13,064
Expected return from assets	284
Remeasurement effect	1,717
Employees' contributions	390
Employer's contributions	641
Benefits paid/received	(2,823)
Net insurance premiums and expenses	(173)
Present value of plan assets as at 31 December 2019 (B)	23,034
Assets/liabilities as at 31 December 2019 (b-a)	(4,518)

RECONCILIATION WITH FINANCIAL STATEMENT VALUES **Figures in €/thousand**	
Value of liabilities as at 31 December 2019	3,361
related costs recorded in the income statement in the period	872
employer's contribution	(641)
Remeasurement effect on overall profitability	926
Present value of the obligations as at 31 December 2019	4,518

2019 **Figures in €/thousand**	
Number of employees	38
Actuarial tables used	LPP2015 TG (Swiss actuarial tables)
Average age of participants	46
Average time of use of participants	45
Annual technical discount rate	0.5%
Annual salary growth rate	1%

Other provisions, amounting to € 918 thousand, are the provisions for risks and charges set up to cover probable future liabilities relating to Banca Profilo.

10.2 Provisions for risks and charges: annual changes

	Provisions on other commitments and other guarantees issued	Pension funds	Other provisions for risks and charges	Total
A. Opening balances	**-**	**3,237**	**368**	**3,624**
B. Increases	**-**	**1,281**	**550**	**1,831**
B.1 Provision for the year	-	167	550	717
B.2 Changes due to the time value of money	-	24	-	24
B.3 Differences due to discount-rate changes	-	-	-	-
B.4 Other changes	-	1,090	-	1,090
- of which business combinations	-	-	-	-
C. Decreases	**-**	**-**	**-**	**-**
C.1 Use during the year	-	-	-	-
C.2 Differences due to discount-rate changes	-	-	-	-
C.3 Other changes	-	-	-	-
- of which business combinations	-	-	-	-
D. Closing balances	**-**	**4,518**	**918**	**5,436**

Provisions under "Provisions for risks and charges - other" amounting to € 550 thousand refer to provisions for a limited number of customer complaints for which the risk of an outlay is considered probable.

10.3 Provisions for credit risk relative to commitments and financial guarantees issued

	Provisions for credit risk relating to commitments and financial guarantees issued			
	Stage 1	Stage 2	Stage 3	Total
Commitments to disburse funds	-	-	-	-
Financial guarantees issued	4	3	-	7
Total	**4**	**3**	**-**	**7**

10.5 Defined benefit corporate pension funds

See the information provided in Tables 10.1

Section 13 – Group shareholders' equity – Items 120, 130, 140, 150, 160, 170 and 180

13.1 "Share capital" and "Treasury shares": breakdown

	31/12/2019	31/12/2018
1. Share capital	136,994	136,994
2. Share premium	82	82
3. Reserves	25,991	25,723
4. (Treasury shares)	(3,603)	(3,357)
a) parent company		
b) subsidiaries		
5. Valuation reserves	(2,559)	(9,538)
6. Equity instruments	0	
7. Profit (loss) for the year	8,371	1,635
Total	**165,276**	**151,539**

On 2 May 2019 Banca Profilo paid a unit dividend of € 0.003 per share, equal to € 2,009 thousand.

13.2 Share capital - Parent company's number of shares: annual changes

Items/Types	Ordinary	Other
A. Shares outstanding as at the beginning of the year	**677,997,856**	**-**
- fully paid	677,997,856	-
- not fully paid	-	-
A.1 Treasury shares (-)	(9,855,731)	-
A.2 Shares outstanding: opening balances	**668,142,125**	**-**
B. Increases	**1,792,486**	**-**
B.1 New issues	-	-
- against payment:	-	-
- bonds converted	-	-
- warrants exercised	-	-
- other	-	-
- without payment:	-	-
- to employees	-	-
- to Directors	-	-
- other	-	-
B.2 Sale of treasury shares	-	-
B.3 Other changes	1,792,486	-
C. Decreases	**(5,084,844)**	**-**
C.1 Cancellation	-	-
C.2 Purchase of treasury shares	(5,084,844)	-
C.3 Business transferred	-	-
C.4 Other changes	-	-
D. Shares outstanding: closing balances	**664,849,767**	**-**
D.1 Treasury shares (+)	13,148,089	-
D.2 Shares outstanding as at the end of the year	677,997,856	-
- fully paid	677,997,856	-
- not fully paid	-	-

Item B.3 "other changes" refers to the allocations made in April and November 2019 in relation to stock grant plans. For further details on these allocations, please refer to Part I - "Share-Based Payment Agreements" of these Notes to the Consolidated Financial Statements.
Item C.2 "Purchase of treasury shares" refers to the purchase of treasury shares as part of the activity authorised by the Shareholders' Meeting of 18 April 2019 to support exchanges, using a third-party intermediary (Equita SIM S.p.A.). As at 31 December 2019, 5,084,844 treasury shares, equal to 0.75% of the share capital, had been purchased as part of this activity.

13.3 Share capital: other information

The **share capital** of Banca Profilo amounts to € 136,994,028, fully paid up and consists of 677,997,856 ordinary shares.

Section 14 - Non-controlling interests - Item 190

14.1 Breakdown of item 210 "Non-controlling interests"

Description	31/12/2019	31/12/2018
1. Share capital	5,206	5,015
2. Share premium		
3. Reserves	15,742	15,672
4. (Treasury shares)	(303)	- 292
a) parent company		
b) subsidiaries		
5. Valuation reserves	(216)	(236)
6. Equity instruments		
7. Profit (loss) for the year	357	(379)
Total	**20,785**	**19,781**

Non-controlling interests refer to the subsidiary Banque Profil de Gestion SA, 60.41% owned by the holding company Banca Profilo. As at 31 December 2019, based on the treasury shares held by the subsidiary, the effective interest was 60.84%.

Other information

1. Commitments and financial guarantees issued

	Nominal value on commitments and financial guarantees issued			Total 31/12/2019	Total 31/12/2018
	Stage 1	Stage 2	Stage 3		
1. Commitments to disburse funds	**228,211**	**-**	**-**	**228,211**	**150,248**
a) Central Banks	-	-	-	-	-
b) Public administration	1,799	-	-	1,799	10,593
c) Banks	83,588	-	-	83,588	8,507
d) Other financial companies	53,484	-	-	53,484	41,399
e) Non-financial companies	17,870	-	-	17,870	21,399
f) Households	71,470	-	-	71,470	68,350
2. Financial guarantees issued	**8,975**	**886**	**-**	**9,861**	**9,613**
a) Central Banks	-	-	-	-	-
b) Public administration	-	-	-	-	-
c) Banks	-	-	-	-	1,025
d) Other financial companies	1,398	-	-	1,398	1,455
e) Non-financial companies	2,415	840	-	3,255	4,962
f) Households	5,162	46	-	5,208	2,171

The guarantees given consist of sureties issued by Banca Profilo and the subsidiary Banque Profil de Gestion SA against obligations undertaken by the same towards third parties on behalf of their customers. Irrevocable commitments to disburse funds include purchases of securities not yet settled.

2. Other commitments and other guarantees issued

	Nominal value Total 31/12/2019	Nominal value Total 31/12/2018
1. Other guarantees issued	**68**	**68**
of which: non-performing credit exposures	68	68
a) Central Banks	-	-
b) Public administration	-	-
c) Banks	-	-
d) Other financial companies	-	-
e) Non-financial companies	-	-
f) Households	68	68
2. Other commitments		
of which: non-performing credit exposures	-	-
a) Central Banks	-	-
b) Public administration	-	-
c) Banks	-	-
d) Other financial companies	-	-
e) Non-financial companies	-	-
f) Households	-	-

3. Assets pledged as collateral for own liabilities and commitments

Portfolio	Amount 31/12/2019	Amount 31/12/2018
1. Financial assets measured at fair value through profit and loss	275,173	236,940
2. Financial assets measured at fair value through other comprehensive income	123,978	346,485
3. Financial assets measured at amortised cost	204,255	173,008
4. Property, plant and equipment	-	-
of which: property, plant and equipment which constitute inventory	-	-

Assets pledged as collateral are represented for € 87,808 thousand by securities pledged as collateral for monetary policy operations (loans) with the European Central Bank and the Bank of Italy; for € 485,223 thousand by securities pledged as collateral for repurchase agreements and for € 30,376 thousand by securities pledged as collateral for other transactions.

5. Asset management and trading on behalf of third parties

Type of services	Amount
1. Execution of orders on behalf of customers	**656,442**
a) purchases	327,969
1. settled	327,969
2. unsettled	-
b) sales	328,473
1. settled	328,473
2. unsettled	-
2. Individual portfolio management	**2,433,708**
a) individual	845,425
b) collective	1,588,283
3. Custody and administration of securities	**4,956,989**
a) third-party securities held on deposit: relating to custodian bank activities (excluding portfolio management)	36,120
1. securities issued by companies included in consolidation	-
2. other securities	36,120
b) third-party securities held on deposit (excluding portfolio management): other	3,798,824
1. securities issued by companies included in consolidation	456,883
2. other securities	3,341,941
c) third-party securities deposited with third parties	2,805,670
d) own securities deposited with third parties	1,122,045
4. Other transactions	**1,007,183**

6. Financial assets subject to offsetting in the financial statements, or subject to master netting or similar agreements

Technical forms	Gross amounts of financial assets (a)	Amount of financial liabilities offset in the financial statements (b)	Net amount of financial assets recognised in the financial statements (c=a-b)	Related amounts not subject to offsetting in the financial statements		Net amount (f=c-d-e) 31/12/2019	Net amount 31/12/2018
				Financial instruments (d)	Cash deposits received as collateral (e)		
1. Derivatives	15,827	-	15,827	-	16,890	(1,063)	(10,061)
2. Reverse repurchase agreements	47,790	-	47,790	-	47,790	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total 31/12/2019	**63,617**	**-**	**63,617**	**-**	**64,680**	**(1,063)**	**X**
Total 31/12/2018	**52,908**	**-**	**52,908**	**-**	**62,969**	**X**	**(10,061)**

This table shows the fair value of derivatives subject to master netting agreements or similar (CSAs) recorded under the balance sheet item "financial assets held for trading" and the amounts of corresponding security deposits recorded under "deposits from banks" and "deposits from customers".
The financial statement values of repurchase agreements made with counterparties with which GMRA framework agreements exist are also provided. The spot value of these transactions, corresponding to their book value, is recorded in Assets under "Financial assets measured at amortised cost" in "loans and advances to banks" or "loans and advances to customers" depending on the type of counterparty.

7. Financial liabilities subject to offsetting in the financial statements, or subject to master netting or similar agreements

Technical forms	Gross amounts of financial liabilities (a)	Amount of financial assets offset in the financial statements (b)	Net amount of financial liabilities recognised in the financial statements (c=a-b)	Related amounts not subject to offsetting in the financial statements		Net amount (f=c-d-e) 31/12/2019	Net amount (f=c-d-e) 31/12/2018
				Financial instruments (d)	Cash deposits received as collateral (e)		
1. Derivatives	57,416	-	57,416	-	60,406	(2,990)	55,842
2. Repurchase agreements	276,499	-	276,499	-	276,499	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Other transactions	-	-	-	-	-	-	-
Total 31/12/2019	**333,915**	**-**	**333,915**	**-**	**336,905**	**(2,990)**	**X**
Total 31/12/2018	**85,632**	**-**	**85,632**	**-**	**29,790**	**X**	**55,842**

This table shows the fair value of derivatives subject to master netting agreements or similar (CSAs) recorded under the balance sheet item "financial liabilities held for trading" and the amounts of corresponding security deposits recorded under "loans and advances to banks" and "loans and advances to customers".
The financial statement values of repurchase agreements made with counterparties with which GMRA framework agreements exist are also provided. The spot value of these transactions, corresponding to their book value, is recorded in Liabilities under "Financial liabilities measured at amortised cost" in "deposits from banks" or "deposits from customers" depending on the type of counterparty.

9. Securities lending and borrowing transactions

Banca Profilo has securities lending and borrowing transactions in place mainly with banking counterparties that provide for the payment of cash collateral that is fully available to the bank and is therefore represented in the financial statements in the same way as repurchase agreements. The balance as at 31 December 2019 was € 6.3 million in securities lending and € 58.3 million in securities borrowing.

PART C - Information on the Consolidated Income Statement

Section 1 - Interest income/expenses and similar revenues/charges - Items 10 and 20

1.1 Interest income and similar revenues: breakdown

Items/Technical forms	Debt securities	Loans	Other transactions	Total 2019	Total 2018
1. Financial assets measured at fair value through profit and loss:	**5,942**	**-**	**10**	**5,952**	**7,078**
1.1 Financial assets held for trading	5,942	-	-	5,942	7,078
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value	-	-	10	10	-
2. Financial assets measured at fair value through other comprehensive income	**5,829**	**-**	**X**	**5,829**	**6,427**
3. Financial assets measured at amortised cost:	**3,070**	**8,853**	**X**	**11,923**	**8,364**
3.1 Loans and advances to banks	499	2,222	X	2,721	934
3.2 Loans and advances to customers	2,571	6,631	X	9,202	7,430
4. Hedging derivatives	**X**	**X**	**(86)**	**(86)**	**-**
5. Other assets	**X**	**X**	**4**	**4**	**3**
6. Financial liabilities	**X**	**X**	**X**	**-**	**-**
Total	**14,841**	**8,853**	**(72)**	**23,622**	**21,872**
of which: interest income from impaired financial assets	-	-	-	-	-
of which: interest income on finance lease	-	-	-	-	-

1.2 Interest income and similar revenues: other information

Interest income and similar revenues relating to transactions with Group companies have been cancelled in consolidation operations.

1.2.1 Interest income from financial assets denominated in foreign currency

	2019	2018
Interest income from financial assets denominated in foreign currency	3,664	3,849

1.3 Interest expenses and similar charges: breakdown

Items/Technical forms	Payables	Securities	Other transactions	Total 2019	Total 2018
1. Financial liabilities measured at amortised cost	(3,254)	-	X	(3,254)	(2,550)
1.1 Deposits from central banks	-	X	X	-	-
1.2 Deposits from banks	(1,148)	X	X	(1,148)	(1,144)
1.3 Deposits from customers	(2,106)	X	X	(2,106)	(1,406)
1.4 Debt securities issued	X	-	X	-	-
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities designated at fair value	-	-	-	-	-
4. Other liabilities and provisions	X	X	(52)	(52)	(56)
5. Hedging derivatives	X	X	-	-	(1,414)
6. Financial assets	X	X	X	-	-
Total	**(3,254)**	**-**	**(52)**	**(3,306)**	**(4,020)**
of which: interest expenses on lease liabilities	68	-	-	68	-

1.4 Interest expenses and similar charges: other information

Interest expenses and similar charges relating to transactions with Group companies were cancelled during the consolidation.

1.4.1 Interest expenses from liabilities denominated in foreign currency

	2019	2018
Interest expenses from liabilities denominated in foreign currency	(307)	(548)

1.5 Differentials on hedging transactions

Items	Total 2019	Total 2018
A. Positive differentials on hedging transactions	3,544	2,098
B. Negative differentials on hedging transactions	(3,630)	(3,513)
C. Balance (A-B)	**(86)**	**(1,414)**

Section 2 - Fee and commission income/expenses - Items 40 and 50

2.1 Fee and commission income: breakdown

Type of services/Amounts	Total 2019	Total 2018
a) guarantees issued	437	180
b) credit derivatives	-	-
c) management, brokerage and advisory services:	33,614	28,619
1. trading in financial instruments	3,029	2,809
2. currency trading	111	225
3. portfolio management	10,227	6,850
3.1. individual	7,995	5,848
3.2. collective	2,232	1,002
4. custody and administration of securities	4,196	3,791
5. custodian bank	-	-
6. placement of securities	5,707	5,040
7. order receipt and transmission	4,043	4,322
8. advisory services	5,063	3,921
8.1 related to investments	2,976	2,606
8.2 related to financial structure	2,087	1,315
9. distribution of third-party services	1,238	1,660
9.1 portfolio management	-	-
9.1.1. individual	-	-
9.1.2. collective	-	-
9.2 insurance products	1,146	1,551
9.3 other products	92	109
d) collection and payment services	66	78
e) securitisation servicing	-	-
f) factoring services	-	-
g) tax collection services	-	-
h) management of multilateral trading facilities	-	-
i) management of current accounts	192	198
j) other services	2,128	2,592
Total	**36,437**	**31,667**

2.2 Fee and commission expenses: breakdown

Services/Amounts	Total 2019	Total 2018
a) guarantees received	(3)	(3)
b) credit derivatives	-	-
c) management and brokerage services:	(3,811)	(3,373)
1. trading in financial instruments	(1,702)	(1,681)
2. currency trading	-	-
3. portfolio management:	(22)	(10)
3.1 own portfolio	-	-
3.2 third-party portfolio	(22)	(10)
4. custody and administration of securities	(485)	(437)
5. financial instruments placement	(1,602)	(1,244)
6. off-site distribution of financial instruments, products and services	-	-
d) collection and payment services	(199)	(161)
e) other services	(86)	(66)
Total	**(4,099)**	**(3,603)**

Section 3 - Dividends and similar income - Item 70

3.1 Dividends and similar income: breakdown

Items/Income	Total 2019		Total 2018	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	20,233	43	14,157	-
B. Other financial assets mandatorily measured at fair value	-	-	-	-
C. Financial assets measured at fair value through other comprehensive income	23	-	-	-
D. Equity investments	-	-	-	-
Total	**20,256**	**43**	**14,157**	**-**

Section 4 - Net profit (loss) from trading - Item 80

4.1 Net profit (loss) from trading: breakdown

Transactions/Income components	Capital gains (A)	Trading profits (B)	Capital losses (C)	Trading losses (D)	Net Profit (loss) [(A+B)-(C+D)]
1. Financial assets held for trading	**10,910**	**25,525**	**(2,720)**	**(26,336)**	**7,379**
1.1 Debt securities	7,523	15,402	(1,945)	(12,006)	8,974
1.2 Equity securities	3,317	10,075	(701)	(12,415)	276
1.3 Units of UCITS	69	47	(74)	(7)	35
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	(1,908)	(1,908)
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Financial assets and liabilities: exchange differences	**X**	**X**	**X**	**X**	**-**
4. Derivatives	**90,759**	**234,975**	**(108,900)**	**(235,867)**	**(17,620)**
4.1 Financial derivatives:	59,126	223,870	(76,308)	(224,109)	(16,009)
- On debt securities and interest rates	13,323	96,661	(9,725)	(103,280)	(3,021)
- On equity securities and stock indices	45,803	125,912	(66,583)	(119,505)	(14,373)
- On currencies and gold	X	X	X	X	1,412
- Other	-	1,297	-	(1,324)	(27)
4.2 Credit derivatives	31,633	11,105	(32,592)	(11,758)	(1,612)
of which: natural hedges connected with the fair value option	X	X	X	X	-
Total	**101,668**	**260,499**	**(111,620)**	**(262,203)**	**(10,241)**

Section 5 - Net profit (loss) from hedging - Item 90

5.1 Net profit (loss) from hedging: breakdown

Income components/Amounts	Total 2019	Total 2018
A. Gains on:		
A.1 Fair value hedging instruments	32,681	25,852
A.2 Hedged financial assets (fair value)	9,842	19
A.3 Hedged financial liabilities (fair value)	-	-
A.4 Cash-flow hedging derivatives	-	-
A.5 Assets and liabilities denominated in foreign currency	-	-
Total gains from hedging activities (A)	**42,523**	**25,871**
B. Losses on:		
B.1 Fair value hedging instruments	(42,991)	(24,238)
B.2 Hedged financial assets (fair value)	-	(1,944)
B.3 Hedged financial liabilities (fair value)	-	-
B.4 Cash-flow hedging derivatives	-	-
B.5 Assets and liabilities denominated in foreign currency	-	-
Total losses from hedging activities (B)	**(42,991)**	**(26,182)**
C. Net profit (loss) from hedging (A - B)	**(468)**	**(311)**
of which: results of hedge accounting on net positions	-	-

The hedging activity refers exclusively to Banca Profilo S.p.A.

Section 6 – Income (loss) from disposal/repurchase - Item 100

6.1 Income (loss) from disposal/repurchase: breakdown

Items/Income components			Total 2019			Total 2018
	Profits	Losses	Net profit (loss)	Profits	Losses	Net profit (loss)
Financial assets						
1. Financial assets measured at amortised cost	495	-	495	-	-	-
1.1 Loans and advances to banks	91	-	91	-	-	-
1.2 Loans and advances to customers	404	-	404	-	-	-
2. Financial assets measured at fair value through other comprehensive income	8,905	(2,148)	6,757	10,893	(1,875)	9,018
2.1 Debt securities	8,905	(2,148)	6,757	10,893	(1,875)	9,018
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**9,400**	**(2,148)**	**7,252**	**10,893**	**(1,875)**	**9,018**
Financial liabilities measured at amortised cost	-	-	-	-	-	-
1. Deposits from banks	-	-	-	-	-	-
2. Deposits from customers	-	-	-	-	-	-
3. Debt securities issued	-	-	-	-	-	-
Total liabilities (B)	**-**	**-**	**-**	**-**	**-**	**-**

Section 8 - Net value adjustments/reversals for credit risk - Item 130

8.1 Net value adjustments/reversals on financial assets measured at amortised cost: breakdown

Transactions/Income components	Value adjustments (1)			Reversals (2)		Total 2019	Total 2018
	Stage 1 and 2	Stage 3		Stage 1 and 2	Stage 3		
		Write-offs	Other				
A. Loans and advances to banks	**-**	**-**	**-**	**223**	**-**	**223**	**(80)**
- Loans	-	-	-	218	-	218	(60)
- Debt securities	-	-	-	5	-	5	(20)
of which: impaired loans, acquired or originated	-	-	-	-	-	-	-
B. Loans and advances to customers	**(13)**	**-**	**(238)**	**450**	**-**	**199**	**170**
- Loans	(13)	-	(238)	425	-	174	414
- Debt securities	-	-	-	25	-	25	(244)
of which: impaired loans, acquired or originated	-	-	-	-	-	-	-
Total	**(13)**	**-**	**(238)**	**673**	**-**	**422**	**90**

8.2 Net value adjustments/reversals on financial assets measured at fair value through other comprehensive income: breakdown

Transactions/Income components	Value adjustments (1)			Reversals (2)		Total 2019	Total 2018
	Stage 1 and 2	Stage 3		Stage 1 and 2	Stage 3		
	Write-offs	Write-offs	Other				
A. Debt securities	(17)	-	-	30	-	13	(353)
B. Loans	-	-	-	-	-	-	-
- to customers	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-
of which: impaired financial assets, acquired or originated	-	-	-	-	-	-	-
Total	**(17)**	**-**	-	**30**	-	**13**	**(353)**

Section 12 - Administrative expenses - Item 190

12.1 Personnel expenses: breakdown

Type of expenses/Amounts	Total 2019	Total 2018
1) Employees	(32,689)	(27,654)
a) wages and salaries	(24,350)	(20,500)
b) social security charges	(5,254)	(4,432)
c) severance indemnity	-	-
d) pension expenses	-	-
e) provision for employee severance indemnity	(20)	(19)
f) provision for pension funds and similar obligations:	(191)	(269)
- defined contribution	-	-
- defined benefit	(191)	(269)
g) contributions to external pension funds:	(1,536)	(1,441)
- defined contribution	(843)	(825)
- defined benefit	(693)	(616)
h) costs related to share-based payment agreements	-	-
i) other employee benefits	(1,338)	(993)
2) Other staff	(368)	(298)
3) Directors and Statutory Auditors	(1,662)	(1,628)
4) Retired personnel	-	-
Total	**(34,719)**	**(29,580)**

12.2 Average number of employees by category

	Average number 2019	Average number 2018
Employees		
a) executives	54	53
b) middle managers	100	96
c) remaining staff	63	62
Other staff	-	-
Total	**217**	**211**

12.3 Defined benefit corporate pension funds: costs and revenues

The funds in question are entirely attributable to the commitments undertaken in relation to the external "fully insured" pension plan of the subsidiary Banque Profil de Gestion SA valued in accordance with IAS 19R, with the characteristics of a defined benefit plan. For further information, please refer to section 12 of the Notes to the Consolidated Financial Statements.

12.5 Other administrative expenses: breakdown

	Total 2019	Total 2018
Expenses for professional, legal and advisory services	(2,438)	(2,266)
Insurance premiums	(204)	(202)
Advertising	(777)	(377)
Postal, telegraph and telephone	(312)	(326)
Printed matter and stationery	(132)	(152)
Maintenance and repairs	(273)	(371)
Data processing and transmission services	(10,086)	(9,226)
Electricity, heating and condominium expenses	(309)	(273)
Charges for various services provided by third parties	(1,141)	(972)
Cleanliness and hygiene	(260)	(351)
Transport and travel	(427)	(453)
Security and transport of valuables	(50)	(42)
Subscription fees	(239)	(189)
Certification fees	(507)	(574)
Subscriptions to newspapers, magazines and publications	(34)	(65)
Rents payable	(984)	(2,011)
Entertainment expenses	(203)	(270)
Indirect taxes and duties	(5,337)	(5,585)
Sundry and residual	(820)	(668)
Total	**(24,533)**	**(24,373)**

The aggregate contains the contribution to the National Resolution Fund of € 0.8 million. It should be noted that this amount includes the addition to the Fund requested during the year as an additional call for 2017 for an amount of € 0.2 million. As far as the ordinary contribution to the Interbank Deposit Protection Fund is concerned, the amount paid in December 2019 was € 103 thousand.

It should be noted that this item is affected by the new IFRS 16 standard, which led to the recognition in this item of **lower charges** deriving from the rental and lease of property, plant and equipment amounting to € 1.1 million. The item "rents payable" includes ancillary expenses as well as VAT on existing rental contracts.

Section 13 - Net provisions for risks and charges - Item 200

13.1 Net provisions for credit risk relating to commitments to disburse funds and financial guarantees issued: breakdown

The item includes an amount of € 12 thousand relating to reversals of financial guarantees issued. As at 31 December 2018 the item amounted to € 91 thousand.

13.3 Other net provisions for risks and charges: breakdown

Provisions under "Provisions for risks and charges - other" amounting to € 550 thousand refer to provisions for a limited number of customer complaints for which the risk of an outlay is considered probable. The figure as at 31 December 2018 was € 44 thousand.

Section 14 - Net value adjustments/reversals on property, plant and equipment - Item 210

14.1. Net value adjustments on property, plant and equipment: breakdown

Asset/Income component	Depreciation	Value adjustments for impairment	Reversals of impairment losses	Net profit (loss)
	(a)	(b)	(c)	(a + b - c)
A. Property, plant and equipment				
1 Used in the business	(1,890)	-	-	(1,890)
- Owned	(781)	-	-	(781)
- Rights of use acquired through lease	(1,109)	-	-	(1,109)
2 Held for investment	(41)	-	-	(41)
- Owned	(41)	-	-	(41)
- Rights of use acquired through lease	-	-	-	-
3 Inventory	X	-	-	-
Total	**(1,931)**	**-**	**-**	**(1,931)**

Depreciation of property, plant and equipment was determined in relation to both the degree of use of the assets and their estimated useful life, applying the rates listed below for the calculation:

- property 2.5%
- office furniture and machines 12%
- furnishings 15%
- machinery, apparatus and miscellaneous equipment 15%
- motor vehicles and internal transport 20%
- armoured counters and safes 20%
- electromechanical and electronic office machines 20%
- computer systems 20%
- cars 25%
- alarm systems 30%

The sub-item "Rights of use acquired through lease" relates to the entry into force of the new accounting standard IFRS 16 and the consequent recognition of rights to use property, motor vehicles and capital goods. This item includes the depreciation of Rights of use on a straight-line basis calculated over the duration of the contract. For details on the application of the aforementioned accounting standard, reference should be made to the section "Disclosure on first-time adoption of IFRS 16 - Leases", contained in Part A of these Notes to the Consolidated Financial Statements.

Section 15 - Net value adjustments/reversals on intangible assets - Item 220

15.1 Net value adjustments/reversals on intangible assets: breakdown

Asset/Income component	Amortisation	Value adjustments for impairment	Reversals	Net profit (loss)
	(a)	(b)	(c)	(a + b - c)
A. Intangible assets				
A.1 Owned	(1,359)	-	-	(1,359)
- Generated internally by the company	-	-	-	-
- Other	(1,359)	-	-	(1,359)
A.2 Rights of use acquired through lease	-	-	-	-
Total	**(1,359)**	**-**	**-**	**(1,359)**

This item includes amortisation related to software for long-term use and long-term costs incurred for the development of procedures related to the "digital channels" project by Banca Profilo.

Section 16 - Other operating income/expenses - Item 230

16.1 Other operating expenses: breakdown

	Total 2019	Total 2018
Other operating expenses		
Other expenses	(244)	(183)
Total operating expenses	**(244)**	**(183)**

These are mainly expenses relating to the activities of Banca Profilo and its subsidiaries that cannot be classified under other specific items in the income statement.

16.2 Other operating income: breakdown

	Total 2019	Total 2018
Other operating income		
Recovery of various expenses from customers	87	51
Indirect tax recoveries	3,907	3,949
Recovery of expenses on services to Group companies	131	144
Other income	1,325	777
Total operating income	**5,450**	**4,921**

Section 19 - Value adjustments to goodwill - Item 270

On the basis of the "impairment test" carried out on the goodwill recorded under item 100 "Intangible assets" of the Balance Sheet Assets, as reported in the comment to section 10 of Part B - Information on the Balance Sheet, it was necessary to make a value adjustment of € 497 thousand on the Goodwill relating to the lending and custody and individual asset management business unit in the financial years 2003 and 2004. Please refer to the relevant section of the Notes for further details.

Section 21 - Tax on income for the year for continuing operations - Item 300

21.1 Tax on income for the year for continuing operations: breakdown

Income components/Amounts	Total 2019	Total 2018
1. Current taxes (-)	(850)	(59)
2. Changes of current taxes of previous years (+/-)	(104)	249
3. Decreases in current taxes for the year (+)	-	-
3.bis Decreases in current taxes for the year due tax credit pursuant to Law no. 214/2011 (+)	-	-
4. Change in deferred tax assets (+/-)	(2,357)	(556)
5. Change in deferred tax liabilities (+/-)	471	-
6. Tax expense for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(2,840)	(366)

The current IRES charge corresponding to the taxable income for the year, offset against prior-year losses of € 2,784 thousand, is included in point 4) change in deferred tax assets. Sub-item 5 "Change in deferred tax liabilities: annual changes" benefits from the realignment of the deferred taxation of the Swiss subsidiary following the reduction in the tax rate from 2020.

Section 23 - Profit (loss) for the year attributable to non-controlling interests - Item 340

23.1 Details of item 340 "Profit (loss) attributable to non-controlling interests"

Profit attributable to non-controlling interests for the year amounts to € 357 thousand and refers to 39.16% for the sub-consolidated Banque Profil de Gestion SA. The percentage interest did not change during the year.

Section 25 - Earnings per Share (EPS)

25.1 Average number of diluted ordinary shares

The average number of Banca Profilo shares outstanding in 2019 was 667,956,185 determined on a monthly basis and taking into account the shares issued net of treasury shares in the portfolio. Basic earnings per share in 2019 amounted to € 0.013. The average number of diluted ordinary shares was 667,956,185. The diluted earnings per share for 2019 is therefore € 0.013.

PART D – Consolidated Statement of Comprehensive Income

Items (amounts in €/thousand)	**Total 2019**	**Total 2018**
10. Profit (loss) for the year	**8,728**	**1,256**
Other comprehensive income without reversal to income statement		
20. Equity securities measured at fair value through other comprehensive income		
a) changes in fair value	447	(32)
b) transfers to other components of shareholders' equity	182	4
70. Defined benefit plans	(1,029)	1,585
100. Income taxes relating to other income without reversal to income statement	127	(410)
Other comprehensive income with reversal to income statement		
120. Exchange differences:		
a) changes in value		
b) reversal to income statement		
c) other changes	47	
150. Financial assets (other than equity securities) measured at fair value through other comprehensive income		
a) changes in value	7,012	(13,380)
b) reversal to income statement		
- adjustments for credit risk	3	276
- realised gains/losses	3,482	(5,442)
c) other changes	4	
180. Income taxes relating to other income without reversal to income statement	(3,252)	5,984
190. Total other comprehensive income	**7,023**	**(11,415)**
200. Comprehensive income (Item 10+190)	**15,750**	**(10,158)**
210. Consolidated comprehensive income attributable to non-controlling interests	**386**	**(459)**
210. Consolidated comprehensive income attributable to the Parent Company	**15,364**	**(9,699)**

Part E - Information on Risks and Hedging Policies

Section 1 - Risks associated with the consolidation of accounts

1.1 - CREDIT RISKS

QUALITATIVE INFORMATION

With regard to qualitative information, reference should be made to Section 2 - Risks of prudential consolidation of this Part E.

With regard to the spread of the Coronavirus and its consequences, it is not excluded that a general slowdown in the economy may occur, with potential effects - as at 12 March 2020 - which cannot yet be determined for the Banca Profilo Group. These will be constantly monitored during the year 2020. The Group's balance sheet and liquidity situation as at 12 March 2020 is, however, solid and capable of coping with further worsening market scenarios compared to the current situation.

QUANTITATIVE INFORMATION

A. Credit quality

A.1 Non-performing and performing credit exposures: amounts, value adjustments, changes and economic distribution

A.1.1 Breakdown of financial assets by portfolio and credit quality (book values)

Portfolios/quality	Bad loans	Unlikely to pay	Non-performing past due exposures	Performing past due exposures	Other performing exposures	Total
1. Financial assets measured at amortised cost	556	797	125	617	1,124,906	1,127,001
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	308,208	308,208
3. Financial assets designated at fair value	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-	-	-
5. Financial assets held for sale	-	-	-	-	-	-
Total 31/12/2019	**556**	**797**	**125**	**617**	**1,433,114**	**1,435,209**
Total 31/12/2018	**-**	**882**	**177**	**43**	**1,609,477**	**1,610,578**

A.1.2 Breakdown of financial assets by portfolio and credit quality (gross and net amounts)

Portfolios/quality	Non-performing				Performing			Total (net exposure)
	Gross exposure	Overall value adjustments	Net exposure	Total partial write-offs*	Gross exposure	Overall value adjustments	Net exposure	
1. Financial assets measured at amortised cost	7,646	(6,168)	1,478	683	1,126,096	(573)	1,125,523	1,127,001
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	308,530	(322)	308,208	308,208
3. Financial assets designated at fair value	-	-	-	-	X	X	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-	X	X	-	-
5. Financial assets held for sale	-	-	-	-	-	-	-	-
Total 31/12/2019	**7,646**	**(6,168)**	**1,478**	**683**	**1,434,626**	**(895)**	**1,433,731**	**1,435,209**
Total 31/12/2018	**7,104**	**(6,045)**	**1,059**	**683**	**1,611,291**	**(1,772)**	**1,609,520**	**1,610,578**

** Value to be presented for disclosure purposes*

Portfolios/quality	Assets with poor credit quality		Other assets
	Accumulated capital losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	444,583
2. Hedging derivatives	-	-	1,271
Total 31/12/2019	**-**	**-**	**445,854**
Total 31/12/2018	**-**	**-**	**439,607**

B. Information on structured entities (other than securitisation vehicles)

Banca Profilo and its subsidiaries have not carried out any transactions on structured entities.

Section 2 - Risks of prudential consolidation

1.1 - CREDIT RISK

QUALITATIVE INFORMATION

1. General information

Within the Group, Banca Profilo and BPdG carry out traditional lending activities, in compliance with the Credit Policy guidelines approved by the Parent Company's Board of Directors. Since the Group's core business is Private Banking, its credit policy favours loans to private customers, in the form of Lombard loans, i.e. loans secured by pledges on financial instruments or asset management schemes held by customers with Banca Profilo and BPdG or by mortgage guarantees.
Delivery and counterparty risks are instrumental to the performance of operations typical of the Finance Area of Banca Profilo and, to a lesser extent, of BPdG. The Group operates in such a way as to minimise these credit risk components: a) for delivery risk, by using DVP (delivery versus payment) type guarantee mechanisms for the settlement of transactions; b) for counterparty risk, limited to Banca Profilo, by using collateral agreements with daily margining with all financial counterparties with which it operates in over-the-counter or repo derivatives.

2. Credit risk management policies

2.1. Organisational aspects

In accordance with the Guidelines issued by the Parent Company and the Group Risk Appetite Framework (RAF), for the performance of activities involving the assumption of credit risk, the Group banks have adopted specific Credit Policy, which formalises the processes and criteria to be applied when granting loans or a credit line: this document is approved by the Board of Directors of each bank and periodically reviewed.
The Credit Policy of the Group banks is based on the following guidelines:

- separation of tasks and responsibilities between the functions that manage the relationship and instruct credit line practices, those that grant and administer credit lines and those that measure and monitor risks;
- attribution of the concession activity to collective bodies (Credit Committee or Board of Directors), with different powers depending on the type of line requested, the amount, the existence or otherwise of collateral based on well-defined limits of autonomy; the decision-making autonomy of individual parties (Chief Executive Officer or other equivalent function) may be provided for operations of reduced amount.

The Credit Policy of the Group companies also provides for the following:

- the types of collateral deemed eligible and the criteria for determining the spread applied to each type of collateral; the spread shall be determined prudently, taking into account the degree of liquidity of the collateral and the possible variability of its value in relation to changes in market factors;

- the technique of measuring counterparty risk according to a "mark to market + add on" methodology;
- the frequency of monitoring compliance with the lines or credit lines granted, the creditworthiness of the customer or counterparty, the appropriateness of the value of the guarantees.

2.2. Management, measurement and control systems

The credit control functions of the two Group banks verify at least monthly the amount of loans granted and disbursed, the adequacy of guarantees or collateral received, compliance with credit lines for derivative transactions and prepare the relevant reports at the meetings of the respective Credit Committees and Boards of Directors. The same functions periodically review the creditworthiness of customers and counterparties.
The risk control functions of the Group banks verify the correct operation of performance monitoring on individual exposures, in particular non-performing exposures, and the consistency of classifications, the appropriateness of provisions and the adequacy of the recovery process.
In accordance with supervisory regulations, counterparty risk is measured internally in terms of mark to market + add on. An amount (add on) is added to the mark to market of the outstanding derivatives, which represents the current exposure to a given counterparty, to take into account the potential future exposure associated with the individual contracts. The add on is differentiated for each derivative contract, depending on its residual duration and type.

2.3. Methods and measurement of expected losses

The expected loss model has been adopted to measure the impairment of financial assets held in the portfolio, with two types of calculation: 12 months expected credit losses for loans classified as stage 1 and lifetime expected credit losses for those classified as stage 2 or 3.

Non-performing loans are subject to an analytical valuation process regardless of the amounts involved. The quantification of impairment also takes into account existing guarantees. More specifically, the policy on the criteria for the classification and valuation of company assets establishes the minimum write-down percentages for the various stages of non-performing loans, set out below and which can only be reduced in the presence of objective evidence: the actual write-down percentages are decided by the Credit Committee. In particular, past due/overdrawn positions are broken down internally on the basis of: 155

- days of continuous past due (more than 90 days);
- presence of collateral received;
- percentage coverage of the position by the guarantees.

On the basis of the three indicators, a consistent write-down percentage is applied.

Loans and securities for which no objective evidence of loss has been individually identified fall within the so-called "performing loans" (performing positions) and are subject to collective valuation.
The valuation model for the Generic fund must be established on the basis of the following formula:
ECL = EAD x PD x LGD
where:
ECL = Expected Credit Loss
EAD = Exposure at Default
PD = Probability of Default
LGD = Loss given Default

Collective write-downs of securities and loans must therefore be calculated according to the following principles:

- at each reporting date, if the credit risk of a financial instrument has not significantly increased with respect to the date of disbursement or purchase (stage 1), the expected loss for that financial instrument should be measured as the amount of expected losses in the following 12 months;
- at each reporting date, if the credit risk of a financial instrument has significantly increased with respect to the date of disbursement or purchase (stage 2), the expected loss for that financial instrument should be measured as the amount of expected losses over the remaining life of the instrument (lifetime).

For the purposes of staging financial assets, each asset is classified at the origination date in "stage 1" and subsequently:

- with regard to securities, the deterioration of three notches on the rating attributed to the instrument itself by external rating agencies, together with a final speculative grade rating, will be considered evidence of a significant increase in credit risk, and therefore a move to "stage 2" for the security;
- with regard to loans, the deterioration of three notches on the internal rating assigned to the position will be considered evidence of a significant increase in credit risk. In this regard, the credit risk of an asset may not be considered significantly increased if, at the measurement date, the credit risk of the asset itself is considered low on the basis of the assessments made by the Credit Committee.

With regard to the criteria for determining PDs and LGDs to be applied by counterparty and instrument to positions, the approaches differ between securities and loans.

With regard to securities, issuer-specific PDs are extracted from listed credit spreads (CDS and listed bonds) or, in the absence of significant market data for an issuer, by proxy methodology. Market spreads are stripped of the risk premium component to arrive at the estimate of real PDs according to a "real world" approach.
LGDs are associated with the respective issues, differentiating according to the level of subordination (senior and subordinated issues) and the country of the issuer (60% and 80% for a developed country issuer, 75% and 100% for an emerging country issuer, respectively); for covered issues, the LGD varies (from 20% to 60%) depending on the rating assigned to the security in question.

With reference to loans, the PDs used are estimated starting from the construction of Pit (Point in time) migration matrices from historical databases on which future PDs are built based on simulations of different macroeconomic scenarios. Finally, PD averages weighted by the probability of occurrence of the scenarios are calculated. For guaranteed loans, the LGDs obtained on the basis of the consortium models are adjusted to 5% if the value of the guarantee (net of internally established prudential spreads) is large in relation to the value of the loan disbursed.

With regard to the historical series of default rates, the bank updated the data at the beginning of 2020, using the data as at 31 December 2019, taking into account the changes in status recorded in 2019 on its credit positions in order to have a more precise calibration of the historical series recorded in the valuation model at the consortium level. In addition, the main macroeconomic variables were updated to determine the forward looking component.
Specifically, three macroeconomic scenarios have been selected at the consortium level: a baseline, an up scenario and a down scenario.
The baseline scenario is the central reference scenario and is therefore considered to be the most likely scenario. The "Down" and "Up" Scenarios represent alternative, respectively worse and better scenarios than the "Baseline Scenario":

- The "Baseline Scenario" reflects the expected macroeconomic evolution. It forecasts positive and gradually accelerating growth for the Italian economy. Specifically, annual GDP growth is expected to be 0.6% in 2020, 0.8% in 2021 and 1.2% in 2022. Among other macroeconomic variables, the unemployment rate is estimated to gradually decline to 9.4% at the end of 2022. The EUR/USD exchange rate is expected to increase slightly from 1.17 at the beginning of 2020 to 1.24 at the end of 2022. Brent oil prices are expected to gradually increase, but still within the USD 60/70 per barrel range. The 3-month Euribor rate is estimated to be almost constant in light of expected unchanged monetary policies. The Italy-Germany Spread is expected to contract gradually due to the simultaneous effect of a rise in the Bund yield, but still at negative levels, and a narrowing of the BTP yield.
- The "Down Scenario" outlines a context of recession for the Italian economy, with annual GDP expected to contract by 0.8% in 2020, 2.3% in 2021 and 1.7% in 2022, and with the unemployment rate gradually increasing to 14.9% at the end of 2022. The EUR/USD exchange rate is expected to oscillate within the range 1.05-1.12. Oil prices are estimated to fall gradually below USD 60 per barrel and then stabilise at around USD 56 per barrel during 2022. The 3-month Euribor rate is expected to fall, stabilising at around -0.65% during 2022. The Italy-Germany Spread is estimated to gradually increase, and above 200 basis points from the first quarter of 2022.
- The "Up Scenario" outlines a context of expansion for the Italian economy, with annual GDP expected to grow strongly, by 2.3% in 2020, 3.8% in 2021 and 3.6% in 2022, and with the

unemployment rate gradually decreasing, to 6% at the end of 2022. The 3-month Euribor rate is expected to remain in negative territory in the three-year period 2020-2022, albeit gradually but slowly rising. The EUR is expected to gradually appreciate against the USD, with the exchange rate rising from 1.20 in the first quarter of 2020 to 1.34 at the end of 2022. Oil prices are estimated to rise gradually to USD 80 per barrel during 2022.

In order to estimate a possible impact on collective credit write-downs in relation to a general economic slowdown and a worsening of the main macroeconomic indicators due to the spread of the Coronavirus epidemic (COVID-19), a simulation of collective write-downs has been carried out with a full realisation of the "Down Scenario" (100% weighting), which shows an increase in value adjustments on performing loans of about 8% compared to the weighting of scenarios illustrated in this section and used for the calculation of collective write-downs for these financial statements.

2.4. Credit risk mitigation policies

In order to contain counterparty risk and in accordance with the provisions of the so-called EMIR regulations, Banca Profilo has entered into collateralisation agreements with all the financial intermediaries with which it operates in the market. These agreements provide for the daily quantification of the reciprocal exposure between two counterparties in terms of the mark-to-market of the derivatives in position and the simultaneous payment of collateral (cash) to secure the exposure, if it exceeds a contractually agreed amount.

The loans granted at Group level, on the other hand, are generally covered by collateral and personal guarantees. The types of guarantees involved are:

- pledges on securities deposited with the Bank by customers, managed or administered;
- mortgages on property, against a small proportion of loans granted (mostly to employees);
- sureties;
- other guarantees (assignment of credit, etc.).

3. Non-performing credit exposures

As at 31 December 2019, with reference to traditional financing activities and trade receivables, at Banca Profilo non-performing loans amounted to a gross amount of € 7.6 million, written down by approximately 72%.
Bad loans of the subsidiary Banque Profil de Gestion SA amount to € 1,091 thousand, written down by € 535 thousand. On the remaining amount, the Geneva bank is waiting for the recovery of the entire amount thanks to the enforcement of the guarantee (property mortgage) that will take place in the first months of 2020.

3.1. Management strategies and policies

The Group, in compliance with current supervisory regulations, ensures the correct classification of non-performing loans.
Non-performing loans are subject to an analytical valuation process regardless of the amounts involved. The quantification of impairment takes account of existing guarantees.

Loans past due and/or overdrawn by more than 90 days on an ongoing basis

The total exposure shall be recognised as past due and/or overdrawn if, at the reporting date, the higher of the following two values is equal to or above the 5% threshold:

- average of the past due and/or overdrawn portion on the entire exposure recorded on a daily basis and in the last quarter of the previous year;
- past due and/or overdrawn portion of the entire exposure at the reporting date.

Past due/overdrawn positions are broken down internally on the basis of:

- days of continuous past due (more than 90 days);
- presence of collateral;
- percentage coverage of the position by the guarantees.

Based on these indicators, a minimum write-down percentage is applied.
The write-down percentages and the assumptions that led to their determination are decided by the Credit Committee, on the proposal of the Credit Function and verified by the Risk Management Function.

Unlikely to pay

Classification in this category is linked to the Group's opinion that, without recourse to actions such as enforcement of guarantees, the debtor is unlikely to meet its credit obligations in full (principal and/or interest). This assessment is independent of whether or not there are any overdue and unpaid amounts.
The classification as Unlikely to pay takes place by resolution of the Credit Committee, on the proposal of the Credit Function.
The assessment process takes into account the guarantees received and the percentage coverage of the position by these guarantees, applying minimum write-down percentages.
The percentages calculated in this way and the assumptions that led to their determination are decided by the Credit Committee, on the proposal of the Credit Function and verified by the Risk Management Function.

Bad loans

Exposures to parties in a state of insolvency, even if not judicially ascertained or in substantially comparable situations.
The Board of Directors is responsible for deciding on the bad loan status and determining the write-down to be applied.
The Credit Committee, having obtained the opinion of the Risk Management Function, prepares the report to the Board of Directors with a proposal for the attribution of the state of insolvency, the reasons and the write-down percentage to be applied, applying minimum values.

The assessment process for non-performing loans must take place at least once a year when the annual financial statements are drawn up and whenever anomalies are found on individual non-performing positions.

QUANTITATIVE INFORMATION

A. Credit quality

A.1 Non-performing and performing credit exposures: amounts, value adjustments, changes and economic distribution

A.1.1 Prudential consolidation - Breakdown of financial assets by past due ranges (book values)

Portfolios/risk stages	Stage 1			Stage 2			Stage 3		
	1 to 30 days	Over 30 to 90 days	Over 90 days	1 to 30 days	Over 30 to 90 days	Over 90 days	1 to 30 days	Over 30 to 90 days	Over 90 days
1. Financial assets measured at amortised cost	20	101	1	-	2	493	-	-	1,478
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-	-	-	-
Total 31/12/2019	**20**	**101**	**1**	**-**	**2**	**493**	**-**	**-**	**1,478**
Total 31/12/2018	**12**	**23**	**1**	**-**	**6**	**-**	**-**	**-**	**1,059**

A.1.2 Prudential consolidation - Financial assets, commitments to disburse funds and financial guarantees issued: changes in overall value adjustments and in total provisions

Part 1

Types/risk stages	Overall value adjustments									
	Assets included in stage 1					Assets included in stage 2				
	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs
Overall adjustments, opening balance	**1,292**	**783**	**-**	**-**	**2,058**	**-**	**-**	**-**	**-**	**-**
Increases from financial assets acquired or originated	-	-	-	-	-	-	-	-	-	-
Derecognitions other than write-offs	-	-	-	-	-	-	-	-	-	-
Net value adjustments/reversals for credit risk (+/-)	(479)	(417)	-	-	(896)	8	-	-	-	8
Contractual modifications without derecognitions	-	-	-	-	-	-	-	-	-	-
Changes in estimation method	-	-	-	-	-	-	-	-	-	-
Write-offs not directly recorded in the income statement	-	-	-	-	-	-	-	-	-	-
Other changes	(248)	(44)	-	-	(275)	-	-	-	-	-
Overall adjustments, closing balance	**565**	**322**	**-**	**-**	**887**	**8**	**-**	**-**	**-**	**8**
Recoveries from collections of financial assets subject to write-off	-	-	-	-	-	-	-	-	-	-
Write-offs directly recorded in the income statement	-	-	-	-	-	-	-	-	-	-

A.1.2 Prudential consolidation - Financial assets, commitments to disburse funds and financial guarantees issued: changes in overall value adjustments and in total provisions

Part 2

Types/risk stages	Overall value adjustments						Total provisions for commitments to disburse funds and financial guarantees issued			Total
	Assets included in stage 3			Of which: impaired financial assets, acquired or originated						
	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs		Stage 1	Stage 2	Stage 3	
Overall adjustments, opening balance	**6,045**	**-**	**-**	**6,045**	**-**	**-**	**19**	**-**	**-**	**8,137**
Increases from financial assets acquired or originated	-	-	-	-	-	-	-	-	-	**-**
Derecognitions other than write-offs	-	-	-	-	-	-	-	-	-	**-**
Net value adjustments/reversals for credit risk (+/-)	225	-	-	225	-	-	(14)	3	-	**(674)**
Contractual modifications without derecognitions	-	-	-	-	-	-	-	-	-	**-**
Changes in estimation method	-	-	-	-	-	-	-	-	-	**-**
Write-offs not directly recorded in the income statement	-	-	-	-	-	-	-	-	-	**-**
Other changes	(102)	-	-	(102)	-	-	(1)	-	-	**(393)**
Overall adjustments, closing balance	**6,168**	**-**	**-**	**6,168**	**-**	**-**	**4**	**3**	**-**	**7,070**
Recoveries from collections of financial assets subject to write-off	-	-	-	-	-	-	-	-	-	**-**
Write-offs directly recorded in the income statement	-	-	-	-	-	-	-	-	-	**-**

A.1.3 Financial assets, commitments to disburse funds and financial guarantees issued: transfers between the different credit risk stages (gross and nominal amounts)

Portfolios/risk stages	Gross exposure/nominal value					
	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3	
	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
1. Financial assets measured at amortised cost	3,764	488	-	-	560	-
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-
4. Commitments to disburse funds and financial guarantees issued	-	-	-	-	-	-
Total 31/12/2019	**3,764**	**488**	**-**	**-**	**560**	**-**
Total 31/12/2018	**-**	**-**	**1,124**	**-**	**-**	**-**

A.1.4 Prudential consolidation – On-balance sheet and off-balance sheet credit exposures to banks: gross and net amounts

Types of exposure/amounts	Gross exposure		Overall value adjustments and total provisions	Net Exposure	Total partial write-offs*
	Non-performing	Performing			
A. On-Balance sheet credit exposures					
a) Bad loans	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
b) Unlikely to pay	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
c) Non-performing past due exposures	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
d) Performing past due exposures	X	-	-	-	-
- of which: forborne exposures	X	-	-	-	-
e) Other performing exposures	X	454,661	204	454,457	-
- of which: forborne exposures	X	-	-	-	-
Total (A)	**-**	**454,661**	**204**	**454,457**	**-**
B. Off-balance sheet credit exposures					
a) Non-performing	-	X	-	-	-
b) Performing	X	93,771	-	93,771	-
Total (B)	**-**	**93,771**	**-**	**93,771**	**-**
Total (A+B)	**-**	**548,432**	**204**	**548,228**	**-**

A.1.5 Prudential consolidation – On-Balance sheet and off-balance sheet credit exposures to customers: gross and net amounts

Types of exposure/amounts	Gross exposure		Overall value adjustments and total provisions	Net exposure	Total partial write-offs*
	Non-performing	Performing			
A. On-Balance sheet credit exposures					
a) Bad loans	4,967	X	4,410	557	683
- of which: forborne exposures	-	X	-	-	-
b) Unlikely to pay	1,137	X	339	798	-
- of which: forborne exposures	-	X	-	-	-
c) Non-performing past due exposures	1,543	X	1,418	125	-
- of which: forborne exposures	-	X	-	-	-
d) Performing past due exposures	X	642	21	622	-
- of which: forborne exposures	X	-	-	-	-
e) Other performing exposures	X	1,313,677	677	1,313,000	-
- of which: forborne exposures	X	-	-	-	-
Total (A)	**7,647**	**1,314,319**	**6,866**	**1,315,100**	**683**
B. Off-balance sheet credit exposures					
a) Non-performing	68	X	-	68	-
b) Performing	X	617,587	6	617,581	-
Total (B)	**68**	**617,587**	**6**	**617,649**	**-**
Total (A+B)	**7,715**	**1,931,905**	**6,872**	**1,932,749**	**683**

"Off-balance sheet" exposures to customers include all financial transactions other than balance sheet ones (guarantees issued, commitments, derivatives, etc.) which entail the assumption of credit risk, regardless of the purpose of said transactions (trading, hedging, etc.).

A.1.7 Prudential consolidation – On-Balance sheet credit exposure to customers: changes in gross non-performing exposures

Types/Categories	Bad loans	Unlikely to pay	Non-performing past due exposures
A. Gross exposure, opening balance	**4,512**	**1,124**	**1,467**
- of which: exposures transferred but not derecognised	-	-	-
B. Increases	**582**	**13**	**108**
B.1 transfers from performing exposures	547	-	-
B.2 transfers from impaired financial assets, acquired or originated	-	-	-
B.3 transfers from other categories of non-performing exposures	-	-	-
B.4 contractual modifications without derecognitions	-	-	-
B.5 other increases	35	13	108
C. Decreases	**127**	**-**	**32**
C.1 transfers to performing exposures	-	-	-
C.2 write-offs	-	-	-
C.3 collections	127	-	32
C.4 amount realised upon disposal of positions	-	-	-
C.5 losses on disposal	-	-	-
C.6 transfers to other categories of non-performing exposures	-	-	-
C.7 contractual modifications without derecognitions	-	-	-
C.8 other decreases	-	-	-
D. Gross exposure, closing balance	**4,967**	**1,137**	**1,543**
- of which: exposures transferred but not derecognised	-	-	-

A.1.9 Prudential consolidation – On-Balance sheet non-performing credit exposures to customers: changes in overall value adjustments

Types/Categories	Bad loans		Unlikely to pay		Non-performing past due exposures	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Overall adjustments, opening balance	**4,512**	**-**	**243**	**-**	**1,290**	**-**
- of which: exposures transferred but not derecognised	-	-	-	-	-	-
B. Increases	**22**	**-**	**96**	**-**	**128**	**-**
B.1 value adjustments of impaired financial assets, acquired or originated	-	X	-	X	-	X
B.2 other value adjustments	-	-	96	-	128	-
B.3 losses on disposal	-	-	-	-	-	-
B.4 transfers from other categories of non-performing exposures	-	-	-	-	-	-
B.5 contractual modifications without derecognitions	-	-	-	-	-	-
B.6 other increases	22	-	-	-	-	-
C. Decreases	**124**	**-**	**-**	**-**	**-**	**-**
C.1 reversals from valuation	-	-	-	-	-	-
C.2 reversals from collection	124	-	-	-	-	-
C.3 profit from disposal	-	-	-	-	-	-
C.4 write-offs	-	-	-	-	-	-
C.5 transfers to other categories of non-performing exposures	-	-	-	-	-	-
C.6 contractual modifications without derecognitions	-	-	-	-	-	-
C.7 other decreases	-	-	-	-	-	-
D. Overall adjustments, closing balance	**4,410**	**-**	**339**	**-**	**1,418**	**-**
- of which: exposures transferred but not derecognised	-	-	-	-	-	-

A.2 Classification of exposures by external and internal ratings

The Group does not classify exposures according to external or internal ratings.

A.3 Breakdown of secured credit exposures by type of collateral

A.3.1 Prudential consolidation - Secured on-balance sheet and off-balance sheet credit exposures to banks

	Gross exposure	Net exposure	Collateral (1)				Guarantees (2)									Total (1)+(2)
							Credit derivatives					Signature loans				
							CLN	Other derivatives								
			Property - mortgages	Property - Financing for lease	Securities	Other collateral		Central Counterparties	Banks	Other financial companies	Other entities	Public Administrations	Banks	Other financial companies	Other entities	
1. Secured on-balance sheet credit exposures:	**97,560**	**97,560**	**-**	**-**	**54,067**	**43,493**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**97,560**
1.1 totally secured	97,560	97,560	-	-	54,067	43,493	-	-	-	-	-	-	-	-	-	97,560
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2 partially secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Secured off-balance sheet credit exposures:	**19,206**	**19,206**	**-**	**-**	**4,745**	**14,380**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**19,125**
2.1 totally secured	18,525	18,525	-	-	4,745	13,780	-	-	-	-	-	-	-	-	-	18,525
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 partially secured	681	681	-	-	-	600	-	-	-	-	-	-	-	-	-	600
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.3.2 Prudential consolidation - Secured balance sheet and off-balance sheet credit exposures to customers

	Gross exposure	Net exposure	Collateral (1)				Guarantees (2)									Total (1)+(2)
							Credit derivatives					Signature loans				
								Other derivatives								
			Property - mortgages	Property - Financing for lease	Securities	Other collateral	CLN	Central Counterparties	Banks	Other financial companies	Other entities	Public Administrations	Banks	Other financial companies	Other entities	
1. Secured on-balance sheet credit exposures:	**494,596**	**493,407**	**90,118**	**-**	**286,346**	**114,234**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**243**	**490,941**
1.1 totally secured	483,373	482,192	90,118	-	278,886	112,945	-	-	-	-	-	-	-	-	243	482,192
- of which non-performing	2,229	1,353	984	-	369	-	-	-	-	-	-	-	-	-	-	1,353
1.2 partially secured	11,223	11,215	-	-	7,460	1,289	-	-	-	-	-	-	-	-	-	8,749
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Secured off-balance sheet credit exposures:	**143,483**	**143,477**	**1,997**	**-**	**99,695**	**41,043**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**144**	**142,879**
2.1 totally secured	139,805	139,799	1,997	-	97,555	40,112	-	-	-	-	-	-	-	-	135	139,779
- of which non-performing	68	68	-	-	50	18	-	-	-	-	-	-	-	-	-	68
2.2 partially secured	3,678	3,678	-	-	2,140	931	-	-	-	-	-	-	-	-	9	3,080
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

B. Breakdown and concentration of credit exposure

B.1 Prudential consolidation - Breakdown of on-balance sheet and off-balance sheet credit exposures to customers by business segment

Exposures/Counterparties	Public administration		Financial companies		Financial companies (of which: insurance companies)		Non-financial companies		Households	
	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments
A. On-balance sheet credit exposures										
A.1 Bad loans	-	-	-	-	-	-	557	535	-	3,875
- of which: forborne exposures	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	369	156	429	184
- of which: forborne exposures	-	-	-	-	-	-	-	-	-	-
A.3 Non-performing past due exposures	-	-	3	2	1	-	116	1,414	6	2
- of which: forborne exposures	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	722,656	308	257,072	82	17	-	154,643	281	179,250	26
- of which: forborne exposures	-	-	-	-	-	-	-	-	-	-
Total (A)	**722,656**	**308**	**257,075**	**84**	**18**	**-**	**155,685**	**2,386**	**179,685**	**4,087**
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	68	-
B.2 Performing exposures	117,526	-	73,575	-	-	-	349,802	6	76,678	-
Total (B)	**117,526**	**-**	**73,575**	**-**	**-**	**-**	**349,802**	**6**	**76,746**	**-**
Total (A+B) 31/12/2019	**840,182**	**308**	**330,650**	**84**	**18**	**-**	**505,487**	**2,392**	**256,431**	**4,087**
Total (A+B) 31/12/2018	**752,081**	**794**	**484,166**	**146**	**4,193**	**1**	**201,676**	**1,704**	**364,744**	**4,779**

B.2 Prudential consolidation - Breakdown of on-balance sheet and off-balance-sheet credit exposures to customers by geographic area

Part 1

Exposures/Geographic areas	Italy		Other European countries		America
	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure
A. On-balance sheet credit exposures					
A.1 Bad loans	557	3,893	-	347	-
A.2 Unlikely to pay	798	339	-	-	-
A.3 Non-performing past due exposures	124	1,418	1	-	-
A.4 Performing exposures	1,107,500	583	177,122	76	6,911
Total (A)	**1,108,979**	**6,233**	**177,123**	**423**	**6,911**
B. Off-balance sheet credit exposures					
B.1 Non-performing exposures	68	-	-	-	-
B.2 Performing exposures	147,363	6	452,647	-	17,352
Total (B)	**147,431**	**6**	**452,647**	**-**	**17,352**
Total (A+B) 31/12/2019	**1,256,410**	**6,239**	**629,770**	**423**	**24,263**
Total (A+B) 31/12/2018	**1,306,526**	**6,733**	**431,873**	**531**	**56,130**

B.2 Prudential consolidation - Breakdown of on-balance sheet and off-balance-sheet credit exposures to customers by geographic area

Part 2

Exposures/Geographic areas	America	Asia		Rest of the world	
	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments
A. On-balance sheet credit exposures					
A.1 Bad loans	-	-	-	-	170
A.2 Unlikely to pay	-	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-	-
A.4 Performing exposures	3	4,880	1	17,208	14
Total (A)	**3**	**4,880**	**1**	**17,208**	**184**
B. Off-balance sheet credit exposures					
B.1 Non-performing exposures	-	-	-	-	-
B.2 Performing exposures	-	219	-	-	-
Total (B)	-	**219**	**-**	**-**	**-**
Total (A+B) 31/12/2019	**3**	**5,099**	**1**	**17,208**	**184**
Total (A+B) 31/12/2018	**109**	**4,834**	**5**	**3,304**	**46**

B.3 Prudential consolidation - Breakdown of on-balance sheet and off-balance-sheet credit exposures to banks by geographic area

Part 1

Exposures/Geographic areas	Italy		Other European countries		America
	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure
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	241,279	149	183,528	48	16,389
Total (A)	**241,279**	**149**	**183,528**	**48**	**16,389**
B. Off-balance sheet credit exposures					
B.1 Non-performing exposures	-	-	-	-	-
B.2 Performing exposures	4,745	-	87,162	-	-
Total (B)	**4,745**	**-**	**87,162**	**-**	**-**
Total (A+B) 31/12/2019	**246,024**	**149**	**270,690**	**48**	**16,389**
Total (A+B) 31/12/2018	**305,543**	**359**	**227,036**	**51**	**9,806**

B.3 Prudential consolidation - Breakdown of on-balance sheet and off-balance-sheet credit exposures to banks by geographic area

Part 2

Exposures/Geographic areas	America	Asia		Rest of the world	
	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall 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	5	-	-	13,261	2
Total (A)	**5**	**-**	**-**	**13,261**	**2**
B. Off-balance sheet credit exposures					
B.1 Non-performing exposures	-	-	-	-	-
B.2 Performing exposures	-	-	-	-	-
Total (B)	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31/12/2019	**5**	**-**	**-**	**13,261**	**2**
Total (A+B) 31/12/2018	**-**	**-**	**-**	**-**	**-**

B.4 Large exposures

	31/12/2019	31/12/2018
a) Amount - book value	1,944,735	2,275,415
b) Amount - weighted value	199,127	292,602
c) Number	17	20

Large exposures are any of the assets and off-balance sheet items referred to in Part Three, Title II Chapter 2 of Regulation (EU) no. 575/2013 (CRR) - without the application of risk weights or risk categories - to a customer or group of connected customers when its value is 10% or more of eligible capital.

C. Securitisation transactions

Banca Profilo and its subsidiaries have carried out any securitisation transactions.

D. Transfers

Financial assets sold and not fully derecognised

QUANTITATIVE INFORMATION

Financial assets sold and not derecognised mainly refer to repurchase agreements carried out during the year on debt securities. There were no transactions for the sale of non-performing loans by exchanging fund units.

QUANTITATIVE INFORMATION

D.1 Prudential consolidation - Financial assets sold and fully recognised and associated financial liabilities: book values

	Financial assets sold fully recognised				Associated financial liabilities		
	Book value	of which: subject of securitisation operations	of which: subject of contracts of sale with repurchase obligation	of which non-performing	Book value	of which: subject of securitisation operations	of which: subject of contracts of sale with repurchase obligation
A. Financial assets held for trading	**365,138**	**-**	**365,138**	**X**	**364,966**	**-**	**364,966**
1. Debt securities	306,879	-	306,879	X	306,707	-	306,707
2. Equity securities	58,259	-	58,259	X	58,259	-	58,259
3. Loans	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
B. Other financial assets mandatorily measured at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
C. Financial assets designated at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	**104,587**	**-**	**104,587**	**-**	**104,734**	**-**	**104,734**
1. Debt securities	104,587	-	104,587	-	104,734	-	104,734
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
E. Financial assets measured at amortised cost	**266,256**	**-**	**266,256**	**-**	**265,922**	**-**	**265,922**
1. Debt securities	266,256	-	266,256	-	265,922	-	265,922
2. Loans	-	-	-	-	-	-	-
Total 31/12/2019	**735,981**	**-**	**735,981**	**-**	**735,622**	**-**	**735,622**
Total 31/12/2018	**510,119**	**-**	**510,119**	**-**	**488,228**	**-**	**488,228**

E. Prudential consolidation - Credit risk measurement models

Banca Profilo and its subsidiaries do not use internal models to measure credit risk.

1.2 - PRUDENTIAL CONSOLIDATION - MARKET RISK

1.2.1 Interest rate and price risk - Regulatory trading book

INTEREST RATE RISK QUALITATIVE INFORMATION

A. General information

Within the Group, trading and own account investment activity on financial instruments is exclusively concentrated in Banca Profilo.

Depending on the purpose of the investment and its time period, the financial instruments involved in the activity have been included in different portfolios with different accounting treatment: Hold to Collect (HTC), Hold to Collect & Sell (HTC&S), Hold to Sell (HTS).

With particular reference to interest rate risk, the activities that can generate the same within Banca Profilo are:
- interest rate trading, conducted through the assumption of short-term positions on government securities and listed derivatives (interest rate or government bond futures);
- trading or stable investment activities involving bonds and the related derivatives portfolio - listed or over the counter - with which the Bank manages the interest rate risk of the securities portfolio.

The most significant exposures are on the Euro curve.

B. Processes for the management and methods of measurement of interest rate risk and price risk

For the performance of activities involving the assumption of market risks, the Group banks have adopted specific Regulations, in which the persons in charge of operational management are formalised for the different types of risk as well as the system of proxies and operating limits within which they are required to operate: this document is approved by the Board of Directors and periodically revised.

The Market Risk Regulations of the Group banks are based on the following guidelines:
- indicate which accounting portfolios are subject to operational delegation to the Finance Area and which are reserved for decisions by the Board of Directors;
- establish a system of operating limits consistent with the Group's RAF objectives and the Bank's capital endowment, organised for each portfolio/desk on two levels: a) general Value at Risk (VaR) and stop loss limits, valid for all types of market risk assumed by the various portfolios; b) specific limits for individual relevant market risk factors, established in terms of Greeks and sensitivity;
- provide for daily monitoring of all relevant risk indicators, profit & loss trends and compliance with operating limits, carried out by a control function (Risk Management) functionally and hierarchically independent from operational functions.

Trends in market and liquidity risks and the main operating positions are analysed by the Risk Committee, which normally meets fortnightly. The Board of Directors is regularly informed about the level of risks assumed by the various business units and compliance with the operating limits it has approved.

Specifically, with regard to interest rate risk, monitoring takes place in terms of interest rate sensitivity, i.e. the sensitivity of the portfolio's P&L to movements of 1 basis point in the interest curve. There is an overall sensitivity limit and specific limits for the individual reference curves and for the individual time segments of each curve.

Interest rate risk, together with other risk factors, is included in the calculation of the VaR of trading books. The VaR is only used for internal risk measurement purposes and not for the calculation of regulatory capital requirements for market risk, for which the standardised approach is adopted.

INTEREST RATE RISK QUANTITATIVE INFORMATION

In 2019, the average exposure to interest rate risk of the securities and proprietary derivatives portfolios, calculated in terms of interest rate sensitivity for a parallel shift of 1 basis point in the interest rate curve, was approximately € 87,300 (compared to € 51,000 in 2018), for a year-end point value of € 105,083 (compared to € 42,108 at the end of 2018).

The following table shows, for each reference curve, the main exposures to interest rate risk outstanding as at 31 December 2019:

Proprietary portfolios: interest rate risk

IR Sensitivity (+1 bp) as at 31.12.2019 (figures in €) Currency	0-1 y	1-3 y	3-5 y	5-7 y	7-10+ y	Total
EUR	(18,171)	(21,620)	(59,443)	(28,341)	29,502	(98,073)
USD	(710)	(5,016)	(4,721)	3,907	(520)	(7,060)
Other	(43)	(20)	113	0	0	50
Total	**(18,924)**	**(26,656)**	**(64,051)**	**(24,434)**	**28,982**	**(105,083)**

The VaR of Banca Profilo's portfolio over the course of 2019 is also taken into account at this stage, although such indicator refers to all the market risks of the proprietary portfolios and not just interest rate risk: therefore, all other market risk factors (issuer, price and exchange rate) are also included in the VaR calculation.

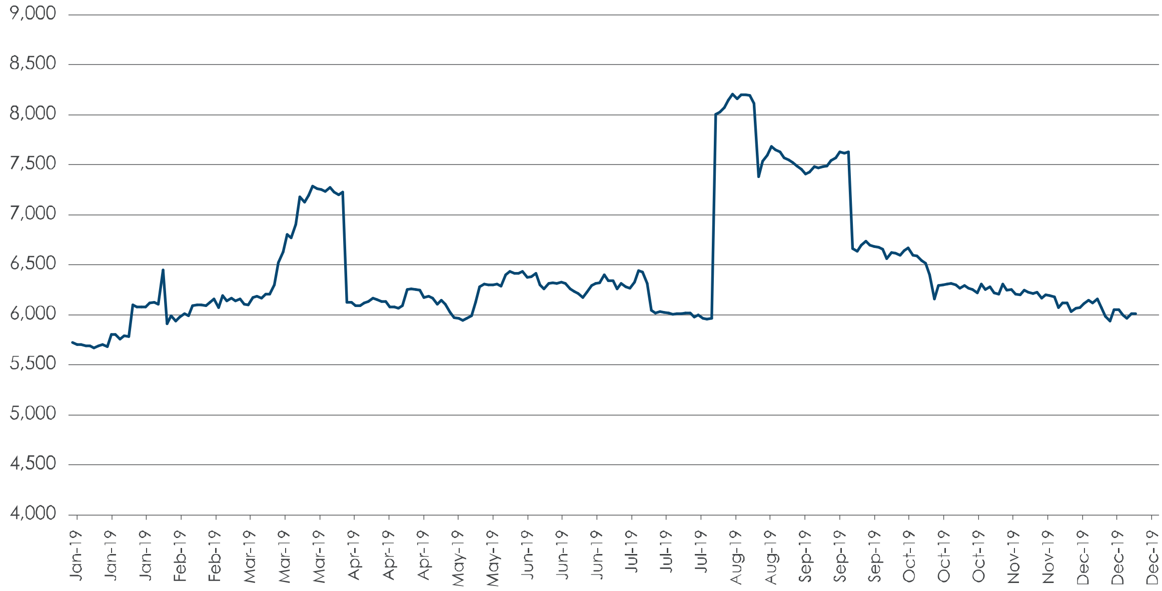
The graph below shows the trend in the VaR (1d, 99%) during 2019, relating to the total market risks of the Finance Area (HTC, HTC&S, HTS portfolios): the average value for the year was € 6.2 million (compared to € 4.1 million in 2018), with a peak of € 8.1 million reached in mid-August and a year-end point figure of € 5.7 million (compared to € 5.4 million at the end of 2018).

The total daily VaR of the proprietary portfolios gradually increased during the first quarter in parallel with the progressive increase in the HTC portfolio. After an initial reduction at the beginning of the second quarter due to reduced market volatility, the VaR rose sharply in August due to the sharp increase in the spread on Italian government bonds during the period. In the last quarter, with the reduction in the HTC&S portfolio, the overall VaR gradually returned to levels substantially in line with those at the end of 2018.

The market VaR of Banca Profilo, as at 31 December 2019, is approximately 53% due to the HTC portfolio and 38% due to the HTC&S portfolio: the two portfolios, taken as a whole, are made up of approximately 86% government bonds.

The VaR figure for the HTS portfolio alone averaged € 0.4 million in 2019 (in line with the average figure for 2018), with a year-end point figure of € 0.5 million.

Banca Profilo VaR (99%, 1d, € '000)



At consolidated level, including BPdG's HTC&S portfolio, the year-end VaR was approximately € 5.8 million (compared to € 5.6 million at the end of 2018).

1.2.1 *bis* Issuer Risk - Trading book

QUALITATIVE INFORMATION

A. General information

The Finance Area of Banca Profilo manages a portfolio of bonds and credit default swaps on national and international issuers, exposing to the risk of default of the same issuers and/or unfavourable changes in the credit spread associated with them.

As at 31 December 2019, the Bank had outstanding credit default swaps for a nominal value of € 857 million, of which € 437 million in purchases and € 420 million in sales of protection, for a net purchase position of € 17 million. Credit default swaps are used to hedge the issuer risk of specific positions in securities of the proprietary portfolio or, in the case of index contracts (iTraxx), to generically hedge the portfolio. Protection sale contracts are mainly brokered with similar protection purchase contracts: in particular, there are several pure arbitrage transactions (for a total notional amount of € 660 million, of which € 330 million for purchase and € 330 million for sale), in which the Bank purchased protection on an index and sold protection on the individual components of the same index.

As at 31 December 2019, BPdG's HTC&S portfolio amounted to approximately € 47 million, 44% of which was made up of government securities and 96% of investment grade securities. The average duration of the portfolio is just over 3 and a half years.

B. Issuer risk management processes and measurement methods

Issuer risk management processes and measurement methods are the same as those used in relation to interest rate risk: please refer to the relevant section for a description of the bodies and offices involved and the system of operating limits.

With regard to specific indicators for issuer risk, monitoring takes place in terms of spread sensitivity, i.e. the sensitivity of the portfolio's P&L to movements of 1 basis point in the credit spread associated with the issuers in position.

In addition to the overall level, the Market Risk Regulations provide for value and spread sensitivity limits per rating class and concentration limits per individual issuer (depending on the rating).

The system of limits is structured in such a way as to favour exposure to issuers with investment grade ratings, which have a lower risk in terms of both the probability of default and the variability of the market spread.

QUANTITATIVE INFORMATION

In 2019, the average overall exposure of Banca Profilo's proprietary portfolios to issuer risk was approximately € 346,000 in terms of spread sensitivity (compared to € 264,000 in 2018), calculated for a movement of 1 basis point of the credit spread associated with the issuers in the portfolio (including government issuers).

As at 31 December 2019, the total exposure was € 348,954 (compared with € 254,865 as at 31 December 2018), broken down by issuer type and rating class as shown in the table below:

Proprietary portfolios: issuer risk (Securities and CDS)

Spread Sensitivity (+1 bp) as at 31.12.2019 (figures in €) Type of issuer	AAA / AA-	A+ / A-	BBB+ / BBB-	Spec. Grade	Total
Governments	20,590	-	(311,110)	-	(290,520)
Corporate	332	(12,020)	(36,893)	(9,852)	(58,434)
Total	**20,922**	**(12,020)**	**(348,003)**	**(9,852)**	**(348,954)**

Consistent with the structure of the operating limits, investments almost exclusively involved investment grade issuers: in terms of spread sensitivity, as at 31 December 2019, 97% of total exposure related to issuers with a rating of BBB- or higher. In particular, 83% of the exposure involved government or supranational securities.

BPdG's exposure to issuer risk, relating entirely to the HTC&S portfolio, as at 31 December 2019 was € 14,320 in terms of spread sensitivity (+1bp).

1.2.1 *ter* Price risk - Trading book

QUALITATIVE INFORMATION

A. General information

Equity risk within the Group is generated solely by the portfolio owned by Banca Profilo and managed by the Finance Area.

In 2019, the equity segment's operations were characterised by trading operations with a short time period or relative value strategies: the latter, involving the assumption of opposite sign positions on shares and derivatives (index or option futures), involve limited directional risks. The most significant directional positions during the year were in the Small-Mid Cap and Spac segments.

The Bank also operates as a market maker of options on the Italian market with regard to approximately twenty underlyings: the strategy involves the use of equities for detailed delta hedging of options; the main risk factor is represented by the vega.

B. Price risk management processes and measurement methods

Price risk management processes and measurement methods are the same as those used in relation to interest rate risk: please refer to the relevant section for a description of the bodies and offices involved and the system of operating limits.

With regard to the specific indicators for equity risk, there are limits on the overall position and concentration limits on individual equity securities: the latter are diversified according to the securities' listing market and their free float.

QUANTITATIVE INFORMATION

In 2019, the "equivalent delta " value of the equity portfolio (i.e. including the options delta) was equal to an average annual value of € 8.1 million (compared to an average figure of € 11.9 million for 2018) and a year-end point value of € 8.3 million (compared to € 7.8 million as at 31 December 2018).

As at 31 December 2019, the exposure almost exclusively covered European markets:

Trading book: price risk

Sensitivity to share prices (+1 bp) as at 31.12.2019 (figures in €)	Italy	France	Germany	Japan	Eurostoxx	GB	Other	Total
Equity exposure	43,613	22,270	3,795	3,708	2,965	2,110	3,607	82,068

1.2.2 Interest rate and price risk - Banking book

QUALITATIVE INFORMATION

The interest rate risk of the HTC and HTC&S portfolios and the related hedging derivatives have been taken into account in the figures referred to in para. 2.1, together with trading positions, similarly to that carried out at management level.

If the above securities portfolios are excluded, the interest rate risk relating to the banking book is reduced: Banca Profilo's and BPdG's capital structures are characterised by assets and liabilities mainly on demand or variable rate.

On the lending side, loans to customer are almost entirely variable rate.

On the funding side, those from customers are typically on demand. The only forms of fixed-rate funding are represented by repurchase agreements to finance Banca Profilo's securities portfolio, which together have an average residual maturity of one week. Loans with the ECB, which have an average residual maturity of five months, are instead indexed to the ECB reference rate.

By virtue of the peculiar composition of its assets and liabilities, the Group banks have no micro or macro hedge transactions in place on the interest rate risk of the banking book, with the exception of interest rate swaps entered into to hedge fixed-rate or inflation-linked securities included in the HTC and HTC&S portfolios.

QUANTITATIVE INFORMATION

Applying the standard rate shock scenario (+200 bps) provided for by the Bank of Italy's supervisory regulations for quantifying the interest rate risk of the banking book, the impact is positive and equal to approximately 1.6% of the Group's own funds.

1.2.2 bis Price risk - Banking book

QUALITATIVE INFORMATION

The component of equity and UCITS securities in the banking book is extremely reduced. As a result of the small number of positions, no transactions have ever been carried out to hedge the price risk of this component.

1.2.3 Exchange rate risk

QUALITATIVE INFORMATION

A. Exchange rate risk: general information, management processes and measurement methods

Within the Group, foreign exchange trading activity is marginal and is carried out exclusively by Banca Profilo.

With the exception of trading activities, the management of the Bank's overall exchange rate risk is the responsibility of the Treasury Function, which operates within the Finance Area.

Organisational and IT flows ensure that information about foreign exchange trading on behalf of customers and other trading desks reaches the Treasury on a daily basis, which consolidates these flows into its daily foreign exchange position.

The Treasury operates in such a way as to always remain within the overall open position limit in exchange rates and the position limits on individual currencies set out in the Risk Regulations.

Like the other risk factors, exchange rate risk is included in the daily VaR calculation, according to the methodology illustrated with regard to interest rate risk.

B. Hedging of exchange rate risk

At the reference date of 31 December 2019, there were no exchange rate risk hedging transactions.

QUANTITATIVE INFORMATION

In 2019, Banca Profilo's open position in exchange rates[1] averaged approximately € 2.3 million (compared to an average of € 1.2 million in 2018).

As at 31 December 2019, Banca Profilo had a long net exchange position of € 4.3 million. The year-end exposure for the main currencies against an exchange rate movement of 1% is detailed in the table below:

Exchange rate risk

Exchange rate sensitivity against the euro (+1%) as at 31.12.2019 (figures in €)	USD	BRL	Other	Total
Exposure in exchange rates	37,305	2,024	3,219	42,548

As at 31 December 2019, BPdG's open position in exchange rates was approximately CHF 175,000.

[1] The open position in exchange rates is calculated as the greater of the sum of long positions and the sum of short positions on individual currencies.

1.3 DERIVATIVE FINANCIAL INSTRUMENTS

1.3.1 Derivative instruments held for trading

A. Financial derivatives

A.1 Financial derivatives held for trading: end of period notional amounts

Underlying assets/Types of derivatives	Total 31/12/2019				Total 31/12/2018			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central Counterparties	Without central counterparties			Central Counterparties	Without central counterparties		
		With clearing agreements	Without clearing agreements			With clearing agreements	Without clearing agreements	
1. Debt securities and interest rates	**-**	**1,003,922**	**-**	**426,498**	**-**	**1,241,689**	**-**	**670,829**
a) Options	-	75,000	-	-	-	365,000	-	-
b) Swaps	-	928,922	-	-	-	876,689	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	426,498	-	-	-	670,829
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and stock indices	**-**	**201,238**	**1,000**	**1,069,963**	**-**	**1**	**6,937**	**636,231**
a) Options	-	201,238	1,000	944,868	-	1	6,637	625,586
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	125,095	-	-	300	10,645
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold	**-**	**274,940**	**5,123**	**-**	**-**	**583,621**	**-**	**-**
a) Options	-	164,127	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	64,692	5,123	-	-	35,189	-	-
d) Futures	-	46,121	-	-	-	-	-	-
e) Other	-	-	-	-	-	548,432	-	-
4. Commodities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
5. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**-**	**1,480,100**	**6,123**	**1,496,461**	**-**	**1,825,311**	**6,937**	**1,307,060**

A.2 Financial derivatives held for trading: gross positive and negative fair values – by type of product

Types of derivatives	Total 31/12/2019				Total 31/12/2018			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central Counterparties	Without central counterparties			Central Counterparties	Without central counterparties		
		With clearing agreements	Without clearing agreements			With clearing agreements	Without clearing agreements	
1. Positive fair value								
a) Options	-	7,648	895	30,987	-	2,284	61	42,967
b) Interest rate swaps	-	29,988	-	-	-	39,158	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	850	-	-	-	255	-	-
f) Futures	-	-	-	10	-	-	-	11
g) Other	-	-	-	-	-	3,563	-	-
Total	**-**	**38,486**	**895**	**30,997**	**-**	**45,260**	**61**	**42,978**
2. Negative fair value								
a) Options	-	6,953	-	31,401	-	980	16	26,022
b) Interest rate swaps	-	32,981	-	-	-	45,840	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	289	45	-	-	44	-	-
f) Futures	-	-	-	2	-	-	-	16
g) Other	-	-	-	-	-	3,577	-	-
Total	**-**	**40,223**	**45**	**31,403**	**-**	**50,441**	**16**	**26,038**

A.3 OTC financial derivatives held for trading: notional amounts, gross positive and negative fair value by counterparty

Underlying assets	Central Counterparties	Banks	Other financial companies	Other entities
Contracts not covered by clearing agreements				
1) Debt securities and interest rates				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
2) Equity securities and stock indices				
- notional amount	X	-	1,000	-
- positive fair value	X	-	895	-
- negative fair value	X	-	-	-
3) Gold and currencies				
- notional amount	X	-	425	4,697
- positive fair value	X	-	-	-
- negative fair value	X	-	4	41
4) Commodities				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts covered by clearing agreements				
1) Debt securities and interest rates				
- notional amount	-	776,922	227,000	-
- positive fair value	-	26,633	4,580	-
- negative fair value	-	28,539	4,972	-
2) Equity securities and stock indices				
- notional amount	-	100,619	-	100,619
- positive fair value	-	3,043	-	3,137
- negative fair value	-	3,137	-	3,043
3) Gold and currencies				
- notional amount	-	58,206	114,762	101,972
- positive fair value	-	611	396	86
- negative fair value	-	11	135	386
4) Commodities				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual maturity of OTC financial derivatives for trading: notional amounts

Underlying/Residual life	Up to 1 year	Over 1 year up to 5 years	Over 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	454,422	511,500	38,000	1,003,922
A.2 Financial derivatives on equity securities and stock indices	131,335	70,904	-	202,239
A.3 Financial derivatives on currencies and gold	280,063	-	-	280,063
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31/12/2019	**865,820**	**582,404**	**38,000**	**1,486,224**
Total 31/12/2018	**874,052**	**865,778**	**92,417**	**1,832,247**

B. CREDIT DERIVATIVES

B.1 Credit derivatives held for trading: end of period notional amounts

Categories of transactions	Trading derivatives	
	on an individual party	on multiple parties (basket)
1. Purchases of protection		
a) Credit default products	59,566	377,365
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
Total 31/12/2019	**59,566**	**377,365**
Total 31/12/2018	**95,277**	**180,836**
2. Sales of protection		
a) Credit default products	334,925	85,000
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
Total 31/12/2019	**334,925**	**85,000**
Total 31/12/2018	**125,747**	**93,500**

Credit derivatives are used to hedge the issuer risk of specific positions in securities of the proprietary portfolio or, through index contracts to generically hedge the portfolio. Also included are CDSs relating to certain pure arbitrage transactions, in which the bank bought protection on the index and sold protection on individual components of the same index.

B.2 Credit derivatives held for trading: gross positive and negative fair value – by type of product

Types of derivatives	Total 31/12/2019	Total 31/12/2018
1. Positive fair value		
a) Credit default products	39,859	8,226
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
Total	**39,859**	**8,226**
2. Negative fair value		
a) Credit default products	42,101	9,509
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
Total	**42,101**	**9,509**

B.3 OTC credit derivatives held for trading: notional amounts, gross positive and negative fair value by counterparty

	Central Counterparties	Banks	Other financial companies	Other entities
Contracts not covered by clearing agreements				
1) Purchase of protection				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
2) Sale of protection				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts covered by clearing agreements				
1) Purchase of protection				
- notional amount	-	141,231	295,700	-
- positive fair value	-	-	84	-
- negative fair value	-	7,245	22,734	-
2) Sale of protection				
- notional amount	-	143,225	276,700	-
- positive fair value	-	7,882	31,893	-
- negative fair value	-	1,210	10,912	-

B.4 Residual maturity of OTC credit derivatives held for trading: notional amounts

Underlying/Residual life	Up to 1 year	Over 1 year up to 5 years	Over 5 years	Total
1 Sale of protection	84,000	335,925	-	419,925
2 Purchase of protection	72,231	364,700	-	436,931
Total 31/12/2019	**156,231**	**700,625**	**-**	**856,856**
Total 31/12/2018	**190,500**	**303,860**	**1,000**	**495,360**

1.3.2 Hedge accounting

QUALITATIVE INFORMATION

A. Fair value hedging

The risk management strategy is to immunise the fair value of the HTC and HTC&S portfolios from movements in interest rates and inflation rate, leaving them exposed only to movements in the credit spreads of the issuers of the securities purchased. To this end, in the event of the purchase of fixed-rate securities or securities linked to medium/long-term inflation, special hedging derivatives will normally be entered into to transform the overall payoff of the investment (security plus derivative) into that of a variable-rate security.

D. Hedging instruments

The hedging instruments used are interest rate swaps and inflation swaps.

E. Hedged items

The hedged items are fixed-rate securities or securities linked to medium/long-term inflation held in Banca Profilo's HTC and HTC&S portfolios. As already mentioned in Part A - Accounting policies, the bank continues to use the hedging accounting rules of IAS 39, including the amendment issued by the IASB on 26 September 2019.

QUANTITATIVE INFORMATION

A. Financial derivatives hedges

A.1 Financial derivatives held for hedging: end of period notional amounts

Underlying assets/Types of derivatives	Total 31/12/2019				Total 31/12/2018			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central Counterparties	Without central counterparties			Central Counterparties	Without central counterparties		
		With clearing agreements	Without clearing agreements			With clearing agreements	Without clearing agreements	
1. Debt securities and interest rates	-	303,458	-	-	-	312,547	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	303,458	-	-	-	312,547	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and stock indices	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5. Other	-	-	-	-	-	-	-	-
Total	-	303,458	-	-	-	312,547	-	-

A.2 Financial derivatives held for hedging: gross positive and negative fair value – by type of product

Types of derivatives	Positive and negative fair value							
	Total 31/12/2019				Total 31/12/2018			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With clearing agreements	Without clearing agreements			With clearing agreements	Without clearing agreements	
Positive fair value								
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	1,271	-	-	-	2,985	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	**-**	**1,271**	**-**	**-**	**-**	**2,985**	**-**	**-**
Negative fair value								
a) Options	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	38,925	-	-	-	29,259	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	**-**	**38,925**	**-**	**-**	**-**	**29,259**	**-**	**-**

A.3 OTC financial derivatives held for hedging: notional amounts, gross positive and negative fair value by counterparty

Underlying assets	Central Counterparties	Banks	Other financial companies	Other entities
Contracts not covered by clearing agreements				
1) Debt securities and interest rates				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
2) Equity securities and stock indices				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Gold and currencies				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
4) Commodities				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts covered by clearing agreements				
1) Debt securities and interest rates				
- notional amount	-	212,081	91,377	-
- positive fair value	-	1,150	120	-
- negative fair value	-	26,967	11,958	-
2) Equity securities and stock indices				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Gold and currencies				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Commodities				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other	-	-	-	-
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual maturity of OTC financial derivatives held for hedging: notional amounts

Underlying/Residual life	Up to 1 year	Over 1 year up to 5 years	Over 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	2,500	140,090	160,868	303,458
A.2 Financial derivatives on equity securities and stock indices	-	-	-	-
A.3 Financial derivatives on currencies and gold	-	-	-	-
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31/12/2019	**2,500**	**140,090**	**160,868**	**303,458**
Total 31/12/2018	**-**	**122,866**	**189,681**	**312,547**

1.3.3 Other information on derivative instruments held for trading and hedging

A. Financial and credit derivatives

A.1 OTC financial and credit derivatives: net fair values by counterparty

	Central Counterparties	Banks	Other financial companies	Other entities
A. Financial derivatives				
1) Debt securities and interest rates				
- notional amount	-	989,003	318,377	-
- positive net fair value	-	420	311	-
- negative net fair value	-	38	-	-
2) Equity securities and stock indices				
- notional amount	-	100,619	1,000	100,619
- positive net fair value	-	-	895	94
- negative net fair value	-	-	521	-
3) Gold and currencies				
- notional amount	-	58,206	115,188	106,669
- positive net fair value	-	-	359	86
- negative net fair value	-	-	108	427
4) Commodities				
- notional amount	-	-	-	-
- positive net fair value	-	-	-	-
- negative net fair value	-	-	-	-
5) Other				
- notional amount	-	-	-	-
- positive net fair value	-	14,482	408	-
- negative net fair value	-	43,254	13,617	-
B. Credit derivatives				
1) Purchase of protection				
- notional amount	-	141,231	295,700	-
- positive net fair value	-	-	-	-
- negative net fair value	-	-	-	-
2) Sale of protection				
- notional amount	-	143,225	276,700	-
- positive net fair value	-	-	-	-
- negative net fair value	-	-	-	-

Other information on financial risks

Below is a table providing the book value of Banca Profilo's and its consolidated exposures to sovereign credit risk.

Sovereign risk

Country (€/thousand)	HTC	HTC&S	HTS	Total
Italy	296,174	214,529	221,328	**732,032**
Germany	-	-	12	**12**
The Netherlands	-	-	2	**2**
Spain	6,017	4,019	-	**10,036**
France	-	-	7	**7**
Indonesia	-	500	-	**500**
USA	4,495	-	11	**4,507**
Total	**306,686**	**219,049**	**221,361**	**747,096**

1.4 LIQUIDITY RISK

QUALITATIVE INFORMATION

A. Liquidity risk: general information, management processes and measurement methods
Liquidity risk is represented by the possibility that a bank may not be able to meet its payment obligations when required, due to the inability to find new sources of funding or to sell assets on the market.

In particular, at Banca Profilo, the value of the securities in its portfolio exceeds the available capital and net direct funding from private and institutional customers: as a result, the Bank's securities portfolio must be largely financed on the market through repurchase agreements or interbank deposits. The liquidity risk, therefore, is provided by the possibility that, at their maturity, financing transactions cannot be renewed and that, alternatively, securities cannot be sold on the market (except at particularly penalising prices).

To monitor liquidity risk, the Board of Directors approved the Liquidity Policy and the Contingency Liquidity Plan. The first document, in accordance with the Group's RAF, sets out the principles that must guide liquidity management and establishes a series of limits to mitigate liquidity risk. In particular, the following have been established:
- limits to the net accumulated liquidity balance on different maturities, also commensurate with the results of the stress tests carried out periodically;
- limits for the LCR indicator, higher than the minimum limits provided for in the supervisory regulations;
- leverage limits;
- concentration limits of funding from the top 5 counterparties, in order to improve the diversification of funding sources;
- overall value limits for non-eligible securities.

The second document (Contingency) provides a series of warning indicators for the prompt identification of a specific and/or systemic liquidity crisis, listing the actions to be taken and the bodies authorised to operate in a crisis situation.

QUANTITATIVE INFORMATION

As at 31 December 2019, the Bank had a net positive liquidity balance on all short-term maturities (up to 3 months), for amounts in excess of approximately € 230 million: the value of eligible securities owned and not engaged in financing operations (and therefore available as a liquidity reserve), net of the haircut applied by the ECB, exceeded the amount of total funding on the wholesale market maturing over all the time periods considered.

At the same date, approximately 92% of the Bank's proprietary bond portfolio was represented by eligible securities that could be used to access ECB financing.

BPdG's net liquidity position was also overall long on short-term maturities, amounting to approximately € 92 million (also taking into account the liquidity reserve represented by eligible ECB securities available at the date).

At year-end, at consolidated level, the Liquidity Coverage Ratio (LCR) was 361%.

1. Distribution over time by residual contractual maturity of financial assets and liabilities: EURO

Items/Time brackets	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Unspecified maturity
On-balance sheet assets	**398,083**	**83,728**	**51,574**	**41,087**	**50,360**	**7,678**	**130,443**	**456,600**	**284,238**	**-**
A.1 Government securities	-	-	-	-	2,822	2,227	110,213	388,231	222,922	-
A.2 Other debt securities	6,803	652	3,768	474	5,194	4,703	18,792	57,952	43,477	-
A.3 Units of UCITS	1,275	-	-	-	-	-	-	-	-	-
A.4 Loans	390,005	83,076	47,806	40,613	42,344	748	1,438	10,417	17,839	-
- Banks	93,507	7,207	47,790	-	6,276	-	-	-	-	-
- Customers	296,498	75,869	16	40,613	36,068	748	1,438	10,417	17,839	-
On-balance sheet liabilities	**690,390**	**665,449**	**53,240**	**3,593**	**63,343**	**3**	**36,627**	**327**	**12,921**	**-**
B.1 Deposits and current accounts	666,750	-	-	-	-	-	-	-	-	-
- Banks	6,924	-	-	-	-	-	-	-	-	-
- Customers	659,826	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	23,640	665,449	53,240	3,593	63,343	3	36,627	327	12,921	-
Off-balance sheet transactions										
C.1 Physically settled financial derivatives										
- Long positions	3	84,716	23,608	37,401	274,369	26,321	58,902	97,315	76,434	-
- Short positions	-	84,706	-	59,807	49,526	30,280	40,177	177,111	100,630	-
C.2 Cash settled financial derivatives										
- Long positions	35,817	-	-	-	-	-	-	-	-	-
- Short positions	49,892	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be settled										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- Long positions	-	42,336	4,745	-	-	-	-	-	-	-
- Short positions	47,081	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Physically settled credit derivatives										
- Long positions	-	-	-	-	-	17,000	8,000	102,000	-	-
- Short positions	-	-	-	-	-	17,000	8,000	102,000	-	-
C.8 Cash settled credit derivatives										
- Long positions	119	-	-	-	-	-	-	-	-	-
- Short positions	6,924	-	-	-	-	-	-	-	-	-

1. Distribution over time by residual contractual maturity of financial assets and liabilities (OTHER CURRENCIES)

Items/Time brackets	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Unspecified maturity
On-alance sheet assets	**102,236**	**5,940**	**9,944**	**15,554**	**16,316**	**15,146**	**6,159**	**95,157**	**22,803**	**-**
A.1 Government securities	-	-	-	-	1	105	105	6,676	1,780	-
A.2 Other debt securities	583	-	230	30	674	478	3,144	84,335	21,023	-
A.3 Units of UCITS	-	-	-	-	-	-	-	-	-	-
A.4 Loans	101,653	5,940	9,714	15,524	15,642	14,562	2,909	4,146	-	-
- Banks	85,348	-	8,506	7,132	-	-	-	-	-	-
- Customers	16,305	5,940	1,208	8,392	15,642	14,562	2,909	4,146	-	-
on-alance sheet liabilities	**205,543**	**-**	**-**	**-**	**-**	**-**	**-**	**1,488**	**-**	**-**
B.1 Deposits and current accounts	205,543	-	-	-	-	-	-	-	-	-
- Banks	5	-	-	-	-	-	-	-	-	-
- Customers	205,538	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	1,488	-	-
Off-balance sheet transactions										
C.1 Physically settled financial derivatives										
- Long positions	-	6,825	-	6,635	4,896	3	-	35,253	-	-
- Short positions	-	6,853	23,608	30,427	19,717	15	-	19,319	4,896	-
C.2 Cash settled financial derivatives										
- Long positions	1	-	80,598	-	29,585	-	-	-	-	-
- Short positions	0	-	65,976	1,754	32,334	-	-	-	-	-
C.3 Deposits and loans to be settled										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Physically settled credit derivatives										
- Long positions	-	-	-	-	-	6,231	-	261,260	-	-
- Short positions	-	-	-	-	-	6,231	-	261,260	-	-
C.8 Cash settled credit derivatives										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	22,274	-	-	-	-	-	-	-	-	-

1.5 OPERATIONAL RISKS

QUALITATIVE INFORMATION

A. General information, operational risk management processes and measurement methods

Operational risk is defined as the risk of financial loss due to inadequate internal processes or their failures, human error, deficiencies in technological systems or caused by external events.

With reference to operational risk, within Banca Profilo:

- risk factors and loss events were mapped for all the most relevant commercial, production and administrative processes, with documentation of company activities, risk assessment and related mitigation controls;
- periodic tests of the effectiveness of the controls carried out are conducted;
- based on a self-assessment process of risk exposure by the organisational units, the most significant risks were identified in terms of potential impact and frequency;
- operating losses are recorded in a special database, in order to substantiate the self-assessments over time with an objective accounting feedback.

QUANTITATIVE INFORMATION

For the quantification of operational risks for capital requirements purposes, the Group uses the base method.

The operational risk events that occurred in 2019 are not significant overall and are mainly related to prudential provisions for possible disputes with customers.

The type of proceedings and disputes in which the Group is a defendant can be summarised as follows:

Type of proceeding	Presumed disbursement
Legal disputes	1
Complaints and grievances	917
Total	**918**

Section 3 – Risks of insurance companies

Banca Profilo and its subsidiaries do not carry out insurance activities.

Section 4 - Risks of other companies

All the companies included in the consolidation are part of the Banca Profilo Banking Group.

Information on risk management policies

The Banca Profilo Banking Group headed by the Parent Company Arepo BP S.p.A. publishes on the Banca Profilo website the "Disclosure by Entities" document drawn up on the basis of the regulations (CRR) with reference to 31 December 2019.

At the same time, information to the public, State by State, will be published on the site as provided for by Title III, Chapter 2 of Bank of Italy Circular 285.

The address of the site is: www.bancaprofilo.it/investor-relations/Pillar III informa_al_pubblico/2018.

PART F - Information on consolidated shareholders' equity

Section 1 - Consolidated shareholders' equity

A. QUALITATIVE INFORMATION

The shareholders' equity of Banca Profilo and its subsidiaries is made up of capital, share premiums and other reserves including retained earnings/losses.

The mandatory capital requirements to which we adhere are those provided for by the regulations on shareholders' equity and the prudential ratios issued by the Supervisory Body.

The Parent Company Arepo BP S.p.A. is required to issue consolidated supervisory reports.

This requirement is guaranteed by a control and monitoring process continuously carried out by the offices of Banca Profilo.

In particular, with reference to the granting of credit carried out by Banca Profilo and Banque Profil de Gestion SA to parties other than banks, insurance companies and financial intermediaries, it should be noted that, precisely in order to guarantee and monitor the capital requirements required by the Supervisory Body, this activity mainly concerns Private Banking customers and is generally subject to the provision of suitable guarantees; this activity is in any case instrumental to managing relations with medium-high end customers.

In relation to the current and prospective situation, the current organisational structure and controls ensure sound and prudent management.

B. QUANTITATIVE INFORMATION

B.1 Consolidated shareholders' equity: breakdown by business type

Items of shareholders' equity	Prudential consolidation	Insurance companies	Other companies	Consolidation adjustments and eliminations	Total
1. Share capital	175,389	-	-	(33,189)	142,200
2. Share premium	82	-	-	-	82
3. Reserves	59,174	-	-	(17,441)	41,733
4. Equity instruments	-	-	-	-	-
5. (Treasury shares)	(4,377)	-	-	471	(3,906)
6. Valuation reserves:	(2,775)	-	-	-	(2,775)
- Equity securities measured at fair value through other comprehensive income	589	-	-	-	589
- Hedges on equity securities measured at fair value through other comprehensive income	-	-	-	-	-
- Financial assets (other than equity securities) measured at fair value through other comprehensive income	(1,811)	-	-	-	(1,811)
- Property, plant and equipment	-	-	-	-	-
- Intangible assets	-	-	-	-	-
- Hedge of foreign investments	-	-	-	-	-
- Cash flow hedges	-	-	-	-	-
- Hedging instruments [elements not designated]	-	-	-	-	-
- Exchange differences	22	-	-	-	22
- Non-current assets and disposal groups held for sale	-	-	-	-	-
- Financial liabilities measured at fair value through profit and loss (changes in its creditworthiness)	-	-	-	-	-
- Actuarial gains (losses) on defined benefit pension plan	(1,575)	-	-	-	(1,575)
- Share of valuation reserves of equity investments valued at equity	-	-	-	-	-
- Special revaluation laws	-	-	-	-	-
7. Profit (Loss) for the year (+/-) pertaining to the group and non-controlling interests	8,753	-	-	(25)	8,728
Total	**236,246**	**-**	**-**	**(50,184)**	**186,062**

The table above details, by type, the group shareholders' equity of € 165,277 thousand plus non-controlling interests of € 20,785 thousand.

B.2 Fair value reserves of financial assets measured at fair value through other comprehensive income: composition

Assets/Amounts	Prudential consolidation		Insurance companies		Other companies		Consolidation adjustments and eliminations		Total	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	1,094	2,762	-	-	-	-	(197)	(54)	897	2,708
2. Equity securities	615	-	-	-	-	-	(26)	-	589	-
3. Loans	-	-	-	-	-	-	-	-	-	-
Total 31/12/2019	**1,709**	**2,762**	**-**	**-**	**-**	**-**	**(223)**	**(54)**	**1,486**	**2,708**
Total 31/12/2018	**70**	**9,159**	**-**	**-**	**-**	**-**	**-**	**(162)**	**70**	**9,159**

The table above details, by type of financial assets measured at fair value through other comprehensive income, the group's net valuation reserves of a negative € 1,392 thousand plus the non-controlling interest reserve of a positive € 170 thousand. The table below provides the annual change in these reserves.

B.3 Fair value reserves of financial assets measured at fair value through othet comprehensive income: changes in the year

	Debt securities	Equity securities	Loans
1. Opening balances	**(9,059)**	**(29)**	**-**
2. Positive changes	**7,910**	**678**	**-**
2.1 Fair value increases	5,346	434	-
2.2 Value adjustments for credit risk	138	X	-
2.3 Reversal to income statement of negative reserves from disposals	2,410	X	-
2.4 Transfers to other components of shareholders' equity (equity securities)	-	242	-
2.5 Other changes	16	2	-
3. Negative changes	**(661)**	**(60)**	**-**
3.1 Fair value decreases	**(435)**	**-**	**-**
3.2 Reversals for credit risk	**(124)**	**-**	**-**
3.3 Reversal to income statement of positive reserves from disposals	**(92)**	X	**-**
3.4 Transfers to other components of shareholders' equity (equity securities)	**-**	**(60)**	**-**
3.5 Other changes	**(10)**	**-**	**-**
4. Closing balances	**(1,811)**	**589**	**-**

B.4 Valuation reserves for defined benefit plans: annual changes

The valuation reserves related to defined benefit plans went from a negative balance of € 685 thousand as at 31 December 2018 to a negative balance of € 1,575 thousand as at 31 December 2019.

Section 2 - Banking own funds and regulatory ratios

The Parent Company of the Banca Profilo Banking Group is Arepo BP S.p.A. and is required to report to the Supervisory Body on a consolidated basis on regulatory capital and prudential ratios in accordance with current regulations. As indicated in the official document of Bank of Italy Circular 262/2005, for information on own funds and regulatory ratios, reference should be made to the consolidated information contained in the Disclosure by entities to the public (Pillar 3) provided for by Regulation (EU) no. 575/2013 ("CRR") prepared by the Parent Company Arepo BP, which is made public, within legal terms, on the Banca Profilo website at the following address: www.bancaprofilo.it/investor-relations/Pillar III informativa_al_pubblico.

It should also be noted that in the Report on Operations of this document, in the section "Commentary on the consolidated balance sheet data", information on the Own Funds and the Capital Adequacy of Banca Profilo and its subsidiaries is available.

PART G - Business Combinations transactions concerning companies or lines of business

There have been no business combinations carried out during the year.

PART H - Transactions with related parties

1) Information on the remuneration of key management personnel

This information refers to those who have the power and responsibility, directly or indirectly, for the planning, management and control of the activities of Group companies.
The table below shows the remuneration of directors, statutory auditors and key management personnel.

Role (*amounts in €/thousand*)	Fixed remuneration	Fees for participation in committees (a)	Non-equity variable compensation		Non-monetary benefits	Other remuneration	Total	Fair value of equity compensation (c)	End of term of office or termination of employment indemnity
			Bonuses and other incentives (b)	Profit participation					
Board of Directors (d)	1,445	75	169		15		1,704	6	
Board of Statutory Auditors and Supervisory Board	230	-			-		230		
Key management personnel	4,664	-	1,290		201		6,155	159	338
(I) Compensation in the reporting company	4,066	75	1,455		109		5,705	165	338
(II) Compensation from subsidiaries and associates	2,273	-	4		107		2,384		
(III) Total	**6,339**	**75**	**1,459**		**216**		**8,089**	**165**	**338**

Notes:
(a) Remuneration as a member of the Remuneration Committee, Appointments and Risk Control Committee
(b) In the case of deferred bonuses, both the upfront portion of the year to which they relate and the relevant portions of deferred components relating to previous years are provided
(c) The Fair Value of the shares (Stock Grant Plan) granted in 2019 is provided
(d) The amount also includes remuneration from employment

1) Information on related-party transactions

The following is a summary of the transactions carried out with related parties during the year and those in place as at 31 December 2019.

With regard to transactions of greater significance, it should be noted that during 2019 the Parent Company Banca Profilo communicated to Consob, pursuant to Article 13, paragraph 3, letter c, point i) of Consob Regulation no. 17221 of 13 March 2010 and subsequent updates, the framework resolutions passed in January 2019 concerning the following transactions:

- Repurchase agreements with Extrabanca S.p.A., (a company in which AREPO BP has a significant joint control interest) where the individual transactions may not have a duration of more than 3 months and the total value of the outstanding transactions may not exceed € 80 million. Transactions are governed by the GMRA (Global Master Repurchase Agreement) framework agreement concluded at normal market conditions. The balance of these transactions as at 31 December 2019 amounted to € 47.8 million in repo transactions;
- Treasury transactions with Sator Immobiliare SGR S.p.A. and the real estate funds it manages (an indirect subsidiary of the Fondo Sator Private Equity "A" L.P. which holds an indirect controlling interest in Banca Profilo) for a total maximum of € 30 million in deposits remunerated at market conditions. The balance of outstanding deposits with Banca Profilo as at 31 December 2019 amounted to € 11.3 million.

Group transactions with unconsolidated subsidiaries and/or related parties

Definition (amounts in €/thousand)	Assets *			Liabilities *	
	Item 30 - Financial assets measured at fair value through other comprehensive income	Item 40 - Financial assets measured at amortised cost	Item 130 - Other assets	Item 10 - Financial liabilities measured at amortised cost	Item 80 - Other liabilities
a) Entities which, directly or indirectly, through one or more intermediaries, control Banca Profilo					
Arepo Bp S.p.A.	-	2,108	517	276	552
Sator Investments S.a.r.l.	-	-	-	1,620	-
Total group a)	-	2,108	517	1,896	552
b) Key management personnel	-	5,843	-	3,145	2,261
c) Close family members of the personnel referred to in point b	-	551	-	2,415	-
d) Entity controlled, jointly controlled or subject to significant influence or in which a significant share, in any case not less than 20% of the voting rights by a party referred to in letter b above, is held directly or indirectly	-	10,000	-	4,089	-
e) Related parties of Banca Profilo's related parties	6,847	4,013	48	13,776	10
f) Other related parties	-	47,850	-	-	48
Total Banca Profilo's consolidated financial statement item	311,714	1,127,002	22,395	1,717,292	26,762
Total related-party transactions	6,847	70,366	564	25,321	2,871
Incidence %	2.2%	6.2%	2.5%	1.5%	10.7%

* = as per items in the mandatory annual financial statements Bank of Italy Circular no. 262 of 22.12.2005 and subsequent updates.

Group transactions with unconsolidated subsidiaries and/or related parties

Definition (amounts in €/thousand)	Revenues *			Costs *			
	Item 10 - Interest income and similar revenues	Item 40 - Fee and commission income	Item 230 - Other operating income	Item 20 - Interest expenses and similar charges	Item 50 - Fee and commission expenses	Item 190 - Administrative expenses - Other	Item 190 - Administrative expenses - Personnel expenses
a) Entities which, directly or indirectly, through one or more intermediaries, control Banca Profilo							
Arepo Bp S.p.A.	-	-	152	-1	-	-14	169
Sator Investments S.a.r.l.	-	-	-	-	-	-	-
Total group a)	-	-	152	-1	-	-14	169
b) Key management personnel	49	151	2	-	-	-	-10,384
c) Close family members of the personnel referred to in point b	3	96	-	-1	-	-	-
d) Entity controlled, jointly controlled or subject to significant influence or in which a significant share, in any case not less than 20% of the voting rights by a party referred to in letter b above, is held directly or indirectly	73	145	-	-	-	-1	-
e) Related parties of Banca Profilo's related parties	313	712	36	-39	-7	-	2
f) Other related parties	8	-	-	-160	-	-	-153
Total Banca Profilo's consolidated financial statement item	23,624	36,438	5,209	-3,306	-4,099	-24,533	-34,717
Total related-party transactions	446	1,104	190	-202	-7	-16	-10,366
Incidence %	1.9%	3.0%	3.6%	6.1%	0.2%	0.1%	29.9%

* = as per items in the mandatory annual financial statements Bank of Italy Circular no. 262 of 22.12.2005 and subsequent updates.

PART I - Share-Based Payment Agreements

This section provides information on share-based payment agreements that are recognised in the balance sheet under "reserves" (liability item 150) as equity settled plans. The related cost is recognised under Personnel Expenses. Further information can be found in the Report on Operations.

A. QUALITATIVE INFORMATION

1. Description of share-based payment agreements

The April 2015 Shareholders' Meeting of Banca Profilo approved a Stock Grant Plan in favour of its employees both to comply with the requirements of the regulatory bodies for the payment of the variable component of the remuneration for "key employees", under the definition provided by the Bank of Italy on the subject of remuneration (see Circular 285/2013) and to provide for motivational and retention mechanisms for the remaining personnel, if certain conditions are met. The Plan was subsequently extended by the 2017 Shareholders' Meeting.

The Plan provides for: (i) the assignment of shares, both for the upfront and deferred components, once the malus conditions for each individual deferral period have been exceeded (detailed in the Bank's Remuneration Policy in force at the time - see Remuneration Report available at the following web address - www.bancaprofilo.it/CorporateGovernace/Documenti Societari/Remunerazioni) and in the absence of individual malus situations and (ii) the attribution of the same, after the retention periods, as a result of the relationship and absence of individual malus situations.

The Beneficiaries of the Plan are the Chief Executive Officer, the General Manager and the other employees of the Bank and its subsidiaries who have joined the Plan, or the executive directors of the latter; the operating procedures of the Plan are differentiated according to whether or not the staff fall under the category of "key employees".

In particular, for "key employees" the retention and deferral periods provided for by the Remuneration Policy in force at the time apply.

Under the existing stock grant plan, 1,556,462 Banca Profilo's shares were allocated in April 2019 and 236,024 in November 2019; in both cases, the treasury shares held in the portfolio by Banca Profilo were used as planned.

During the 2016 financial year, the Swiss subsidiary also approved a stock option plan in favour of key employees in order to focus their commitment on achieving important strategic objectives, to which the exercise of the options themselves is linked. The plan, active since November 2016, provides for the assignment of 1,800,000 exercisable options for the purchase of the same number of BPdG shares. The exercise price is determined on the basis of the stock exchange price of the security on the taking up date for the beneficiary. A capital increase of 1,800,000 shares with a nominal value of CHF 1 was also approved to service the plan. The plan will run for 5 years, with the first operating window on 1 November 2018. From that date until November 2022, on the basis of the results achieved, options for the purchase of 360,000 BPdG shares will become exercisable every year, on every 1st November, for a total of 1,800,000 options at the end of the plan. The fair value of the plan is then periodically reviewed on the basis of the probability of achieving the objectives set. The fair value of the plan as at 31 December 2019 is substantially nil in view of the high unlikelihood that the plan will be achieved. The fair value of the plan is periodically reviewed on the basis of the probability of achieving the objectives set.

No options have been exercised since the Plan was activated.

B. QUANTITATIVE INFORMATION

1 Annual changes

The stock option plan of Banca Profilo expired in 2017. There were no changes in relation to BPdG during the year.

PART L - Segment Reporting

Representation by business segments was chosen as the primary reporting method, based on the requirements of IFRS 8, as it reflects the responsibilities for making operational decisions, based on the Group's organisational structure.

The defined sectors of activity are:

- **Private Banking & Investment banking** relating to the activities of the Private Banking Area with administered and managed Italian private and institutional customers, as well as the Investment Banking activities and the activities of the subsidiary Arepo Fiduciaria;
- **Finance**, relating to the management and development of trading activities on own account and on behalf of third parties in financial instruments and services related to their issue and placement;
- **Digital channels**, relating to the activities carried out in partnership with Tinaba on a digital platform;
- **Activities Abroad**, includes activities on the foreign market in which the Group currently operates (Switzerland), which includes the activities of the subsidiaries Banque Profil de Gestion S.A. and Dynamic Asset Management S.A.;
- **Corporate Centre**, which oversees the guidance, coordination and control functions of the entire Group; this sector includes overheads, intra-group eliminations and the activities of the subsidiary Profilo Real Estate.

Breakdown by operating segment: income statement figures

(€/thousand)	Private & Inv. Banking		Finance		Activities Abroad		Digital Channels		Corporate Centre		Total	
	12 2019	12 2018	12 2019	12 2018	12 2019	12 2018	12 2019	12 2018	12 2019	12 2018	12 2019	12 2018
Net interest income	3,583	3,048	10,652	13,025	2,617	2,300	(16)	1	(133)	(522)	16,704	17,852
Other net revenues	25,099	22,373	18,790	7,683	10,247	7,041	(185)	(173)	214	(713)	54,165	36,212
Net fee and commission income	*23,832*	*21,442*	*1,593*	*1,682*	*7,120*	*5,229*	*(183)*	*(173)*	*(23)*	*(115)*	*32,340*	*28,065*
Profit (loss) from trading	-	-	*17,213*	*5,994*	*2,680*	*1,805*	-	-	*563*	*(596)*	*20,456*	*7,203*
Other income and charges	*1,267*	*931*	*(16)*	*7*	*447*	*8*	*(2)*	-	*(327)*	*(2)*	*1,369*	*944*
Total net revenues	**28,682**	**25,421**	**29,442**	**20,708**	**12,865**	**9,342**	**(200)**	**(172)**	**81**	**(1,235)**	**70,869**	**54,064**
Total operating expenses	(20,499)	(18,049)	(10,741)	(9,556)	(12,912)	(10,925)	(2,939)	(2,395)	(11,607)	(11,387)	(58,699)	(52,313)
Operating income	**8,183**	**7,372**	**18,700**	**11,152**	**(47)**	**(1,584)**	**(3,140)**	**(2,566)**	**(11,527)**	**(12,623)**	**12,169**	**1,750**
Result before taxes	**8,166**	**7,363**	**18,928**	**10,848**	**167**	**(1,107)**	**(3,140)**	**(2,566)**	**(12,553)**	**(12,916)**	**11,568**	**1,621**

Breakdown by operating segment: balance sheet figures

(€/thousand)	Private & Inv. Banking		Finance		Activities Abroad		Digital Channels		Corporate Centre		Total	
	12 2019	12 2018	12 2019	12 2018	12 2019	12 2018	12 2019	12 2018	12 2019	12 2018	12 2019	12 2018
Loans	286,717	282,177	499,658	423,623	65,953	87,256	-	-	-	-	852,328	793,057
Direct funding	711,975	774,048	358,408	430,997	188,516	167,976	11,160	2,019	-	-	1,270,060	1,375,039
Indirect funding	4,519,110	4,423,423	47,618	84,072	2,474,215	2,298,453	5,648	3,421	-	-	7,046,591	6,809,369

(*) Some 2018 figures have been reclassified for a better comparison with 2019 figures

Net fee and commission income relating to Private & Investment banking mainly refers to portfolio management, securities placement and advisory fees. Net fee and commission income relating to Finance relates exclusively to commissions on trading in financial instruments. Net fee and commission income relating to Activities Abroad mainly refer to portfolio management, securities custody and administration and securities placement commissions

A.1 Breakdown by operating segment: income statement figures

	Italy 12 2019	Abroad 12 2019	Total 12 2019
Net interest income	14,086	2,617	16,704
Other net revenues	43,918	10,247	54,165
Total net revenues	**58,004**	**12,865**	**70,869**
Total operating expenses	(45,787)	(12,912)	(58,699)
Operating income	**12,217**	**(47)**	**12,169**
Result before taxes	**11,401**	**167**	**11,568**

A.1 Breakdown by operating segment: income statement figures

	Italy 12 2018	Abroad 12 2018	Total 12 2018
Net interest income	15,552	2,300	17,852
Other net revenues	29,170	7,041	36,211
Total net revenues	**44,721**	**9,342**	**54,063**
Total operating expenses	(41,387)	(10,925)	(52,312)
Operating income	**3,334**	**(1,584)**	**1,750**
Result before taxes	**2,729**	**(1,107)**	**1,621**

Part M – Information on leases

Section 1 - Lessee

QUALITATIVE INFORMATION

The Group has entered into lease contracts within the scope of IFRS 16 for the purpose of carrying out its business activities. In respect of these contracts, the right to use the leased assets and the related liability arising from each contract are recorded in the financial statements.
These contracts are accounted for in accordance with the provisions of IFRS 16 as detailed in section A.2 of Part A - Accounting Policies, to which reference should be made.
The main types of property, plant and equipment that the Group recognises relate to buildings and others (cars and photocopiers).
The rights of use recorded in relation to these lease contracts are mainly used for the provision of services to customers, or for administrative purposes, and accounted for using the cost method. In the case of sub-leases, the relevant lease contract (financial or operating, depending on the contractual characteristics) is recognised in accordance with accounting standards. The Group has only one sublease agreement with the Parent Company Arepo BP for premises located in Rome.
As already mentioned in Part A, rights of use and the corresponding payables for short term lease contracts (12 months) or for assets with a limited unit value (equal to or less than € 5 thousand) are not recorded in the accounts. The related lease payments arising from these types of assets are recorded under item "190. Administrative expenses" on an accrual basis.
Please note that the Group has not carried out any sale and leaseback transactions.

QUANTITATIVE INFORMATION

As also explained in Section 9 - Property, plant and equipment of Part B - Information on the consolidated balance sheet - Assets, the Group holds rights of use for lease contracts with a book value of € 4.9 million as at 31.12.2019.
During the year, these rights of use implied the recording of depreciation of € 1.1 million, of which:

- € 864 thousand relating to buildings;
- € 245 thousand relating to other (cars and photocopiers).

The book value of lease payables is shown in Part B - Information on the consolidated balance sheet - Liabilities - Section 1 - Financial liabilities measured at amortised cost - Item 10, to which reference should be made.
During the year, these lease payables involved the recognition of interest expenses for € 68 thousand, as shown in Part C - Information on the consolidated income statement - Section 1 - Interest - Items 10 and 20 of the income statement of these Notes to the Consolidated Financial Statements.
With reference to short-term leases and assets with a modest unit value, it should be noted that during the year lease payments of € 135 thousand were recorded.
It should also be noted that, in order to determine the duration of lease contracts under the scope of IFRS 16, the Group takes into account the non-cancellable period provided for in the contract, as well as any renewal options, assessing the reasonable certainty of renewal by the Group entity committed to the contract. With particular reference to contracts that provide for the lessee's right to tacitly renew the lease at the end of an initial period, the contractual duration for IFRS 16 purposes is determined by assessing the duration of the initial period, the possible existence of business plans for the disposal of the leased business, as well as any other circumstances that may indicate reasonable certainty about the renewal.
Considering this, the amount of cash flows, not reflected in the calculation of lease payables, to which the Group is potentially exposed, is to be attributed exclusively to the possible renewal of lease contracts, not incorporated in the original calculation of lease liabilities in light of the information available as at 1 January 2019 for contracts recognised on first-time adoption of the standard, or at the date of commencement of the lease for contracts entered into during 2019.

Section 2 - Lessor

QUALITATIVE INFORMATION

The Group has only one lease contract in place for its assets to third parties, in particular for its Parent Company, Arepo BP, with reference to the company's headquarters. This contract is represented in the financial statements through the recognition, on an accrual basis, of the rents received, recorded under item 230. Other operating income/expenses.

QUANTITATIVE INFORMATION

1. Balance sheet and income statement information
With reference to the only lease contact currently in place, the book value of the leased property represents a negligible portion of property, plant and equipment used in the business, relating to land and buildings, represented in Section 9 - Property, plant and equipment - Item 90 of Part B of these Notes to the Consolidated Financial Statements.

The rents recorded on an accrual basis during the year for the lease of such assets are provided in part C - Information on the consolidated income statement - Section 16 - Other operating income/expenses - Item 230 of the income statement of the Notes to the Consolidated Financial Statements.

2. Finance leases
The Group did not have any finance lease operations in place as at 31 December 2019.

3. Operating leases

3.1 Classification by time bands of payments to be received
Under the contract currently in place with Arepo BP until June 2025, the subsidiary Profilo Real Estate expects to receive payments of € 15 thousand per year, adjusted annually by 75% for variations in the ISTAT index.

3.2 Other information
In light of the negligibility of the rental relationship in favour of third parties, no further significant information is identified beyond that reported above.

Summary statements of the Parent Company Arepo BP

Below is the summary statement required by Article 2497-*bis* of the Italian Civil Code extracted from the financial statements of Arepo BP S.p.A. for the year ended 31 December 2018. For an adequate and complete understanding of the balance sheet and financial position of the entity indicated above as at 31 December 2018, as well as the economic result achieved in the financial year ended on that date, please refer to the financial statements which, together with the Independent Auditors' report, are available in the forms and manner required by law. Please note that the following tables do not take into account the changes introduced by the 5th update of Bank of Italy Circular 262/2005.

Arepo BP S.p.A. Separate Balance Sheet

Assets (Amounts in €)	31/12/2018	31/12/2017 Re-stated
10 Cash and cash equivalents	**54**	**3**
40 Financial assets measured at amortised cost	**233,325**	**2,123,130**
a) loans and advances to banks	233,325	2,123,130
70 Equity investments	**98,054,382**	**95,324,286**
80 Property, plant and equipment	**157**	**470**
100 Tax assets	**2,162,130**	**1,665,598**
a) current	694,124	599,239
b) deferred	1,468,006	1,066,359
120 Other assets	**353,240**	**859,425**
Total Assets	**100,803,288**	**99,972,912**

Liabilities and Shareholders' equity	31/12/2018	31/12/2017 Re-stated
10 Financial liabilities measured at amortised cost	**1,800,600**	**3,001,603**
b. Deposits from customers	1,800,600	3,001,603
60 Tax liabilities	**10,702**	**-**
a) current	10,702	-
80 Other liabilities	**906,425**	**544,408**
90 Employee severance indemnity	**26,770**	**24,319**
110 Valuation reserves	**(1,631)**	**(1,476)**
140 Reserves	**(5,476,791)**	**(5,769,784)**
150 Share premium	**69,855,099**	**69,855,099**
160 Share capital	**35,060,000**	**35,060,000**
180 Profit (Loss) for the year (+/-)	**(1,377,887)**	**(2,741,257)**
Total Liabilities and Shareholders' Equity	**100,803,288**	**99,972,912**

Arepo BP S.p.A. Separate Income Statement

Items (Amounts in €)	2018	2017 Re-stated
10 Interest income and similar revenues	3,953	3,905
20 Interest expenses and similar charges	(33,248)	(1,603)
30 Net interest income	**(29,295)**	**2,302**
50 Fee and commission expenses	(429)	(401)
60 Net fee and commission income	**(429)**	**(401)**
70 Dividends and similar income	2,115,443	423,089
80 Net profit (loss) from trading	-	(240,000)
120 Net interest and other banking income	**2,085,719**	**184,990**
150 Net result from financial activities	**2,085,719**	**184,990**
160 Administrative expenses:	**(1,227,081)**	**(1,124,366)**
a) personnel expenses	(755,008)	(780,912)
b) other administrative expenses	(472,073)	(343,454)
180 (Net) value adjustments/reversals on property, plant and equipment	**(313)**	**(313)**
200 Other operating income/expenses	**7,860**	**10,004**
210 Operating expenses	**(1,219,534)**	**(1,114,676)**
220 Gains (losses) on equity investments	**(2,619,767)**	**(2,120,000)**
260 Profit (loss) before tax from continuing operations	**(1,753,583)**	**(3,049,687)**
270 Tax on income for the year for continuing operations	375,696	308,430
280 Profit (loss) after tax from continuing operations	**(1,377,887)**	**(2,741,257)**
300 Profit (loss) for the year	**(1,377,887)**	**(2,741,257)**

Annexes to Consolidated Financial Statements

Banca Profilo Reclassified Consolidated Balance Sheet

Assets (Amounts in €/thousand)	31/12/2019	31/12/2018	Changes	
			Absolute	%
Cash and cash equivalents	41,548	39,523	2,025	5.1
Financial assets measured at fair value through profit and loss	532,391	507,974	24,417	4.8
Financial assets measured at fair value through other comprehensive income	311,714	440,547	-128,833	-29.2
Financial assets measured at amortised cost	1,127,002	1,173,361	-46,359	-4.0
Hedging derivatives	1,271	2,985	-1,714	-57.4
Property, plant and equipment	54,509	50,874	3,635	7.1
Intangible assets	8,883	10,001	-1,118	-11.2
Tax assets	8,225	14,250	-6,025	-42.3
Other assets	22,395	16,154	6,241	38.6
Total Assets	**2,107,937**	**2,255,668**	**-147,731**	**-6.6**

Liabilities (Amounts in €/thousand)	31/12/2019	31/12/2018	Changes	
			Absolute	%
Financial liabilities measured at amortised cost	1,717,292	1,857,235	-139,943	-7.5
Financial liabilities held for trading	129,405	164,404	-34,999	-21.3
Hedging derivatives	38,926	29,259	9,667	33.0
Tax liabilities	2,332	2,233	99	4.4
Other liabilities	26,762	25,893	870	3.4
Employee severance indemnity	1,717	1,701	16	0.9
Provisions for risks and charges	5,443	3,624	1,819	50.2
Total liabilities	**1,921,876**	**2,084,348**	**-162,470**	**-7.8**
Share capital	136,994	136,994	-	-
Share premium	82	82	-	-
Reserves	25,991	25,723	268	1.0
Valuation reserves	(2,559)	(9,538)	6,979	-73.2
Treasury shares (-)	(3,603)	(3,357)	-245	7.3
Non-controlling interests	20,785	19,781	1,004	5.1
Profit for the year	8,371	1,635	6,736	411.9
Shareholders' equity	186,061	171,320	14,741	8.6
Total liabilities	**2,107,937**	**2,255,668**	**-147,731**	**-6.6**

Banca Profilo Reclassified Consolidated Income Statement

Items (Amounts in €/thousand)	2019	2018	Changes Absolute	Changes %
Net interest income (1)	16,702	17,852	-1,150	-6.4
Net fee and commission income	32,339	28,065	4,274	15.2
Net result from financial activities and dividends (2)	20,457	7,203	13,254	184.0
Other operating income/expenses (3)	1,370	944	426	45.2
Total net revenues	**70,868**	**54,063**	**16,805**	**31.1**
Personnel expenses	(34,717)	(29,580)	-5,137	17.4
Other administrative expenses (4)	(20,693)	(20,579)	-115	0.6
Value adjustments on property, plant and equipment and intangible assets	(3,289)	(2,155)	-1,134	52.7
Total operating expenses	**(58,699)**	**(52,313)**	**-6,386**	**12.2**
Operating income	**12,169**	**1,750**	**10,419**	**n.s.**
Net provisions for risks and charges (5)	(538)	135	-673	n.s.
Net value adjustments/reversals for credit risk relating to financial assets measured at amortised cost	422	90	332	n.s.
Net value adjustments/reversals on financial assets measured at fair value through other comprehensive income (6)	13	(353)	366	n.s.
Value adjustments to goodwill	(497)	-	-497	n.s.
Profit (loss) for the year before tax	**11,568**	**1,621**	**9,947**	**n.s.**
Tax on income for the year for continuing operations	(2,840)	(366)	-2,474	n.s.
Profit (loss) for the year after tax	**8,728**	**1,256**	**7,472**	**n.s.**
(Profit) loss for the year attributable to non-controlling interests	(357)	379	-736	n.s.
Parent company's profit (loss) for the year	**8,371**	**1,636**	**6,736**	**n.s.**

(1) coincides with item 10. Interest Income and item 20. Interest Expense (Circ. 262 Bank of Italy) net of the economic effects deriving from the redemption of inflation-linked securities included in "Net result from financial activities and dividends" for an amount of € 3.6 million.
(2) includes Items 70. Dividends and similar income, 80. Net profit (loss) from trading including the economic effects deriving from the redemption of inflation-linked securities recorded under item 10. Interest Income for an amount of € 3.6 million, 90. Net profit (loss) from hedging, 100. Income (loss) from on disposal/repurchase and 110. Net profit (loss) from other financial assets and liabilities measured at fair value through profit and loss of the mandatory annual financial statements (Circ. 262 Bank of Italy).
(3) coincides with Item 230. Other operating income/expenses (Circ. 262 Bank of Italy) included among the operating expenses of the mandatory annual financial statements (Circ. 262 Bank of Italy) net of the recovery of stamp duty payable by customers.
(4) other administrative expenses are shown net of the recovery of stamp duty payable by customers.
(5) coincides with Item 200. Net provisions for risks and charges included among the Operating expenses of the mandatory annual financial statements (Circ. 262 Bank of Italy).
(6) includes Item 130 b) Net value adjustments/reversals on financial assets measured at fair value through other comprehensive income: breakdown and Item 250. Gains (losses) on equity investments in the mandatory annual financial statements (Circ. 262 Bank of Italy).

Annex pursuant to Art. 149-duodecies of Consob Regulation 11971/99

Disclosure on auditing fees and other non-audit services
Annex pursuant to Art. 149-duodecies of CONSOB regulation 11971/99

Banca Profilo Consolidated Financial Statements 2019

Type of service (in €/thousand)	Party providing the service	Recipient	Fees without VAT (**)
Auditing services	Deloitte & Touche S.p.A.	Banca Profilo S.p.A.	105
Auditing services	Deloitte & Touche S.p.A.	Subsidiaries	26
Release of attestations	Deloitte & Touche S.p.A.	Banca Profilo S.p.A.	2
Release of attestations	Deloitte & Touche S.p.A.	Subsidiaries	2
Other services (*)	Deloitte & Touche S.p.A.	Banca Profilo S.p.A.	14
Other services (*)	Deloitte & Touche S.p.A.	Subsidiaries	7
Other services (*)	Deloitte Consulting S.r.l.	Banca Profilo S.p.A.	53
Total			**209**

(*) Methodological support in relation to the "IFRS 16 - Leases" and "EMIR Regulation - OTC Derivatives" projects
(**) the fees shown, pertaining to the 2019 financial year, are those contracted, including any indexing but not out-of-pocket expenses and value added taxes.

Certification of the Consolidated Financial Statements

CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ART. 81-TER OF CONSOB REGULATION NO. 11971/99 AND SUBSEQUENT AMENDMENTS AND ADDITIONS

1. The signatories Fabio Candeli, as Chief Executive Officer and Giuseppe Penna, as Manager Responsible for Preparing the Company's Financial Reports of Banca Profilo S.p.A., hereby certify, also in consideration of the provisions of art. 154-*bis*, paragraphs 3 and 4, of Italian Legislative Decree no. 58 dated 24 February 1998:

- the adequacy in relation to the characteristics of the company and
- the effective application of the administrative and accounting procedures for the formation of the consolidated financial statements in 2019.

2. The assessment of the adequacy of the administrative and accounting procedures for the formation of the consolidated financial statements were based on an internal model set in place by Banca Profilo S.p.A. coherent with the *Internal Control – Integrated Framework* issued by the *Committee of Sponsoring Organizations of the Tradeway Commission (CoSo)*, which represents the standard for the internal audit system generally accepted at international level.

3. We also hereby certify that:

3.1 the consolidated financial statements as at 31 December 2019;

a) were drawn up in compliance with the applicable international accounting standards recognised in European Community as per EC Regulation no. 1606/2002 of the European Parliament and Council, dated 19 July 2002;

b) comply with the results of the accounting records and journal entries;

c) are suitable for providing a true and fair view of the balance sheet, income statement and financial situation of the issuer and of all the companies included within the scope of consolidation.

3.2 The report on operations includes a reliable analysis of operating performance and results, as well as the situation of the issuer, and of all of the companies included within the scope of consolidation, together with a description of the main risks and uncertainties to which the same are exposed.

Milan, 12 March 2020

Signed by	Signed by
Chief Executive Officer	***Manager Responsible for Preparing the Company's Financial Reports***
Fabio Candeli	Giuseppe Penna

Report of the Board of Statutory auditors

REPORT OF THE BOARD OF STATUTORY AUDITORS
pursuant to Art. 153, Italian Legislative Decree 58/1998

Dear Shareholders,

This report, prepared pursuant to Art. 153 of Italian Legislative Decree 58/1998 ("TUF"), refers to activities carried out by the Board of Statutory Auditors (the "Board") of Banca Profilo S.p.A. ("Profilo" or the "Bank") in the year ending 31 December 2019, in compliance with reference regulations and also taking into account the code of conduct of the Board of Statutory Auditors recommended by the Italian accounting profession.

The Board met 16 times during the year. Through one of its own representatives or, frequently, in joint meetings, the Statutory Auditors attended 12 meetings of the Board of Directors, 5 meetings of the Appointments Committee, 6 meetings of the Remuneration Committee and 14 meetings of the Control and Risk Committee.

1. Supervision of compliance with the law and the Articles of Association

Also through consistent attendance of Board of Directors meetings, the Board periodically obtained reports from the Directors on activities carried out and on transactions of greater importance in economic, financial and capital terms resolved and implemented during the year, carried out by the Bank and Group companies, also pursuant to Art. 150, paragraph 1 of the TUF.

Based on the information obtained, the Board can reasonably guarantee that such transactions comply with law and with the Articles of Association, and are not manifestly imprudent, risky, in conflict with Shareholders' Meeting resolutions or such as to compromise the integrity of company assets. In addition, the transactions in potential conflict of interest were decided in compliance with law, regulatory instructions and the Articles of Association, after assessment by the Control and Risk Committee where appropriate.

Among the significant events of the year, the Board deems it appropriate to mention the following in consideration of their significance in terms of assessment of the Bank’s solidity:

- the review, compared to the previous year, of the Overall Capital Ratio (OCR) of the Banca Profilo Banking Group, in relation to the increase in the Capital Conservation Buffer (CCB) as indicated below:
  - CET1 Ratio: 7.950%
  - Tier 1 Ratio: 9.770%;
  - Total Capital Ratio: 12.190.

The capital values of the sub-consolidated Banca Profilo are significantly higher than Supervisory Authority requirements.

2. Supervision of compliance with the principles of sound administration and the adequacy of the organisational structure

The Board gained knowledge of and constantly supervised the adequacy of the organisational structure, compliance with the principles of sound administration, adequacy of the regulations imposed by the Company on its subsidiaries pursuant to Art. 114, paragraph 2 of the TUF, by acquiring information from managers of the competent departments and meetings with the Independent Auditors in the framework of mutual exchange of relevant data and information.

In this respect, based on direct discussion with the Organisation Department and other corporate departments during periodic meetings and on evidence emerging from audits conducted by the Control Departments, the Board found the organisation and regulatory structure of the Bank to be substantially adequate.

During the year, the organisational action associated with adaptation of the internal organisation to MIFID II regulations were close to completion. In particular, the procedures for providing customers with ex post reports on investment service costs were completed on time.

A major application is currently being implemented in the finance area, suited to the Bank’s operations.

No critical issues were reported by the Boards of Statutory Auditors and other control bodies of the subsidiaries.

Furthermore, the Board found no evidence of atypical and/or unusual transactions with Group companies, third parties or related parties.

Lastly, the Board audited the processes that led to definition of the Company's remuneration policies, with particular reference to the remuneration criteria for the Chief Executive Officer, managers of the business and control departments and the Financial Reporting Officer.

3. Supervision of the internal control and risk management system

The Board supervised the adequacy of the internal control and risk management systems by maintaining continuous dialogue with the second and third level control departments, promoting and ascertaining their coordination in reference to activity planning and, especially, to the reporting process to the corporate bodies on issues emerging from the controls carried out.

In relation to the line controls (or first level controls), the Board monitored their adequacy by examining the audits conducted by the second and third level corporate control departments.

To summarise, the activities of the Board were carried out through:

- meetings with the Bank's Chief Executive Officer to examine the internal control and risk management system;
- continuous meetings with managers of the Audit, Compliance and Anti-Money Laundering and Risk Management departments to assess the work planning, based on identification and assessment of the main risks present in the processes and organisational units, and its actual implementation during the year;
- examination of all Internal Audit, Compliance and Anti-Money Laundering and Risk Management reports.
- examination of the round tables held by the Control Departments and information on the results of monitoring of implementation of the remedial actions identified;
- examination of the annual reports and action plans of the corporate control departments;
- periodic acquisition of reports from the business department managers;
- discussion of the results of work of the Independent Auditors;
- consistent attendance at Control and Risk Committee meetings;
- attendance at Appointments Committee and Remuneration

Committee meetings.

In carrying out its activities, the Board maintained continuous dialogue with all the control departments.

In particular, the Internal Audit Department operates on the basis of three-year and annual plans. Over the three-year period, the audit is guaranteed of all processes identified in the risk assessment used to define the action priorities. The annual plan defines which activities and processes will be audited in line with the three-year plan and on a risk-based approach. The plans are approved annually by the Board of Directors, after consulting the Director assigned pursuant to the Corporate Governance Code and the Control and Risk Committee.

In 2019, the Internal Audit activities fully covered the scope of audits that the department planned to carry out. No significant critical issues emerged from the activities conducted, though a need was frequently found for the competent internal structures to implement improvement actions to mitigate the risks intrinsic to certain processes and operating practices. In this respect, the Board verified that the department's findings were quickly acted upon or, if complex action was necessary, suitable initiatives were rapidly activated.

In any event, the reliability of the Internal Control System as a whole was not compromised, and is therefore confirmed adequate.

The Compliance and Anti-Money Laundering Department directly monitors the regulatory areas concerning market integrity, investor protection and business transparency (e.g., MIFID II, market abuse, banking transparency, new product placement, private banker activities and anti-money laundering) and, based on a "graduated" model, the regulatory areas monitored by other specialist units.

As part of the activities carried out by the Anti-Money Laundering Department, the Board monitored the internal structures' constant compliance with regulations on combating money laundering and terrorist financing. With regard to ex post controls carried out on compliance with anti-money laundering procedures, there are no critical issues to report, although a number of improvement areas were identified, particularly in relation to adequate customer due diligence processes.

Organisational and procedural changes were made during the year as required by developments in external regulations on the setup of a common group database on anti-money laundering.

The Risk Management Department ensures the management and continuous monitoring of risks to which the Bank is exposed, especially in reference to credit, financial, market and operational risks. No critical aspects emerged from the audits performed that are worthy of report.

As ICAAP contact, the Risk Manager coordinates the process of preparing the ICAAP and ILAAP reports.

The recovery plan was approved during the year and the RAF was updated in accordance with the plan. The ICAAP results confirm that the Group's capital complies with the prudential requirements as it is well above the established minimum thresholds and RAF limits, both in baseline and adverse macroeconomic scenarios. The fact that the Bank operates with a capitalisation level higher than the established minimum thresholds constitutes a prudential element designed to include a buffer against risks identified as unmeasurable.

In reference to liquidity risk, the liquidity position and composition of funding sources appear to be consistent with the strategic objectives decided by the Board of Directors of the Parent Company for 2019.

The Board confirms that the annual reports of the Control Departments conclude with an overall opinion in favour of the internal control structure. This opinion was agreed by the Board of Directors which, in this respect, was also based on a specific investigation conducted by the Control and Risk Committee.

With regard to business continuity and IT risk, the Board examined the "Summary report on the IT risk position" prepared in accordance with Bank of Italy Circular no. 285/2013. In terms of business continuity, the tests planned during the year also for CSE - the outsourcer used for IT services - were carried out with a positive outcome. As regards IT risk, the annual audit did not bring to light any material issues.

Following assignment to the Board of Supervisory Board duties relating to corporate administrative liability, referred to in Art. 6, paragraph 4-*bis*, Italian Legislative Decree 231/2001, the Board examined and obtained information on the organisational and procedural control of business activities implemented in accordance with the aforementioned

Decree. The Supervisory Board, which met 10 times, reported on activities carried out during the year ending 31 December 2019 without finding critical issues worthy of mention, confirming an overall satisfactory situation essentially in line with that envisaged in the Organisation, Management and Control Model, the latest version of which was approved by the Board of Directors on 12 December 2019.

Based on the activities undertaken, the information obtained and contents of the reports of the Control Departments, the Board considers there are no critical issues such as to invalidate the structure of the internal control and risk management system.

4. Supervision of the administrative accounting system and the financial reporting process

In its capacity as Internal Control and Audit Committee, also as a result of changes to the law introduced by Italian Legislative Decree 135/2016, the Board monitored the process and controlled the effectiveness of the internal control and risk management systems as regards financial reporting.

Financial reporting is managed by the Financial Reporting Officer, adopting models that refer to the best market practices and provide reasonable certainty of the reliability of financial reports, the effectiveness and efficiency of operating activities and compliance with laws and internal regulations. The processes and controls are periodically reviewed and updated if necessary.

Control of the correct operation of the model governing compliance with Italian Law 262/2005 is guaranteed by a series of checks carried out by the Internal Audit and Administration departments of the Bank.

The Board met periodically with the Financial Reporting Officer to exchange information regarding the administrative and accounting system and its reliability for the purpose of correct representation of operating events. The Board also examined the statements of the Chief Executive Officer and the Financial Reporting Officer in compliance with the provisions of Art. 154-*bis* of the TUF, and met with the Internal Audit Department to verify the results of audits conducted in this respect.

In the light of activities carried out, the Board of Statutory Auditors found no shortcomings that could invalidate the opinion of adequacy and effective application of the administrative and accounting procedures.

During the year, the Independent Auditors reported no critical issues to the Board that could invalidate the adequacy of the internal control system with regard to administrative and accounting procedures.

The Board ascertained that the information flows provided by the non-EU subsidiary, Banque Profil de Gestion, are suitable for conducting annual account audits and interim limited reviews as envisaged by Art. 15 of the Consob Market Regulations.

5. Supervision of related party transactions

The Board supervised the compliance of the Related Parties Procedure with current regulations and its correct application. The Board attended meetings of the Control and Risk Committee, appointed in compliance with current regulations on such matters and as envisaged in related internal regulations to assess the Bank’s interest in executing related party transactions of lesser and greater importance, as well as the convenience and essential fairness of the related conditions.

The Board periodically received information relating to transactions executed. It also received a report summarising the related party transactions carried out in 2019 that were exempt from application of the procedures.

The Board found no intercompany transactions or related party transactions in conflict with the interests of the Company and/or not at arm’s length.

The Board verified that, in the Directors' Report on Operations and the Notes to the financial statements, the Board of Directors had provided adequate disclosure of the related party transactions, taking into account the provisions of current regulations.

Also taking into consideration the results of activities of the various departments affected by the Related Parties Procedure, the Board considers that the related party transactions are adequately monitored.

6. Methods for actual implementation of the corporate governance rules

The Board assessed the method used to implement the Corporate Governance Code promoted by Borsa Italiana and adopted by Banca Profilo in the terms illustrated in the "Report on Corporate Governance and Ownership Structure".

In compliance with provisions of the Corporate Governance Code, the Board audited the correct application of criteria and verification procedures adopted by the Board of Directors to assess the independence of its members in accordance with the criteria envisaged in law and in the aforementioned Corporate Governance Code.

The Board also self-assessed the independence of its own members. The outcome confirmed that the requirements of law and the Corporate Governance Code were met. Furthermore, no Statutory Auditor had an interest, personal or on behalf of third parties, in any Company transaction in 2019.

During 2019, the Board carried out the self-assessment process to gather opinions of members of the control body in relation to the Board's operations and regarding its composition.

The results, assessments carried out and conclusions reached were discussed at board level, minuted and reported to the Board of Directors.

The Board members have complied with the cumulative office requirements of Art. 144-*terdecies* of the Consob Issuers' Regulation.

7. Supervision of auditing activities

In accordance with the provisions of Art. 19 of Italian Legislative Decree 39/2010, the Board carried out the prescribed supervision of operations of the appointed Independent Auditors.

The Board met periodically with the Independent Auditors, Deloitte & Touche S.p.A., for the required exchanges of information. At these meetings, the Independent Auditors never indicated any events considered censurable or irregularities that would call for a report pursuant to Art. 155, paragraph 2 of the TUF.

On **1 April 2020**, the Independent Auditors released its Audit Reports, pursuant to Art. 14 of Italian Legislative Decree 39/2010 and Art. 10 of Regulation (EU) 537/2014, on the separate and consolidated financial statements as at 31 December 2019.

With regard to opinions and certifications, in their audit report and opinion on the financial statements the Independent Auditors:

- issued an opinion confirming that the separate and consolidated financial statements of Banca Profilo give a truthful and fair view of the Bank's financial position as at 31 December 2019, of the economic result and cash flows for the year ending on that date, in compliance with International Financial Reporting Standards adopted by the European Union and with measures issued in implementation of Art. 9, Italian Legislative Decree 38/05 and Art. 43, Italian Legislative Decree 136/15;
- issued a consistency opinion confirming that the Directors' Report on Operations accompanying the separate and financial statements as at 31 December 2019 and certain specific disclosures in the "Report on Corporate Governance and Ownership Structure" as indicated in Art. 123-*bis*, paragraph 4 of the TUF, the responsibility for which lies with the Bank's directors, were prepared in compliance with law;
- declared that, based on their knowledge and understanding of the business and its related context acquired during the audit activities, there were no significant errors in the Directors' Report on Operations to report.

With regard to financial statements formation, the Board:

- confirms that at the meeting of 12 March 2020 the Board of Directors declared compliance of the impairment procedure with the provisions of IAS 36;
- the financial statements provided information on the main factors of uncertainty that could affect future scenarios in which the Group might be required to operate as a result of potential economic effects of the COVID-19 epidemic, also disclosing that the nature and extent of the potential

impact cannot be estimated at present. It was reported that the significant events and related consequences occurred after the reporting date and were attributable to types of events which, in accordance with IAS 10, do not require the adjustment of financial statement values. Lastly, it was pointed out that it is believed that the information and sensitivity analyses provided with reference to the main items of the financial statements subject to estimate are capable of reflecting the impacts related to the elements of uncertainty assumed at the date of preparation of the Financial Report.

On 1 April 2020, the Independent Auditors also submitted the additional Report envisaged in Art. 11 of Regulation (EU) 537/2014 to the Board, in its capacity as "Internal Control and Audit Committee". The Report found no significant shortcomings in the internal control system in relation to the financial reporting process that would need to be brought to the attention of the department managers responsible for governance activities. The Board will arrange for the Company's Board of Directors to be informed of the contents of the additional report, accompanied by any remarks, pursuant to Art. 19 of Italian Legislative Decree 39/2010. With regard to the previous year, the Board of Statutory Auditors informed the Board of Directors at the meeting held on 30 April 2019.

The Independent Auditors also submitted a declaration to the Board regarding its independence, as required by Art. 6 of Regulation (EU) 537/2014, from which no situations emerge that could compromise independence. Lastly, the Board confirmed the Transparency Report prepared by the Independent Auditors and published on its website pursuant to Art. 18 of Italian Legislative Decree 39/2010.

During 2019, the Independent Auditors was awarded the following assignments, in addition to audit activities, either directly or through other companies in its partner network:

- methodological support to the Parent Company Arepo BP S.p.A. in the examination phase regarding application of the new standard IFRS 16 - Leases to the consolidated financial statements of Arepo BP.
- methodological support to Banca Profilo in the examination phase of the project relating to the EMIR Regulation with reference to OTC derivatives.

Taking into account the absence of other assignments awarded by Banca Profilo and its investees to the Independent Auditors and to its network partners, the Board believes there are no critical issues relating to the independence of Deloitte.

8. Omissions or censurable events, opinions issued and initiatives undertaken

The Board is not aware of any events, reports pursuant to Art. 2408 of the Italian Civil Code or depositions to be brought to the attention of the Shareholders' Meeting.

The Board issues the opinions required by current regulations.

During the activities undertaken and on the basis of information obtained, no omissions, censurable events, irregularities or in any event significant circumstances that would need to be reported to the Supervisory Authority or mentioned in this Report.

9. Conclusions

At the ordinary Shareholders' Meeting of 23 and 24 April 2020, on first and second call respectively, note that the agenda covered the following, as well as approval of the financial statements as at 31 December 2019 and the allocation of profit:

- the Remuneration Report, including the proposed review of the remuneration and incentive policy for personnel and the disclosure regarding its implementation in 2019;
- the proposal for authorisation of the purchase and sale of treasury shares; related and contingent resolutions, in relation to the potential purchase of treasury shares for a maximum value of € 2 million.

Taking into consideration the specific duties of the Independent Auditors in relation to accounting audit and verification of the reliability of the financial statements, the Board has no observations to put to the Shareholders' Meeting, pursuant to Art. 153 of the TUF, in relation to approval of the financial statements as at 31 December 2019 accompanied by the Directors' Report on Operations as submitted by the Board of Directors and to the allocation of profit for the year according to the timing and methods again as proposed by the Company's Board of Directors.

Milan, 1 April 2020

Board of Statutory Auditors

Chairman

Nicola Stabile (signed)

Standing Auditors

Andrea Amaduzzi (signed)

Sonia Ferrero (signed)

Independent auditors' report

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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
Banca Profilo S.p.A.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Banca Profilo S.p.A. and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31st December 2019, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31st December 2019, and of its consolidated financial performance and its consolidated 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. 9 of Italian Legislative Decree no. 38/05 and 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 Consolidated Financial Statements* section of our report. We are independent of Banca Profilo S.p.A. (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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment test of goodwill related to the subsidiary Banque Profil de Gestion SA	
Description of the key audit matter	The Group has recorded the goodwill under intangible assets in the consolidated financial statements as at 31st December 2019, related to the subsidiary Banque Profil de Gestion SA and amounting to Euro 4,460 thousand. The goodwill results from the controlling interest in Banque Profil de Gestion SA, a sub-holding incorporated under Swiss law, acquired in 2007, for Euro 1,365 thousand and for the remaining Euro 3,095 thousand from the acquisition during 2018 of Dynagest SA by Banque Profil de Gestion SA, which was subsequently merged by acquisition. In contrast to the consolidated financial statements as at 31st December 2018, where two separate Cash Generating Units (CGUs) were identified, in 2019 the Bank considered the sub-holding as a single Cash Generating Unit (CGU) in view of the redesign of its organisational structure and business strategies. According to IAS 36 "Impairment of assets", goodwill is not amortized but subjected to an impairment test at least once a year, by comparing the carrying amounts of the CGU with the recoverable amounts. For impairment testing purposes, considering the aforementioned change to the CGU configuration, Banca Profilo has adopted a complex valuation process for the determination of the recoverable amount both consistently with the previous CGU identification and as a single CGU after reorganization. This valuation process was carried out using different methodologies and was based on assumptions regarding: • the forecast of expected cash flows of the CGU based on the financial plans, approved by the Board of Directors of the subsidiary, and the determination of a cost of capital to be applied for the purpose of discounting the expected future cash flows, as well as a long-term growth rate; • the definition of the market multiples of comparable banks to be applied to the tangible book value and to the Assets Under Management (AUM). The impairment test carried out by the Bank confirmed the recoverability of the goodwill recorded in the consolidated financial statements. The Notes to the consolidated financial statements - Part A – Accounting policies - Part B – Information on the Consolidated Balance Sheet, Section 10 of the Assets – Intangible assets, provide the disclosures on the above-mentioned aspects.

	Considering the relevance of the amount of the goodwill recorded in the financial statements, the reorganizational process of the CGUs, the subjectivity of the estimates related to the determination of the cash flows of the CGUs and the definition of the multiples and the key variables of the impairment model, we considered that the impairment test of goodwill related to Banque Profil de Gestion SA was a key audit matter of the Group's consolidated financial statements.
Audit procedures performed	The main procedures carried out as part of our audit work, which also included the review of the audit documentation of the auditor of the sub-holding Banque Profil de Gestion SA, have included the following: • analysis of the considerations related to the reorganization of the CGUs carried out during the year and consistency check between CGU and the monitoring system; • identification and understanding of key controls implemented 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 to estimate cash flows and the definition of market multiples, also by obtaining information from the Bank, and the key variables used in the valuation model; • verification of the accuracy and completeness of data, parameters and criteria included in the valuation models; • verification of the mathematical accuracy of the model used to determine the recoverable amount of the CGUs; • review of the sensitivity analysis prepared by the Bank; • analysis of subsequent event, i.e. events occurred after the date of the financial statements; • verification of the completeness and compliance of the disclosures provided in the consolidated financial statements with respect to the requirements of the IAS 36 "Impairment of assets".

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The Directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05 and 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group'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 the termination of the business or have no realistic alternatives to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 consolidated 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 consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

We communicate with those charged with governance, identified at 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 consolidated 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 Banca Profilo S.p.A. appointed us on 27th April 2017 as auditors of the Bank for the years from 31st December 2017 to 31st December 2025.

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 and art. 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of Banca Profilo S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and the ownership structure of Banca Profilo Group as at 31st December 2019, including their consistency with the related consolidated financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and the ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98, with the consolidated financial statements of Banca Profilo Group as at 31st December 2019 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and some specific information contained in the report on corporate governance and the ownership structure are consistent with the consolidated financial statements of Banca Profilo Group as at 31st December 2019 and are prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the entity and of the related context acquired during the audit, we have nothing to report.

DELOITTE & TOUCHE S.p.A.

Signed by
Antonio Zecca
Partner

Milan, Italy
April 1st, 2020

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

Pro

This refers to openness and availability,

certainty and simplicity in responding

transparency

to the complex problems we

deal with. Only those who are independent can

provide maximum transparency.

Separate Financial Statements

Separate Report on Operations

Operating performance summary

Banca Profilo closed 2019 with a **net profit for the year** of € 6.7 million, up by € 4.4 million (+197.0%) compared to € 2.3 million as at 31 December 2018.

From an income point of view, Banca Profilo closed with net revenues of € 56.8 million, up by € 12.1 million (+27.1%) compared to € 44.7 million as at 31 December 2018.

Net interest income, amounting to € 14.2 million as at 31 December 2019, was down by € 1.6 million compared to € 15.8 million as at 31 December 2018 (-10.1%). This reduction is mainly attributable to the lower contribution of government securities to the trading and HTCS portfolios, only partially offset by the increase in the HTC portfolio and the positive effect of hedging activities.

Net Fee and Commission Income as at 31 December 2019 amounted to € 24.1 million, an increase of € 2.3 million compared to € 21.8 million as at 31 December 2018 (+10.8%). This increase is mainly due to the contribution of performance fees on managed Private Banking mandates and placement, advanced advisory and investment banking commissions.

Net result from financial activities and dividends amounted to € 17.8 million, an increase of € 11.5 million (+182.3%) compared to € 6.3 million as at 31 December 2018. The increase can be attributed to the effect of the **higher returns** recorded on the Bank's trading book, thanks to the strategies implemented, which positively exploited the more **favourable financial market scenario** compared to last year.

The balance of **other operating income and expenses**, amounting to € 0.7 million, was down by € 0.1 million compared to € 0.8 million as at 31 December 2018.

Operating expenses amounted to € 46.0 million, an increase of € 4.4 million compared with the figure as at 31 December 2018 (+10.7%). **Personnel expenses**, amounting to € 26.1 million, increased by € 3.8 million (+17.0%) compared to € 22.3 million as at 31 December 2018. The increase is mainly due to higher provisions relating to the variable pay component, following the results recorded during the year.
Other administrative expenses, amounting to € 16.1 million, were down by € 1.8 million (-10.2%) compared with € 17.9 million as at 31 December 2018. The decrease is due to the imperfect comparison deriving from the introduction of the new IFRS 16 standard, which resulted in **lower charges** deriving from the rental and lease of property, plant and equipment for an amount of € 2.4 million with a consequent increase of € 2.5 million in the item "value adjustments on property, plant and equipment" following the depreciation process of the "right of use" recorded in Assets under "Property, plant and equipment", as well as higher interest expenses relating to the related financial liability of € 0.2 million.
Net of this impact, **other administrative expenses** increased by € 0.6 million (+3.5%) compared with € 17.9 million as at 31 December 2018, mainly due to higher advertising expenses and higher fees for the use of the technology platform.

Value adjustments on property, plant and equipment and intangible assets amounted to € 3.9 million, net of the above-mentioned effect of the new IFRS 16 standard, and were in line with those of the previous year of € 1.4 million.

Operating income came to € 10.8 million, an increase of € 7.7 million (+248.3%) compared to € 3.1 million as at 31 December 2018.

Net provisions for risks and charges were negative by € 539 thousand and referred to higher provisions made by Banca Profilo following disputes in the last quarter of the year, together with the net effect of the impairment of guarantees and commitments. The value as at 31 December 2018 amounted to a positive € 113 thousand.

Net value adjustments/reversals for credit risk relating to financial assets measured at amortised cost amounted to € 205 thousand of net reversals. The result is due to the combined effect of the provisions and reversals recorded during the year as a result of the impairment test on loans and positions in the HTC securities portfolio. The figure as at 31 December 2018 amounted to € 405 thousand in costs.
Net value adjustments/reversals on financial assets measured at fair value through other comprehensive income amounted to € 30 thousand of net reversals and referred to the combined effect of provisions and reversals recorded during the year at the end of the process of determining impairment on positions in the HTC&S portfolio. The figure as at 31 December 2018 was € 315 thousand in costs.

The Bank's balance sheet as at 31 December 2019 showed **Total assets** of € 1,886.5 million compared with € 2,043.7 million as at 31 December 2018 (-7.7%). **Shareholders' equity** amounted to € 152.6 million compared with € 141.5 million at the end of 2018 (+7.8%).

Commentary on the Balance Sheet Data

The following tables provide figures with comments on the main balance sheet items as at 31 December 2019 of Banca Profilo, compared with the figures for the year ended 31 December 2018. The figures in the following tables are expressed in thousands of euro.

Main balance sheet figures

(€/thousand)	31/12/2019	31/12/2018	Changes	
			Absolute	%
Financial assets measured at fair value through profit and loss	531,946	504,411	27,535	5.5
Financial assets measured at fair value through other comprehensive income	264,311	399,708	-135,397	-33.9
Financial assets measured at amortised cost - Loans and advances to banks	178,789	321,580	-142,791	-44.4
Financial assets measured at amortised cost - Loans and advances to customers	807,528	728,929	78,599	10.8
Hedging derivatives	1,271	2,985	-1,714	-57.4
Total Assets	**1,886,543**	**2,043,706**	**-157,163**	**-7.7**
Financial liabilities measured at amortised cost - Deposits from banks	447,927	482,800	-34,873	-7.2
Financial liabilities measured at amortised cost - Deposits from customers	1,093,984	1,208,152	-114,168	-9.4
Financial liabilities held for trading	128,915	160,827	-31,912	-19.8
Hedging derivatives	38,926	29,259	9,667	33.0
Shareholders' equity	**152,594**	**141,502**	**11,092**	**7.8**

Assets

Total assets amounted to € 1,886.5 million, down by € 157.2 million compared to 31 December 2018 (-7.7%).

Financial assets decreased during the year by € 173.8 million (-8.9%).

Description (€/thousand)	31/12/2019	31/12/2018	Changes Absolute	Changes %
Financial assets measured at fair value through profit and loss	**531,946**	**504,412**	**27,534**	**5.5**
Financial assets held for trading	531,903	504,369	27,534	5.5
Financial assets designed at fair value	-	-	-	-
Other financial assets mandatorily measured at fair value	43	43	-	n.s.
Financial assets measured at fair value through other comprehensive income	**264,311**	**399,708**	**-135,397**	**-33.9**
Financial assets measured at amortised cost	**986,317**	**1,050,509**	**-64,192**	**-6.1**
Loans and advances to banks	178,789	321,580	-142,791	-44.4
Loans and advances to customers	807,528	728,929	78,599	10.8
Hedging derivatives	**1,271**	**2,985**	**-1,714**	**-57.4**
Total	**1,783,844**	**1,957,614**	**-173,770**	**-8.9**

Financial assets measured at fair value through profit and loss include: a) debt and equity securities held for short-term trading; b) derivative financial instruments held for trading purposes. Their amount as at 31 December 2019 was € 531.9 million. Compared to 31 December 2018, this item increased by € 27.5 million (+5.5%).

Financial assets measured at fair value through other comprehensive income decreased by € 135.4 million in the year (-33.9%), from € 399.7 million as at 31 December 2018 to € 264.3 million as at 31 December 2019.

The portfolio of **financial assets measured at amortised cost** as at 31 December 2019 amounted to € 986.3 million and included both loans and advances to banks and loans and advances to customers.

The sub-item **loans and advances to banks** showed a decrease of € 142.8 million (-44.4%). Below is a summary by type.

Loans and advances to banks

(€/thousand)	31/12/2019	31/12/2018	Changes Absolute	Changes %
Current accounts	53,067	201,089	-148,022	-73.6
Time Deposits	7,205	6,409	796	12.4
Reverse repurchase agreements	54,066	55,466	-1,400	-2.5
Other loans	45,536	49,364	-3,828	-7.8
HTC securities	18,915	9,251	9,664	104.5
Loans and advances to banks	**178,789**	**321,580**	**-142,791**	**-44.4**

Within the aggregate, the decrease is due to the decrease in the balance of **current accounts** from € 201.1 million as at 31 December 2018 to € 53.1 million as at 31 December 2019 (-73.6%). The balance of **HTC securities** rose by € 9.7 million from € 9.3 million as at 31 December 2018 to € 18.9 million as at 31 December 2019 (+104.5%).

Loans and advances to customers amounted to € 807.5 million as at 31 December 2019, up by € 78.6 million (+10.8%) compared with 31 December 2018.

Loans and advances to customers

(€/thousand)	31/12/2019	31/12/2018	Changes	
			Absolute	%
Current accounts	248,218	244,867	3,351	1.4
Mortgages	35,569	34,332	1,237	3.6
Other receivables and loans	1,997	700	1,297	n.s.
Interest-bearing loans and advances to customers	**285,784**	**279,899**	**5,885**	**2.1**
Non-performing assets	922	1,059	-137	-12.9
Total loans and advances to customers	**286,706**	**280,958**	**5,748**	**2.0**
HTC securities	304,063	151,371	152,692	100.9
Deposits to guarantee transactions in derivatives, repurchase agreements, other transactions	216,758	296,601	-79,843	-26.9
Other loans and advances to customers	**520,822**	**447,972**	**72,850**	**16.3**
Loans and advances to customers	**807,528**	**728,929**	**78,599**	**10.8**

Interest-bearing loans and advances to customers increased by € 5.9 million (+2.1%). The balance of current accounts rose by € 3.4 million (+1.4%) from € 244.9 million as at 31 December 2018 to € 248.2 million as at 31 December 2019; the amount of mortgages, equal to € 35.6 million, increased by € 1.2 million compared to € 34.3 million as at 31 December 2018 and "other receivables and loans" increased by € 1.3 million from € 0.7 million as at 31 December 2018 to € 2.0 million as at 31 December 2019. Net non-performing assets decreased from € 1.1 million as at 31 December 2018 to € 0.9 million as at 31 December 2019.

The **Equity investments** aggregate as at 31 December 2019 includes subsidiaries recorded at acquisition cost net of any impairment losses. The figures relating to the investee companies are listed below.

Equity investments

Company name (€/thousand)	Registered office	Total assets	Shareholders' equity (1)	Profit (loss) for the year	Type of relationship (2)	Shareholding relationship	
						Investing company	%
A. Companies consolidated line-by-line							
1. Profilo Real Estate S.r.l.	Milan	49,403,856	28,507,803	917,017	1	Banca Profilo S.p.A.	100.0
2. Banque Profil de Géstion S.A.	Geneva	252,906,714	52,989,560	905,814	1	Banca Profilo S.p.A.	60.4
3. Arepo Fiduciaria S.r.l.	Milan	4,264,776	2,153,914	201,970	1	Banca Profilo S.p.A.	100.0

Key
(1) Including the result for the year.
(2) Type of relationship
1 = majority of voting rights at ordinary shareholders' meetings

The aggregate **tax assets** as at 31 December 2019 amounted to € 7.0 million, a decrease of 42.8% compared to 31 December 2018, and consist mainly of deferred tax assets of € 5.7 million and are represented by deferred tax assets on previous tax losses totalling € 2 million, as well as other deductible temporary differences, such as the tax effects on the valuation of securities measured at fair value through other comprehensive income. The probability of recovery of deferred tax assets on tax losses has been assessed on the basis of the profit outlook, while for the portion of deferred tax assets arising from the valuation of the securities portfolio measured at fair value through other comprehensive income, it is considered reasonable to recover them by maintaining ownership of the securities. The decrease of € 5.3 million is mainly due to temporary differences arising from the valuation of HTCS securities recognised in shareholders' equity and the use of € 2.4 million in deferred tax assets on previous tax losses on profits recorded in 2019.

Liabilities

Deposits from banks stood at € 447.9 million as at 31 December 2019, down by € 34.9 million from € 482.8 million as at 31 December 2018. The change is mainly due to the combined effect of a reduction in repurchase agreements for € 50.5 million, reciprocal current accounts for € 12.4 million and deposits to guarantee derivative transactions for € 21.8 million offset by the increase in a loan with the ECB for € 50.0 million.

Deposits from customers as at 31 December 2019 amounted to € 1,094.0 million, down by € 114.2 million (-9.4%) compared with € 1,208.2 million as at 31 December 2018.

Customer funding

(€/thousand)	31/12/2019	31/12/2018	Changes	
			Absolute	%
Current accounts	680,395	776,859	-96,464	-12.4
Time deposits	-	-	-	n.s.
Repurchase agreements and other loans	394,914	428,401	-33,487	-7.8
Lease liabilities	13,765	-	13,765	n.s.
Other payables	4,911	2,891	2,020	n.s.
Deposits from customers	**1,093,984**	**1,208,152**	**-114,166**	**-9.4**
Customer funding	**1,093,984**	**1,208,152**	**-114,166**	**-9.4**

The decrease is mainly attributable to the net effect of the decrease in the balance of current accounts, which fell from € 776.9 million as at 31 December 2018 to € 680.4 million (-12.4%) as at 31 December 2019 and repurchase agreements, which fell from € 428.4 million as at 31 December 2018 to € 394.9 million as at 31 December 2019 (-7.8%), as well as the increase in lease liabilities, not present as at 31 December 2018 and equal to € 13.8 million as at 31 December 2019, related to the right of use recognised under Property, plant and equipment following the entry into force of the new accounting standard IFRS 16. The balance of other payables, amounting to € 4.9 million, increased by € 4.0 million.

Financial liabilities held for trading decreased by € 31.9 million to € 128.9 million as at 31 December 2019 from € 160.8 million as at 31 December 2018 (-19.8%).

Hedging derivatives had a negative valuation of € 38.9 million as at 31 December 2019, down by € 9.6 million from the € 29.3 million as at 31 December 2018, and are used to hedge the interest rate risk on securities in the portfolio of financial assets at fair value through other comprehensive income and in the Held to Collect portfolio.

Other liabilities as at 31 December 2019 amounted to € 20.5 million, up by € 1.7 million (+9.4%) compared to € 18.8 million as at 31 December 2018. The item includes other entries to be settled with banks and customers that settled after 31 December 2019.

Shareholders' equity as at 31 December 2019, including the profit for the year of **€ 6.7 million**, amounted to € 152.6 million. The increase of € 11.1 million compared to € 141.5 million as at 31 December 2018 (+7.8%) is mainly attributable to movements in valuation reserves linked to the portfolio of financial assets measured at fair value through other comprehensive income and to the increase in the result for the year of € 4.5 million compared to 31 December 2018.

The **share capital** of Banca Profilo amounts to € 137.0 million, fully paid up and consists of 677,997,856 ordinary shares with no nominal value, of which 13,148,089 are held by Banca Profilo.

The composition of shareholders' equity is summarised in the following table:

Shareholders' equity

(€/thousand)	31/12/2019	31/12/2018	Changes	
			Absolute	%
Share capital	136,994	136,994	-	-
Share premium reserve	82	82	-	-
Reserves	14,605	14,682	-77	-0.5
Valuation reserves	(2,210)	(9,163)	6,953	-75.9
Treasury shares	(3,603)	(3,357)	-246	7.3
Profit (loss) for the year	6,726	2,265	4,461	n.s.
Shareholders' equity	**152,595**	**141,502**	**11,093**	**7.8**

As at 31 December 2019, the CET 1 Capital Ratio of Banca Profilo is 23.63% and does not take into account the profit for 2019.

Below are the tables of the Own Funds and the table relating to the capital adequacy of the Bank and its subsidiaries as at 31 December 2019 determined on the basis of the regulatory standards required for banking supervision.

Own funds

On 1 January 2014, the new regulatory standards for banking supervision (Basel III), as defined by the Basel Committee, came into force. These new standards are contained in Regulation (EU) no. 575/2013 (CRR) and in Directive 2013/36/EU (CRD IV) of 26 June 2013. In order to make these provisions applicable, the Bank of Italy has introduced two regulatory measures to adapt internal regulations to the new international regulatory framework (Circular 285 and Circular 286 of December 2013).
In addition, from 1 January 2018 IFRS9 "Financial Instruments" replaces the provisions of IAS 39 "Financial Instruments: Recognition and Measurement". In this regard, with reference to the impact on regulatory own funds, the Banca Profilo Banking Group has opted to adhere to the transitional regime provided for by Regulation (EU) no. 2017/2395 amending the CRR.

1. Common equity Tier 1 (CET1)

a) **positive elements**: equity instruments and related share premiums, retained earnings, other components of the income statement and other reserves;
b) **negative elements**: losses for the current year, intangible assets with specific rules for deduction, core tier 1 capital instruments held that the bank is required to purchase, deferred tax assets that are based on future profitability and do not result from temporary differences.

2. Additional Tier 1 (AT1).

a) **positive elements**: equity instruments and related share premiums which do not represent elements of CET1 and which comply with certain conditions set out in the Regulation (Art. 52 of the CRR);

b) **negative elements**: additional Tier 1 instruments held that the bank is required to purchase under an existing contractual obligation, additional Tier 1 instruments issued by financial sector entities under certain conditions as set out in Art. 56 of the CRR.

3. Common equity Tier 2 (CET2).

a) **positive elements**: equity instruments and subordinated loans with related share premiums under the conditions set out in Art. 63 of the CRR, adjustments for general credit risk before tax up to 1.25% of risk-weighted exposure amounts;

b) **negative elements**: own Tier 2 instruments held by the institution, the Tier 2 instruments of financial sector entities as referred to in Art. 66 of the CRR.

Own funds

(€/thousand)	Total 31/12/2019	Total 31/12/2018
A. Common equity Tier 1 (CET1) before the application of prudential filters	145,163	139,727
of which CET1 instruments subject to transitional provisions		
B. CET1 prudential filters (+/-)	(934)	(1,088)
C. CET1 gross of items to be deducted and transitional regime effects (A+/-B)	144,229	138,638
D. Items to be deducted from CET1	(5,545)	(8,996)
E. Transitional regime - Impact on CET1 (+/-)	801	1,241
F. Total Common Equity Tier 1 (CET1) (C - D +/- E)	139,485	130,884
G. Additional Tier 1 (AT1) gross of the items to be deducted and transitional regime effects		
of which AT1 instruments subject to transitional provisions		
H. Items to be deducted from AT1		
I. Transitional regime - Impact on AT1 (+/-)		
L. Total additional Tier 1 (AT1) - (G - H +/- I)		
M. Tier 2 (T2) gross of items to be deducted and transitional regime effects		
of which T2 instruments subject to transitional provisions		
N. Items to be deducted from T2		
O. Transitional regime - Impact on T2 (+/-)		
P. Total Tier 2 (T2) (M - N +/- O)		
Q. Total own funds (F + L + P)	**139,485**	**130,884**

Capital Adequacy

Categories / Values (€/thousand)	Non weighted amounts		Weighted amounts/Requirements	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
A. RISK ASSETS				
A.1 CREDIT AND COUNTERPARTY RISK	**1,012,851**	**1,142,601**	**27,531**	**29,154**
1. Standardised approach	1,012,851	1,142,601	27,531	29,154
2. IRB approach				
2.1. Basic				
2.2. Advanced				
3. Securitisations				
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 CREDIT AND COUNTERPARTY RISK			**27,531**	**29,154**
B.2 CREDIT VALUATION ADJUSTMENT RISK			619	628
B.3 REGULATION RISK				
B.4 MARKET RISK			**11,895**	**13,704**
1. Standardised approach			11,895	13,704
2. IRB approach				
3. Concentration risk			-	-
B.5 OPERATIONAL RISK			**7,173**	**6,407**
1. Basic approach			7,173	6,407
2. Standardised approach				
3. Advanced approach				
B.6 OTHER CALCULATION ELEMENTS				
B.7 TOTAL CAPITAL REQUIREMENTS			**47,218**	**49,892**
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			590,231	623,654
C.2 Common Equity Tier 1 (CET1) capital/Risk-weighted assets (CET1 capital ratio)			**23.63%**	**20.99%**
C.3 Tier 1 capital/Risk-weighted assets (Tier 1 capital ratio)			**23.63%**	**20.99%**
C.4 Total own funds/Risk-weighted assets (Total capital ratio)			**23.63%**	**20.99%**

Commentary on Economic Results

Items (Amounts in €/thousand)	2019	2018	Changes Absolute	Changes %
Net interest income (1)	14,237	15,832	-1,595	-10.1
Net fee and commission income	24,101	21,754	2,347	10.8
Net result from financial activities and dividends (2)	17,776	6,298	11,478	182.3
Other operating income/expenses (3)	709	821	-112	-13.7
Total net revenues	**56,824**	**44,706**	**12,118**	**27.1**
Personnel expenses	(26,081)	(22,283)	-3,798	17.0
Other administrative expenses (4)	(16,091)	(17,926)	1,835	-10.2
Value adjustments on property, plant and equipment and intangible assets	(3,877)	(1,403)	-2,474	176.3
Total operating expenses	**(46,048)**	**(41,611)**	**-4,437**	**10.7**
Operating income	**10,776**	**3,095**	**7,681**	**n.s.**
Net provisions for risks and charges (5)	(539)	113	-652	n.s.
Net value adjustments/reversals for credit risk relating to financial assets measured at amortised cost	205	(405)	610	n.s.
Net value adjustments/reversals on financial assets measured at fair value through other comprehensive income	30	(315)	345	n.s.
Value adjustments to goodwill	(497)	-	-497	n.s.
Profit (loss) for the year before tax	**9,974**	**2,487**	**7,487**	**n.s.**
Tax on income for the year for continuing operations	(3,248)	(223)	-3,025	n.s.
Profit (loss) for the year after tax	**6,726**	**2,265**	**4,461**	**n.s.**

(1) coincides with item 10. Interest Income and item 20. Interest Expense (Circ. 262 Bank of Italy) net of the economic effects deriving from the redemption of inflation-linked securities included in "Net result from financial activities and dividends" for an amount of € 3.6 million.
(2) includes Items 70. Dividends and similar income, 80. Net profit (loss) from trading (Circ. 262 Bank of Italy) including the economic effects deriving from the redemption of inflation-linked securities recorded under item 10. Interest Income (Circ. 262 Bank of Italy) for an amount of € 3.6 million, 90. Net profit (loss) from hedging, 100. Income (loss) from disposal/repurchase and 110. Net profit (loss) from other financial assets and liabilities measured at fair value through profit and loss of the mandatory annual financial statements (Circ. 262 Bank of Italy).
(3) coincides with Item 200. Other operating income/expenses included among the operating expenses of the mandatory annual financial statements (Circ. 262 Bank of Italy) net of the recovery of stamp duty payable by customers.
(4) other administrative expenses are shown net of the recovery of stamp duty payable by customers.
(5) coincides with Item 170. Net provisions for risks and charges included among the Operating expenses of the mandatory annual financial statements (Circ. 262 Bank of Italy).

Net interest income

The **Net interest income** as at 31 December 2019, amounting to € 14.2 million, was down by € 1.6 million compared to € 15.8 million as at 31 December 2018 (-10.1%). The decrease in the income is mainly attributable to the lower contribution of government securities to the trading and HTCS portfolios, only partially offset by the increase in the HTC portfolio and the positive effect of hedging activity.

Net interest income

(€/thousand)	2019	2018	Changes Absolute	Changes %
Interest income and similar revenues	17,293	19,650	-2,357	-12.0
Interest expenses and similar charges	(3,056)	(3,818)	762	-20.0
Net interest income	**14,237**	**15,832**	**-1,595**	**-10.1**

Interest income fell from € 19.7 million as at 31 December 2018 to € 17.3 million as at 31 December 2019, a decrease of € 2.4 million (-12.0%). The decrease is mainly attributable to the lower contribution of government securities to the trading and HTCS portfolios, only partially offset by the increase in the HTC portfolio.

Interest expenses, amounting to € 3.1 million, decreased by € 0.7 million (-20.0%) compared to € 3.8 million as at 31 December 2018. The decrease is due to the net positive effect of differentials relating to hedging transactions.

Other net revenues

Other net revenues as at 31 December 2019 amounted to € 42.6 million, up by € 13.7 million compared to € 28.9 million as at 31 December 2018 (+47.5%). The main components of the aggregate are detailed and commented on in the table below.

Other net revenues

(€/thousand)	2019	2018	Changes	
			Absolute	%
Fee and commission income	26,354	23,891	2,463	10.3
Fee and commission expenses	(2,253)	(2,137)	-116	5.4
Net fee and commission income	**24,101**	**21,754**	**2,347**	**10.8**
Net result from financial activities and dividends	17,776	6,298	11,478	n.s.
Other operating income/expenses	709	821	-112	-13.7
Total Other Net Revenues	**42,586**	**28,873**	**13,713**	**47.5**

Net Fee and Commission Income amounted to € 24.1 million, an increase of € 2.3 million (+10.8%) compared with € 21.8 million as at 31 December 2018. The increase is mainly attributable to the contribution of performance fees on managed Private Banking mandates and placement, advanced advisory and investment banking commissions.

Net result from financial activities and dividends amounted to € 17.8 million, an increase of € 11.5 million (+182.3%) compared to € 6.3 million as at 31 December 2018. The increase can be attributed to the effect of the **higher returns** recorded on the Bank's trading book, thanks to the strategies implemented, which positively exploited the more **favourable financial market scenario** compared to last year.

The balance of **other operating income and expenses**, amounting to € 0.7 million, was down by € 0.1 million compared to € 0.8 million as at 31 December 2018.

Operating expenses

Operating expenses amounted to € 46.0 million, an increase of € 4.4 million compared with the figure as at 31 December 2018 (+10.7%).

Operating expenses and operating income

(€/thousand)	2019	2018	Changes	
			Absolute	%
Personnel expenses	(26,081)	(22,283)	-3,798	17.0
Other administrative expenses	(16,091)	(17,926)	1,836	-10.2
Net value adjustments on property, plant and equipment and intangible assets	(3,877)	(1,403)	-2,474	n.s.
Operating expenses	**(46,048)**	**(41,611)**	**-4,437**	**10.7**
Operating income	**10,776**	**3,094**	**7,682**	**248.3**

Within the aggregate, **personnel expenses**, amounting to € 26.1 million, increased by € 3.8 million (+17.0%) compared to € 22.3 million as at 31 December 2018. The increase is mainly due to higher provisions relating to the variable pay component, following the results recorded during the year.

Other administrative expenses, amounting to € 16.1 million, were down (-10.2%) by € 1.8 million, compared with € 17.9 million as at 31 December 2018. The decrease is due to the introduction of the new IFRS 16 standard, which resulted in **lower charges** deriving from the rental and lease of property, plant and equipment for an amount of € 2.4 million with a consequent increase of € 2.4 million in the item "value adjustments on property, plant and equipment" following the depreciation process of the "right of use" recorded in Assets under "Property, plant and equipment", as well as higher interest expenses relating to the related financial liability of € 0.2 million.
Net of this impact, **other administrative expenses** increased by € 0.6 million (+3.5%) compared with € 17.9 million as at 31 December 2018, mainly due to higher advertising expenses and higher fees for the use of the technology platform.

Value adjustments on property, plant and equipment and intangible assets amounted to € 3.9 million, net of the above-mentioned effect of the new IFRS 16 standard, and were in line with those of the previous year of € 1.4 million.

Operating income came to € 10.8 million, an increase of € 7.7 million (+248.3%) compared to € 3.1 million as at 31 December 2018.

Provisions and adjustments

Total provisions and adjustments amounted to € 0.8 million in costs as at 31 December 2019, up from € 0.6 million as at 31 December 2018.

Profit (loss) for the year before tax

(€/thousand)	2019	2018	Changes	
			Absolute	%
Net provisions for risks and charges	(539)	113	-652	n.s.
Net value adjustments/reversals for credit risk relating to financial assets measured at amortised cost	205	(405)	610	n.s.
Net value adjustments/reversals on financial assets measured at fair value through other comprehensive income	30	(315)	345	n.s.
Value adjustments to goodwill	(497)	-	-497	n.s.
Total provisions and adjustments	**(802)**	**(607)**	**-195**	**32.1**
Gains (losses) on disposals of investments				
Current profit before tax	**9,974**	**2,487**	**7,487**	**n.s.**

Net provisions for risks and charges were negative by € 0.5 million and referred to provisions made by Banca Profilo following disputes in the last quarter of the year, together with the net effect of the impairment of guarantees and commitments. The value as at 31 December 2018 amounted to a positive € 0.1 million.

Net value adjustments/reversals for credit risk relating to financial assets measured at amortised cost were equal to € 0.2 million in reversals. The result is due to the combined effect of the provisions and reversals recorded during the year as a result of the impairment test on loans and positions in the HTC securities portfolio. The figure as at 31 December 2018 amounted to € 0.4 million in costs.

Net value adjustments/reversals on financial assets measured at fair value through other comprehensive income amounted to € 0.3 thousand of net reversals and referred to the combined effect of provisions and reversals recorded during the year at the end of the process of determining impairment on positions in the HTC&S portfolio. The figure as at 31 December 2018 was a negative € 0.3 million.

Value adjustments to goodwill amounted to € 0.5 million and related to the impairment of goodwill allocated to HSBC's lending and custody business unit in 2003.

Profit for the year

Income taxes for 2019 amounted to € 3.2 million, equal to a tax rate of 32%.

Profit for the year

(€/thousand)	2019	2018	Changes	
			Absolute	%
Tax on income for the year for continuing operations	(3,248)	(223)	-3,025	n.s.
Parent company's net profit for the year	**6,726**	**2,265**	**4,461**	**n.s.**

Banca Profilo closed the year 2019 with **net profit** of **€ 6.7 million** compared with € 2.3 million as at 31 December 2018.

Other Relevant Information

The Bank qualifies as a Small and Medium-Sized Enterprise (SME) pursuant to and for the purposes of Consob Resolution no. 20621 of 10 October 2018 implementing Article 1, paragraph 1, letter w-quater.1) of Legislative Decree no. 58/98 (TUF).

This Report on the Financial Statements of Banca Profilo S.p.A. only contains comments on the Bank's operating performance. For all other information required by current legal requirements, please refer to the Consolidated Report on Operations, which is an integral part of this document, or to the Notes to the Separate Financial Statements. For the figures of the parent company, please refer to the specific section contained in the notes.

In particular, reference should be made to the Consolidated Report on Operations with regard to the management and coordination activities of Arepo BP S.p.A. pursuant to articles 2497 *et seq.* of the Italian Civil Code, to which Banca Profilo and its subsidiaries under Italian law are subject, for which reference should be made to the "Other Relevant Information" section.

A number of transactions with related parties (RP) were carried out during the year. Part H provides a summary statement of the Bank's economic and financial transactions as at 31 December 2019 with investee companies and other related parties.

Finally, pursuant to Article 123-*bis* of the Consolidated Finance Act (TUF - *Testo Unico della Finanza*) relating to the Corporate Governance system, please refer to the specific document "**Report on corporate governance and ownership structures**" approved and published, together with these financial statements, in the Corporate Governance section of the Bank's website at the following address: www.bancaprofilo.it.

Equity investments held by Directors, Statutory Auditors and Key Management Personnel in Banca Profilo and its subsidiaries

Equity investments held directly or indirectly in Banca Profilo S.p.A. and its subsidiaries, in compliance with the provisions of Consob Regulation 11971, are reported in the Remuneration Report published on the Bank's website within the time limits and in the manner prescribed by law. Part H of the Notes provides information on the remuneration paid to members of the Board of Directors, the Board of Statutory Auditors, the General Manager and Key Management Personnel.

Other market information

Certification pursuant to Art. 2.6.2 of the Italian Stock Exchange Regulations, with regard to the adjustment to the conditions set out in Art. 15 of the Market Regulations

Banca Profilo, in its capacity as listed company controlling a company based in a non-EU country - Banque Profil de Gestion S.A. - which is of significant importance within the meaning of Article 36 of the Consob Market Regulations, has established a specific procedure to ensure compliance with the provisions of the aforementioned regulations on controls and information flows between the non-EU subsidiary and the Italian listed company.

Certification pursuant to Article 2.6.2. of the Stock Exchange Regulations regarding the existence of the conditions set out in Article 16 of the Consob Market Regulations

Banca Profilo S.p.A. is subject to the management and coordination of the parent company Arepo BP S.p.A. pursuant to Art. 2497 *et seq.* of the Italian Civil Code.

With reference to the provisions of Article 16 of the Consob Market Regulation, the conditions set out in paragraph 1, letters a), b), c) and d) for maintaining the listing have been met. With particular reference to paragraph 1 letter d) of the Consob Market Regulations, it should be noted that Banca Profilo has set up internal board committees, composed exclusively of Independent Directors. In particular, the Bank has set up the Control and Risk Committee, the Remuneration Committee and the Appointments Committee.

Disclosure on the purchase/sale of treasury shares

During the year, the Bank carried out transactions to purchase and sell treasury shares as part of the activity authorised by the Shareholders' Meeting of 18 April 2019 to support exchanges, using a third-party intermediary (Equita SIM S.p.A.). As at 31 December 2019, 5,084,844 treasury shares, equal to 0.75% of the share capital, had been purchased as part of this activity.

Further movements of treasury shares were made as part of the implementation of the shareholding plans in favour of the Bank's employees.

Proposal for allocation of profits

Dear Shareholders,

Having regard to the 2019 Annual Financial Report, the Board of Directors proposes that you:

I) approve the financial statements for the year ended 31 December 2019, as a whole and in the individual items that it is comprised of, as well as the Report of the Board of Directors on Operations for that year.
II) allocate the **net profit** for the year, equal to **€ 6,726,350** as follows:
   - **€ 672,635** to the **Legal Reserve**;
   - **€ 5,937,430** to the **Shareholders as Dividends** at the rate of **€ 0.009 per share**, gross of withholding taxes, if applicable. The dividend was calculated on a total of 677,997,856 shares making up the company's share capital, net of the **18,283,450** treasury shares held as at 12 March 2020;
   - the **residual amount** of **€ 116,285** to **Other Reserves**.

Should the number of treasury shares change by the date of call of Banca Profilo's Ordinary Shareholders' Meeting, this proposal for the allocation of profits will be suitably reformulated.

III) **pay the dividend** on 29 April 2020, with detachment of coupon no. 21 on 27 April 2020, according to the results of the accounts at the end of the accounting day of 28 April 2020 (record date for the dividend).

Milan, 12 March 2020

Separate
Financial Statements

Separate Balance Sheet
(Amounts in €)

Assets	31/12/2019	31/12/2018
10. Cash and cash equivalents	7,529,397	4,340,902
20. Financial assets measured at fair value through profit and loss	531,945,880	504,411,297
a) financial assets held for trading	531,903,275	504,368,692
b) financial assets designated at fair value	-	-
c) other financial assets mandatorily measured at fair value	42,605	42,605
30. Financial assets measured at fair value through other comprehensive income	264,310,599	399,708,150
40. Financial assets measured at amortised cost	986,316,873	1,050,508,713
a) loans and advances to banks	178,789,259	321,579,638
b) loans and advances to customers	807,527,614	728,929,075
50. Hedging derivatives	1,270,958	2,984,696
70. Equity investments	51,448,035	51,448,035
80. Property, plant and equipment	14,473,459	904,310
90. Intangible assets	3,038,769	4,164,920
of which:		
- goodwill	1,184,943	1,682,243
100. Tax assets	7,022,784	12,277,308
a) current	1,353,996	1,367,530
b) deferred	5,668,788	10,909,778
120. Other assets	19,186,680	12,957,766
Total Assets	**1,886,543,434**	**2,043,706,097**

(Amounts in €)

Liabilities and Shareholders' equity	**31/12/2019**	**31/12/2018**
10. Financial liabilities measured at amortised cost	1,541,911,025	1,690,951,867
a) deposits to banks	447,927,109	482,799,860
b) deposits to customers	1,093,983,916	1,208,152,007
c) debt securities issued	-	-
20. Financial liabilities held for trading	128,914,626	160,826,815
40. Hedging derivatives	38,925,496	29,258,576
60. Tax liabilities	1,066,323	350,326
a) current	383,887	61,333
b) deferred	682,436	288,993
80. Other liabilities	20,542,433	18,769,090
90. Employee severance indemnity	1,666,021	1,663,237
100. Provisions for risks and charges	923,162	384,112
a) commitments and guarantees issued	6,162	17,112
b) pension and similar obligations	-	-
c) other provisions for risks and charges	917,000	367,000
110. Valuation reserves	(2,210,147)	(9,162,674)
140. Reserves	14,605,118	14,681,833
150. Share premium	81,558	81,558
160. Share capital	136,994,028	136,994,028
170. Treasury shares (-)	(3,602,559)	(3,357,454)
180. Profit (Loss) for the year (+/-)	6,726,350	2,264,783
Total Liabilities and Shareholders' Equity	**1,886,543,434**	**2,043,706,097**

Separate Income Statement
(Amounts in €)

Items	2019	2018
10. Interest income and similar revenues	20,907,265	19,650,181
of which: interest income calculated using the effective interest rate method	14,965,107	12,572,035
20. Interest expenses and similar charges	(3,055,858)	(3,817,858)
30. Net interest income	**17,851,407**	**15,832,323**
40. Fee and commission income	26,354,169	23,891,361
50. Fee and commission expenses	(2,252,823)	(2,137,317)
60. Net fee and commission income	**24,101,346**	**21,754,044**
70. Dividends and similar income	20,299,497	15,057,477
80. Net profit (loss) from trading	(12,113,107)	(17,369,380)
90. Net profit (loss) from hedging	(467,634)	(310,791)
100. Income (loss) from disposal or repurchase of:	6,443,675	8,939,063
a) financial assets measured at amortised cost	495,006	-
b) financial assets measured at fair value through other comprehensive income	5,948,669	8,939,063
c) financial liabilities	-	-
110. Net profit (loss) from other financial assets and liabilities measured at fair value through profit and loss	-	(18,259)
a) financial assets and liabilities designated at fair value	-	-
b) other financial assets mandatorily measured at fair value	-	(18,259)
120. **Net interest and other banking income**	**56,115,184**	**43,884,477**
130. Net value adjustments/reversals for credit risk on:	234,495	(719,924)
a) financial assets measured at amortised cost	204,576	(404,701)
b) financial assets measured at fair value through other comprehensive income	29,919	(315,223)
150. **Net result from financial activities**	**56,349,679**	**43,164,553**
160. Administrative expenses:	(46,011,252)	(44,002,648)
a) personnel expenses	(26,080,793)	(22,283,055)
b) other administrative expenses	(19,930,459)	(21,719,593)
170. Net provisions for risks and charges	(539,050)	113,225
a) commitments and guarantees issued	10,950	69,382
b) other net provisions	(550,000)	43,843
180. Net value adjustments/reversals on property, plant and equipment	(2,754,469)	(282,392)
190. Net value adjustments/reversals on intangible assets	(1,122,062)	(1,120,405)
200. Other operating income/expenses	4,548,588	4,615,150
210. **Operating expenses**	**(45,878,245)**	**(40,677,070)**
240. Value adjustments to goodwill	(497,300)	-
260. **Profit (loss) before tax from continuing operations**	**9,974,134**	**2,487,483**
270. Tax on income for the year for continuing operations	(3,247,784)	(222,700)
280. **Profit (loss) after tax from continuing operations**	**6,726,350**	**2,264,783**
300. Profit (loss) for the year	**6,726,350**	**2,264,783**
Basic earnings per share	0.010	0.003
Diluted earnings per share	0.010	0.003

Separate Statement of Comprehensive Income

(Amounts in €)

Items	2019	2018
10. Profit (loss) for the year	**6,726,350**	**2,264,783**
Other comprehensive income after tax without reversal to Income Statement	**487,923**	**(29,089)**
20. Equity securities measured at fair value through other comprehensive income	553,004	(28,746)
70. Defined benefit plans	(65,081)	(343)
Other comprehensive income after tax with reversal to Income Statement	**6,464,605**	**(11,179,995)**
140. Financial assets (other than equity securities) measured at fair value through other comprehensive income	**6,464,605**	**(11,179,995)**
170. Total other comprehensive income after tax	**6,952,528**	**(11,209,083)**
180. Comprehensive income (Item 10+170)	**13,678,878**	**(8,944,300)**

Separate Statement of Changes in Equity

(Amounts in €)

Statement of Changes in Equity - 2019

	Balances as at 31.12.2018	Restatement of opening balances	Balances as at 1.1.2019	Allocation of previous year's result		Changes during the year							Comprehensive income for 2019	Shareholders' equity as at 31.12.2019
						Changes in reserves	Transactions on shareholders' equity							
				Reserves	Dividends and other allocations		Issue of new shares	Purchase of treasury shares	Extraordinary dividend distribution	Changes in equity instruments	Derivatives on treasury shares	Stock options		
Share capital	*136,994,028*		*136,994,028*											*136,994,028*
a) ordinary shares	136,994,028		136,994,028											136,994,028
b) other shares														
Share premium	81,558		*81,558*											*81,558*
Reserves	*14,681,836*		*14,681,836*	*255,686*		*(332,404)*								*14,605,118*
a) profit	14,681,836		14,681,836	255,686		(332,404)								14,605,118
b) other														
Valuation reserves	*(9,162,673)*		*(9,162,673)*										*6,952,528*	*(2,210,147)*
Equity instruments														
Treasury shares	*(3,357,454)*		*(3,357,454)*				556,733	(801,838)						*(3,602,559)*
Profit (loss) for the year	*2,264,782*		*2,264,782*	*(255,686)*	*(2,009,096)*								*6,726,350*	*6,726,350*
Group shareholders' equity	**141,502,077**		**141,502,077**		**(2,009,096)**	**(332,404)**	**556,733**	**(801,838)**					**13,678,877**	**152,594,348**

Statement of Changes in Equity - 2018

	Balances as at 31.12.2017	Restatement of opening balances	Balances as at 1.1.2018	Allocation of previous year's result		Changes during the year							Comprehensive income for 2018	Shareholders' equity as at 31.12.2018
						Changes in reserves	Transactions on shareholders' equity							
				Reserves	Dividends and other allocations		Issue of new shares	Purchase of treasury shares	Extraordinary dividend distribution	Changes in equity instruments	Derivatives on treasury shares	Stock options		
Share capital	136,994,028		136,994,028											136,994,028
a) ordinary shares	136,994,028		136,994,028											136,994,028
b) other shares														
Share premium	81,558		81,558											81,558
Reserves	14,362,368	(453,504)	13,908,864	900,092		127,120								14,681,836
a) profit	14,362,368	(453,504)	13,908,864	900,092		127,120								14,681,836
b) other														
Valuation reserves	122,008	1,924,402	2,046,410										(11,209,083)	(9,162,673)
Equity instruments														
Treasury shares	(3,722,871)		(3,722,871)			365,417								(3,357,454)
Profit (loss) for the year	4,239,542		4,239,542	(900,092)	(3,339,450)								2,264,783	2,264,782
Group shareholders' equity	**152,076,633**	**1,470,898**	**153,547,531**		**(3,339,450)**	**1,373**							**(8,944,300)**	**141,502,077**

Separate Cash Flow Statement (indirect method)

(€/thousand)

	2019	2018*
A. OPERATING ACTIVITIES		
1. Cash flows from operations	**30,869,324**	**4,851,802**
- profit (loss) for the year (+/-)	6,726,350	2,264,783
- net result of the merged companies (+/-)	-	-
- capital gains/losses on financial assets held for trading and other financial assets/liabilities measured at fair value through profit and loss (-/+)	10,974,735	3,866,318
- capital gains/losses on hedging operations (-/+)	11,639,370	(611,496)
- net value adjustments/reversals for credit risk (+/-)	(234,495)	719,924
- net value adjustments/reversals on property, plant and equipment and intangible assets (+/-)	3,876,529	1,402,797
- net provisions for risks and charges and other costs/revenues (+/-)	(5,360,950)	(3,013,225)
- outstanding taxes, duties and tax credit (+/-)	3,247,784	222,700
- net value adjustments/reversals on discontinued operations net of tax effect (+/-)	-	-
- other adjustments (+/-)	-	-
2. Cash flows from (used in) financial assets	**156,615,823**	**(551,730,773)**
- financial assets held for trading	(38,509,318)	(46,501,649)
- financial assets designated at fair value	-	-
- other financial assets mandatorily measured at fair value	-	-
- financial assets measured at fair value through other comprehensive income	142,350,078	95,690,121
- financial assets measured at amortised cost	64,426,335	(602,753,806)
- other assets	(11,651,272)	1,834,560
3. Cash flows from (used in) financial liabilities	**(181,703,134)**	**553,463,997**
- financial liabilities measured at amortised cost	(165,196,180)	513,155,301
- financial liabilities held for trading	(31,912,190)	44,747,050
- financial liabilities designated at fair value	-	-
- other liabilities	15,405,236	(4,438,354)
Cash flows from (used in) operating activities	**5,188,037**	**6,585,025**
B. INVESTMENT ACTIVITIES		
1. Cash flows from	**539**	**-**
- sales of equity investments	-	-
- collected dividends on equity investments	-	-
- sales of property, plant and equipment	539	-
- sales of intangible assets	-	-
- sales of subsidiaries and business units	-	-
2. Cash flows used in	**586,521**	**(1,495,443)**
- purchases of equity investments	-	-
- purchases of property, plant and equipment	93,310	(398,584)
- purchases of intangible assets	493,211	(1,095,674)
- purchases of subsidiaries and business units	-	(1,185)
Cash flows from (used in) investment activities	**587,059**	**(1,495,443)**
C. FUNDING ACTIVITIES	**(2,586,602)**	**(3,674,871)**
- issue/purchase of treasury shares	(839,081)	365,418
- issue/purchase of equity instruments	-	-
- dividend distribution and other purposes	(2,341,497)	(4,040,289)
Net cash flows from (used in) funding activities	**(3,180,578)**	**(3,674,871)**
NET CASH FLOWS GENERATED (USED IN) IN THE YEAR	**3,188,494**	**1,414,711**

** The figures as at 31 December 2018 have been restated as reported in Part A - Accounting policies*

RECONCILIATION	31/12/2019	31/12/2018*
Cash and cash equivalents at the beginning of the year**	4,340,902	2,926,192
Net cash flows generated (used in) in the year	3,188,494	1,414,710
Cash and cash equivalents at the end of the year**	**7,529,397**	**4,340,902**

** The figures as at 31 December 2018 have been restated as reported in Part A - Accounting policies*
*** The item "Cash and cash equivalents" corresponds to item 10 of Assets in the Balance Sheet*

Notes to the Separate Financial Statements

PART A – Accounting policies

A.1- GENERAL CRITERIA

Section 1 - Statement of compliance with international accounting standards

The financial statements of Banca Profilo have been prepared in accordance with IAS/IFRS accounting standards[1] issued by the International Accounting Standards Board (IASB) and the relative interpretations of the International Financial Reporting Committee (IFRIC), approved by the European Commission and in force as at 31 December 2019, implemented in our system by Legislative Decree no. 38 of 28 February 2005, which exercised the option provided for by Regulation (EC) no. 1606/2002 on international accounting standards. The financial statements have also been prepared in accordance with the provisions of the Bank of Italy in circular no. 262 of 22 December 2005 and subsequent updates[2].

Section 2 - General preparation principles

The Financial Statements consist of the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement and the notes, and is accompanied by the directors' report on operations, financial results achieved, and the Bank's financial situation.

With reference to the Cash Flow Statement, it should be noted that as at 31 December 2019 it was prepared using the "indirect" method and, for the purpose of comparison on a consistent basis, the comparative format as at 31 December 2018, prepared using the "direct" method, has been restated.

For both years, the cash flows from/used in financial liabilities, which represents cash flows deriving from financing/funding activities in accordance with IAS 7 para. 44, is classified, as required by Bank of Italy Circular no. 262/2005, within cash flows from operating activities.

[1] These standards, as well as the related interpretations, are applied according to the occurrence of events regulated by them from the date of their mandatory application, unless otherwise specified.

[2] In particular, reference is made to the 6th update of 30 November 2018.

In compliance with the provisions of Art. 5(2) of Legislative Decree no. 38 of 28 February 2005, the financial statements have been prepared using the euro as the accounting currency. In particular, in line with the instructions issued by the Bank of Italy, all the figures shown in the financial statements and in the notes are expressed in thousands of euros.

The Report on Operations and the Notes provide the information required by international accounting standards, the law, the Bank of Italy and the National Commission for Companies and the Stock Exchange (*Commissione Nazionale per le Società e la Borsa* - Consob), as well as other information that is not mandatory but considered equally necessary for a correct and truthful representation of the Bank's assets and liabilities, financial position and results of operations.

In order to take account of the changes that have occurred in the provisions of the Italian Civil Code regarding financial statements following the entry into force of the reform of company law (Legislative Decree no. 6 of 17 January 2003 and delegated measures under Law no. 366 of 3 October 2001), the information in the Notes, unless otherwise provided for by the special regulations of the Bank of Italy, has been suitably and consistently supplemented. With particular reference to the financial statements and the Notes, pursuant to Art. 9 of Legislative Decree no. 38 of 28 February 2005, the Bank has applied the provisions of Bank of Italy Circular no. 262 of 22 December 2005 and subsequent updates, integrating information where required by international accounting standards or deemed appropriate in terms of materiality or significance.

a) Going concern

The financial statements have been prepared on a going concern basis; assets, liabilities and 'off-balance sheet' transactions have been measured at operating values. In accordance with the provisions of the joint Bank of Italy/Consob/Isvap Document no. 2 of 6 February 2009 concerning disclosure on a going concern basis and in compliance with the requirements of IAS 1 revised for the same subject, the Directors did not identify any uncertainties that could give rise to doubts about the company's ability to continue as a going concern in the foreseeable future.

b) Accrual basis of accounting
Costs and revenues are recognised, irrespective of the time of their monetary settlement, according to the principles of economic accrual and correlation.

c) Consistency of presentation
The presentation and classification of the items are maintained constant over time in order to guarantee the comparability of the information, unless their change is required by an international accounting standard or an interpretation, or it renders the presentation of their values more appropriate, in terms of significance and reliability. If the presentation or classification criteria are changed, the new criterion, where possible, applies retroactively. In such an event, the nature and reason for the change are specified together with the items affected. The presentation and classification of items are based on the formats prepared by the Bank of Italy in Circular no. 262 of 22 December 2005 and subsequent updates "Banking financial statements: formats and rules for preparation".

d) Materiality and aggregation
Each material class of similar items is disclosed separately in the financial statements. Items of a dissimilar nature or purpose are presented separately.

e) No offsetting
Financial assets and liabilities, and costs and revenues are not offset against each other, unless required or permitted by an international accounting standard or an interpretation or by the formats produced by the Bank of Italy for the financial statements of banks.

With respect to the criteria used in the financial statements as at 31 December 2018, we note the entry into force, as from 1 January 2019, of IFRS 16, for which the following paragraph explains the main new elements and impacts for the Bank, as well as the amendment to IAS 39 published on 26 September 2019 and subject to early adoption by the Bank.

IFRS 16 - Leases
On 13 January 2016, the IASB published the standard "IFRS 16 - Leases" replacing IAS 17 - Leases, as well as the interpretations IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. On 31 October 2017, the European Parliament approved the standard, which will be applicable for reporting periods after 1 January 2019. This Standard amends the current scope of accounting standards and interpretations on leases and, in particular, IAS 17.

IFRS 16 in fact, while confirming the current distinction between the two types of leases (operating and finance) with reference to the accounting model to be applied by the lessor, introduces significant changes to the lessee's financial statements. For the latter, the new standard requires that, for each type of lease contract (operating and finance), an asset representing the right of use of the leased asset must be recognised in the financial statements and, at the same time, the liability for future lease payments must be recognised as a liability. The Standard therefore establishes a single model for the recognition and evaluation of lease contracts for the lessee, which provides for the recognition of the leased asset, including operating assets, as assets with a counter-entry to a financial liability.

At the time of initial recognition, this asset is then valued on the basis of the cash flows associated with the lease contract, while after initial recognition it will be valued in accordance with the provisions for property, plant and equipment and intangible assets in the standards applicable to them (IAS38, IAS16 or IAS40).

In this context, the Parent Company of the Banca Profilo Banking Group, Arepo BP, has launched an internal project to ensure full compliance with the new accounting standard for all Group companies, particularly with regard to the calculation and accounting for the right of use and the associated lease liability, which represent the main discontinuity with respect to the accounting model envisaged by IAS17. At the end of 2018, preparatory work on the definition and development of the rules and standards to ensure the correct determination of the right of use and lease liabilities linked to contracts falling within the scope of application of the new standard was substantially finalised. As regards the subsequent measurement and determination of the related effects on the income statement of these balance sheet items, in early 2019, the appropriate refinements with the CSE service centre were completed in order to proceed with the correct implementation of the new requirements introduced by IFRS 16.

The Group has decided, for the purposes of First-Time Adoption (FTA) of the standard, to apply the so-called modified full retrospective approach, which provides that the value of the right of use is assumed to be equal to the lease liability at the date of first adoption of the standard. In particular, the Group has accounted for, in relation to lease contracts previously classified as operating:

a) A financial liability, equal to the present value of future payments remaining at the transition date, discounted using the Incremental Borrowing Rate applicable at the transition date for each contract;
b) A right of use equal to the value of the financial liability referred to in the previous point, net of any accrued income and prepaid expenses or deferred income relating to the lease and recognised in the balance sheet as at 31 December 2018.

The impact on the balance sheet balances resulting from this standard, in terms of the recognition of rights of use and related lease liabilities, is illustrated later in this section.

Given the perfect overlap between the financial liabilities and the rights of use as at 1 January 2019, previously not recorded in the Bank's accounts, no discontinuity effects were found with respect to the balance sheet as at 31 December 2018, which would require the recognition of an effect deriving from the application of the standard in shareholders' equity as at 1 January 2019.

The Group has also decided, in accordance with the rules and simplifications provided for by the standard, not to apply the rules of IFRS16 to the lease of intangible assets, to short-term leases of less than 12 months and to the lease of assets with a modest unit value (so-called low value, set at € 5 thousand).

For the purposes of estimating the debt for lease contracts outstanding at 1 January 2019 and the associated "right of use", the Group has discounted future lease payments at an appropriate interest rate. It should be noted that in this context the future lease payments to be discounted have been determined in light of the provisions of the lease contract and calculated net of the VAT component by virtue of the fact that the obligation to pay this tax will arise at the time the lessor issues the invoice and not on the effective date of the lease contract itself. These flows are therefore discounted at a rate equal to the interest rate implicit in the lease or, if the latter is not available, at the incremental borrowing rate. The latter is determined on the basis of the cost of funding for liabilities of duration and guarantees similar to those implicit in the lease contract.

For the purposes of determining the duration of the lease, the non-cancellable period set out in the contract during which the lessee has the right to use the underlying asset shall be considered, taking into account any renewal options where the lessee has reasonable certainty of renewal. In particular, with reference to contracts that provide for the lessee's right to tacitly renew the lease at the end of an initial period, the duration of the lease is determined considering elements such as the duration of the initial period, the existence of any business plans for the disposal of the leased assets and any other circumstance indicative of the existence of reasonable certainty of renewal.

Finally, it should be noted that, by applying the modified retrospective approach, as required by section C7 of the Standard, the Group is not required to represent comparatives, but to recognise the cumulative effect of the initial application of the Standard as an adjustment to balance sheet balances at the date of initial application.

With reference to the accounting shareholders' equity, in relation to the fact that the Group has adopted the modified full retrospective approach, for which at the date of first-time adoption the book value of the right of use is assumed to be equal to that of the financial liability for the lease, no impact on the accounting shareholders' equity has been recorded.

With reference to the structure of the balance sheet assets and liabilities, it should be noted that the first-time adoption of the standard has led to an increase in property, plant and equipment in relation to the rights of use of property, cars and other capital goods that the Bank has recognised, as well as an increase in financial liabilities measured at amortised cost in relation to the so-called "lease liabilities" arising from outstanding contracts on 1 January 2019 and falling within the scope of IFRS 16.

In relation to the impact of this standard on risk-weighted assets (RWA) following the recognition of rights of use, a slight decrease in the CET 1 Ratio of Banca Profilo by 14 bps was determined.

Reconciliation schedule - First-time adoption of IFRS 16

The following table shows the reconciliation between the Bank's balance sheet balances as at 31 December 2018 (where IAS 17 was applied) and the balance sheet balances as at 1 January 2019 following the first-time adoption of IFRS 16.

Assets Item (amounts in €/thousand)	31/12/2018	Impact IFRS 16 FTA	01/01/2019
10 Cash and cash equivalents	4,341		4,341
20 Financial assets measured at fair value through profit and loss	504,411		504,411
30 Financial assets measured at fair value through other comprehensive income	399,708		399,708
40 Financial assets measured at amortised cost	1,050,509		1,050,509
50 Hedging derivatives	2,985		2,985
70 Equity investments	51,448		51,448
80 Property, plant and equipment	904	16,420	17,324
90 Intangible assets	4,165		4,165
100 Tax assets	12,277		12,277
120 Other assets	12,958	-60	12,898
Total Assets	**2,043,706**	**16,360**	**2,060,066**

Liabilities Item (amounts in €/thousand)	31/12/2018	Impact IFRS 16 FTA	01/01/2019
10 Financial liabilities measured at amortised cost	1,690,952	16,360	1,707,312
20 Financial liabilities held for trading	160,827		160,827
40 Hedging derivatives	29,259		29,259
60 Tax liabilities	350		350
80 Other liabilities	18,768		18,768
90 Employee severance indemnity	1,663		1,663
100 Provisions for risks and charges	384		384
Total liabilities	**1,902,203**	**16,360**	**1,918,563**
120 Valuation reserves	-9,163		-9,163
150 Reserves	14,682		14,682
160 Share premium	82		82
170 Share capital	136,994		136,994
180 Treasury shares (-)	-3,357		-3,357
200 Profit for the year	2,265	-	2,265
Total shareholders' equity	**141,503**	**-**	**141,503**
Total liabilities	**2,043,706**	**16,360**	**2,060,066**

The increase in item 90. Property, plant and equipment is derived from the recognition of rights of use relating to:

- Property for € 15,962 thousand;
- Cars for € 313 thousand;
- Other capital goods for € 145 thousand.

As no significant improvements to third party assets were recorded by the Bank in the past, no appreciable effects were found on other assets, which historically included such improvements.

For the sake of completeness, it should be noted that, prior to the application of IFRS 16, no property, plant and equipment deriving from finance leases recognised in accordance with IAS 17 were present in the Bank's financial statements.

Disclosure on the incremental borrowing rate used

The weighted average of the incremental borrowing rate used to measure the lease liability at the date of first-time adoption is 1.113%.

Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform

On 26 September 2019, the IASB adopted an amendment to IFRS 9 - Financial Instruments and IAS 39 - Financial Instruments: Recognition and Measurement, as well as IFRS 7 - Financial Instruments: Disclosures. More specifically, the amendment modifies some of the requirements for the application of hedge accounting, providing for temporary derogations, in order to mitigate the impact of the uncertainty of the IBOR reform (still in progress) on future cash flows in the period prior to its completion. The amendment also requires companies to provide additional information in their financial statements on their hedging relationships which are directly affected by the uncertainties generated by the reform and to which the above derogations apply.
The amendments shall enter into force on 1 January 2020, but companies are free to opt for early adoption of the amendment. The changes are significant for the Group considering that it applies hedge accounting to its exposures to changes in benchmark interest rates. The Group chose to apply the amendments to IAS 39 in advance for the financial statements as at 31 December 2019.
With reference to the Group's existing hedging strategies, the Group holds investments in fixed-rate or inflation-linked debt securities, denominated in euros/pounds sterling/dollars: a) under the "held to collect and sell" business model, measured at fair value with changes in fair value recognised under "other comprehensive income"; b) under the "held to collect" business model, measured at amortised cost.
The interest rate and inflation risk of debt securities is hedged using "Euribor", "USD LIBOR" and "GBP LIBOR" interest rate swaps (IRS) and, as mentioned above, the amendment allows hedging to continue even if the hedged benchmark interest rate, Euribor/USD LIBOR/GBP LIBOR, can no longer be separately identifiable in the future.
The adoption of these amendments allows the Group to continue hedge accounting during the period of uncertainty due to the interest rate reform.

<u>Financial risks</u>
The Group is exposed to the following benchmark interest rates within hedge accounting relationships subject to the interest rate reform: GBP Libor, USD Libor, EURIBOR (together "IBORs"). The following are hedged: fixed-rate or inflation-linked debt instruments issued in euros, pounds sterling or US dollars.
The Group is closely monitoring the market and the results obtained by the various working groups in the sector that are managing the transition to the new reference rates.
In response, the Group has defined an IBOR transition programme to understand which business areas are exposed to IBOR and to prepare and deliver an action plan that will allow a smooth transition to alternative interest rates. For the Group's derivatives, ISDA (International Swaps and Derivatives Associations) fallback clauses were made available at the end of 2019; the Group will begin discussions with banks with the aim of adopting this language in the ISDA agreements in 2020.
Below, in detail, are the hedging and hedged instruments in the scope of the IAS39 amendments following the reform on benchmark interest rates, broken down by type of hedge. The maturities of the hedged instruments correspond to those of the related hedging instruments.

Type of hedge	Type of instrument	Portfolio	Maturity	Nominal	Currency	Hedged item
Fair value hedge	Pay fixed or inflation-linked swap rate, receive 3M EURIBOR rate	HTC	2023	12,000,000	EUR	Fixed-rate or inflation-linked debt securities, held in the HTC portfolio with the same maturity and nominal value as the hedging swaps
			2024	25,500,000	EUR	
			2025	5,000,000	EUR	
			2026	18,000,000	EUR	
			2028	25,000,000	EUR	
			2041	3,000,000	EUR	
	Pay fixed swap rate, receive USD 3M LIBOR rate		2024	2,500,000	USD	
			2027	3,000,000	USD	
	Pay fixed or inflation-linked swap rate, receive 3M EURIBOR rate	HTC&S	2021	1,622,000	EUR	Fixed-rate or inflation-linked debt securities, held in the HTC&S portfolio with the same maturity and nominal value as the hedging swaps
			2022	1,622,000	EUR	
			2023	1,622,000	EUR	
			2024	14,622,000	EUR	
			2025	10,122,000	EUR	
			2026	1,622,000	EUR	
			2027	6,622,000	EUR	
			2028	15,622,000	EUR	
			2029	1,622,000	EUR	
			2030	21,622,000	EUR	
			2031	1,622,000	EUR	
			2032	1,622,000	EUR	
			2033	690,000	EUR	
			2034	690,000	EUR	
			2035	690,000	EUR	
			2036	690,000	EUR	
			2037	690,000	EUR	
			2038	690,000	EUR	
			2039	690,000	EUR	
			2040	690,000	EUR	
			2041	690,000	EUR	
			2046	3,000,000	EUR	
			2047	2,500,000	EUR	
			2049	10,000,000	EUR	
			2066	2,500,000	EUR	
	Pay fixed swap rate, receive GBP 3M LIBOR rate		2024	5,000,000	GBP	
	Pay fixed swap rate, receive USD 3M LIBOR rate		2027	2,000,000	USD	
			2028	7,000,000	USD	

Banca Profilo will continue to apply the amendments relating to IAS39 until the uncertainties arising from the reform of the benchmark interest rates to which Banca Profilo is exposed, with specific reference to maturities and the amount of the underlying cash flow, are resolved. The Bank expects that the uncertainty will remain until the Bank's contracts, indexed to IBOR, are modified to specify the date after which the benchmark interest rate will be replaced and the cash flows linked to the new rate and the related spread adjustment. In part this will depend on the introduction of fallback clauses that have not yet been added to Group contracts and on negotiations with creditors and bond holders.

IAS/IFRS accounting standards and SIC/IFRS interpretations entered into force as of 1 January 2019

The following entered into force on 1 January 2019:

- Amendment **to IFRS 9 "Prepayment Features with Negative Compensation"** (issued on 12 October 2017). This document specifies that instruments providing for early repayment could comply with 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 a "negative compensation" for the lender.
- "**Uncertainty over Income Tax Treatments (IFRIC Interpretation 23)**" interpretation (issued on 7 June 2017). The interpretation addresses the uncertainties surrounding the tax treatment to be adopted in the area of income taxes. In particular, the Interpretation requires an entity to analyse uncertain tax treatments (individually or as a whole, depending on the characteristics) assuming that the tax authority examines the tax position in question, having full knowledge of all relevant information. If the entity considers it unlikely that the tax authority will accept the tax treatment followed, the entity shall reflect the effect of the uncertainty in measuring its current and deferred income taxes. In addition, the document does not contain any new disclosure requirements but stresses that the entity shall determine whether it will be necessary to provide information about management's considerations regarding the uncertainty inherent in accounting for taxes in accordance with IAS 1.
- "**Annual Improvements to IFRSs 2015-2017 Cycle**" document (issued on 12 December 2017) which incorporates the amendments to certain standards as part of the annual improvement process. The main amendments concern IFRS 3 Business Combinations and IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing costs.
- "**Plant Amendment, Curtailment or Settlement (Amendments to IAS 19)**" document (issued on 7 February 2018). The document clarifies how an entity should recognise an amendment (e.g. a curtailment or settlement) to a defined benefit plan. The amendments require the entity to update its assumptions and remeasure the net liability or net asset arising from the plan. The amendments clarify that after the occurrence of such an event, an entity uses updated assumptions to measure current service cost and interest for the remainder of the reporting period following the event.
- "**Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)**" document (issued on 12 October 2017). This document clarifies the need to apply IFRS 9, including impairment requirements, to other long-term interests in associates and joint ventures for which the equity method is not applied.

Given the Bank's operations, the entry into force of the above documents has not had a significant effect.

As required by IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors, the new standards and interpretations already issued but not yet mandatory and not yet adopted in advance by the Bank as at 31 December 2019 are indicated below.

- **"Definition of Material (Amendments to IAS 1 and IAS 8)"** document (issued on 31 October 2018). The document introduced an amendment to the definition of "material" contained in IAS 1 - Presentation of Financial Statements and IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors. The purpose of this amendment is to make the definition of "material" more specific and to introduce the concept of "obscured information" alongside the concepts of omitted or incorrect information already present in the two standards being amended. The amendment clarifies that information is "obscured" if it has been described in such a way as to produce for the primary readers of financial statements an effect similar to that which would have occurred if the information had been omitted or incorrect.

  The amendments introduced were approved on 29 November 2019 and apply to all transactions after 1 January 2020. The Directors do not expect a significant effect on the financial statements of Banca Profilo from the adoption of this amendment.

- Amendment to the "**References to the Conceptual Framework in IFRS Standards**" (issued on 29 March 2018). The amendment is effective for periods beginning on or after 1 January 2020, but early adoption is permitted.
  The Conceptual Framework defines the fundamental concepts for financial reporting and guides the Board in the development of IFRS standards. The document helps to ensure that the Standards are conceptually consistent and that similar transactions are treated in the same way so as to provide useful information to investors, lenders and other creditors.
  The Conceptual Framework supports companies in developing accounting standards when no IFRS standard is applicable to a particular transaction and, more generally, helps stakeholders to understand and interpret the Standards. The Directors do not expect a significant effect on the financial statements of Banca Profilo from the adoption of this amendment.

It should also be noted that at the date of these financial statements, the competent bodies of the European Union had not yet completed the endorsement process necessary for the adoption of the amendments and standards described below.

- **IFRS 17 - Insurance Contracts** (issued on 18 May 2017 by the IASB) which is intended to replace IFRS 4 - Insurance Contracts. The objective of the new standard is to ensure that an entity provides relevant information that faithfully represents the rights and obligations arising from insurance contracts issued. The IASB developed the standard to eliminate inconsistencies and weaknesses in existing accounting policies, providing a single principle-based framework to take account of all types of insurance contracts, including reinsurance contracts that an insurer holds. The new standard also includes presentation and disclosure requirements to improve comparability between entities in this segment. The Directors do not expect the adoption of this standard to have any impact on the Bank's financial statements.
- "**Definition of a Business (Amendments to IFRS 3)**" document (issued on 22 October 2018). The document provides a number of clarifications on 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 meet the business definition, an integrated set of activities/processes and assets must include, as 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 make it clear that a business can exist even without the presence of all the necessary inputs and processes to create an output. The amendment also introduced a test ("concentration test"), optional for the entity, to determine whether a set of activities/processes and assets purchased is not a business. If the test provides a positive result, the set of activities/processes and assets purchased does not constitute a business and the standard does not require further testing. In the event that the test provides a negative result, the entity shall perform further analysis of the activities/processes and assets purchased to identify the presence of a business. The amendments apply to all business combinations and acquisitions of activities after 1 January 2020, but early adoption is permitted. The Directors do not expect the adoption of this amendment to have any impact on the Bank's financial statements.
- Amendment **to IFRS 10 and IAS 28 Sales or Contribution of Assets between an Investor and its Associate or Joint Venture** (issued on 11 September 2014). The document was published in order to resolve the current conflict between IAS 28 and IFRS 10 concerning the measurement of profit or loss resulting from the sale or contribution of a non-monetary asset to a joint venture or associate in exchange for a share in the latter's capital. The IASB has currently suspended the application of this amendment. The IASB has currently suspended the application of this amendment. The Directors are currently assessing the possible effects of the introduction of these amendments on the Bank's financial statements.

Section 3 - Significant events subsequent to the reporting period

On 12 March 2020, the Board of Directors of Banca Profilo examined these draft financial statements and authorised their publication.
Referring to the Report on Operations for a general discussion on developments after the end of the financial year, it should be noted that after 31 December 2019 and up to the date of approval of this report, no facts or events have occurred that would lead to an adjustment to the results of the financial statements as at 31 December 2019.

On the other hand, it should be noted that, in accordance with IAS 10, **the declaration of the international emergency due to the Coronavirus epidemic**, as such event and its consequences occurred after the reporting date, does not require adjustments to be made to the financial statements. In fact, on 30 January 2020 the World Health Organization declared the Coronavirus epidemic as an international public health emergency. Given the absolute randomness of the spread of the epidemic and the consequent manoeuvres that will be put in place by Governments to counter it, it is not possible to exclude significant effects on the Italian and international economy that could entail the need to make a new estimate of the financial statement values in light of the information that will become available. For further details on the related elements of uncertainty, please refer to Section 5 "Other aspects" in Part A of the Notes.

Section 4 - Other matters

Management and coordination activities

Banca Profilo is subject to the management and coordination of the Parent Company Arepo BP pursuant to Art. 2497 *et seq.* of the Italian Civil Code.

Any relations between the Bank and Arepo BP are indicated in "Part H - Related-party transactions" to which reference should be made.
As at the date of preparation of these financial statements, the figures for the financial statements as at 31 December 2019 of Arepo BP S.p.A. are not available, as required by Article 2497-*ter* of the Italian Civil Code, as they have not yet been approved. The figures relating to the financial statements as at 31 December 2018 are therefore attached.

Use of estimates and assumptions when preparing financial statements

The preparation of the financial statements also requires the use of estimates and assumptions that can have a significant impact on the balance sheet and income statement amounts, as well as on disclosure of contingent assets and liabilities reported in the financial statements. The preparation of these estimates involves the use of available information and the adoption of subjective evaluations, also based on historical experience, used for the formulation of reasonable assumptions for the recognition of operating events. By their nature, the estimates and assumptions utilised may vary from one period to another and, therefore, it cannot be ruled out that in subsequent periods the actual amounts stated in the financial statements may differ, even to a significant extent, as a result of changes in subjective assessments made.

Among the main factors of uncertainty that could affect the future scenarios in which the bank will operate, there are the possible developments on the global and Italian economy directly or indirectly related to the Coronavirus epidemic (COVID-19), whose impacts to date cannot be estimated. It is believed that the information and sensitivity analyses provided with reference to the main items of the financial statements subject to estimate are capable of reflecting the impacts related to the elements of uncertainty assumed at the date of preparation of this Financial Report.

The main cases for which the use of subjective assessments by management was necessary are as follows:

- use of valuation models to measure the fair value of financial instruments not listed in active markets;
- the quantification of expected losses on receivables, securities, guarantees issued and commitments;
- the determination of the fair value of financial instruments to be used for financial statement reporting purposes;
- assessment of the fairness of the value of goodwill and other intangible assets;
- the quantification of provisions for risks and charges and the assessment of contingent liabilities;
- the quantification of personnel funds;
- estimates and assumptions on the recoverability of deferred tax assets;

It should be noted that the adjustment of an estimate may occur as a result of changes in the circumstances on which it was based or as a result of new information or more experience.

The change in the estimate is applied prospectively and therefore has an impact on the income statement
for the year in which the change takes place and, if necessary, for future years.
In this regard, it should be noted that 2019 was not characterised by changes in the estimate criteria already applied for the preparation of the Financial Statements as at 31 December 2018, except for the provisions of IFRS 9 with reference to the determination of the expected loss on receivables, securities, guarantees issued and commitments. It is also determined by information of a prospective nature such as, in particular, the development of the macroeconomic scenarios used in the calculation of value adjustments. The development of these scenarios, as well as their weighting, shall be periodically assessed and updated if necessary.

The description of the accounting policies applied to the main aggregates of the financial statements provides the information necessary to identify the main assumptions and subjective assessments used in the preparation of the financial statements. For further detailed information regarding the composition and the relative book value of the items affected by the estimates in question, please refer to the specific sections of the notes.

Transparency requirements in reporting public disbursements

In accordance with the provisions of the so-called "Annual law for the market and competition" (Law no. 124/2017), which provides that as from 2018, companies that receive grants, contributions, remunerated assignments and in any case economic advantages of any kind from Public Administrations or parties connected to the latter, are required to indicate these amounts in the notes to the financial statements, it should be noted that, also taking into account the indications provided by the in-depth document issued by Assonime on 14 February 2018, Banca Profilo has received aid of € 95 thousand and this has been registered in the National Aid Register (*Registro Nazionale degli Aiuti* - RNA).

Method of determining the fair value of securities

A. Securities listed on active markets

Where a security is deemed to be listed on an active market, considering as such a market where quoted prices are readily and regularly available and such prices represent actual market transactions that occur regularly in normal trading, the market price of the security at the valuation date is certainly the best representation of its fair value. Consequently, in the case of a listing on an active regulated market, the security is valued on the basis of the last available price recorded on the trading market.

Where a security is traded on several regulated markets, the price found on the most advantageous market to which the Bank has immediate access shall be used. In the case of listing on an unregulated stock exchange, the security is valued on the basis of the median of the relevant contribution prices available at the valuation date[3].

The market price used is:

- the bid price, in the case of a net open position to buy ("long net position");
- the ask price, in the case of a net open position to sell ("short net position");
- the mid-price, in the case of a "book" managed financial instrument, consistently with the valuation of all other derivative instruments that make up the so-called "book" component, as the securities are the instruments for obtaining positions offset against market trends (so-called offsetting position).

In the case of securities traded in active but unregulated markets, prices are normally recorded on Bloomberg, on the Historical Price ("HP") page: the median is calculated among all the relevant contributions available[4].

B. Securities not listed on active markets

If, on the basis of the above criteria, a security cannot be considered to be listed on an active market, Risk Management proceeds to determine its fair value considering all relevant market information that is in any fashion available and favouring, where possible, the use of parameters that can be directly observed on the market over those that cannot be observed on the market.

As part of the process of determining the fair value of a security not traded in an active market, the following criteria are taken into account:

a. prices of recent transactions or market contributions/listings available at the valuation date, even if they relate to a market considered inactive;
b. valuations provided by the issuer or by a calculation agent or, in any case, by an

[3] Where contributions are available that already represent an average of the prices of several brokers (e.g. ICMA contributions), these contributions are used
[4] The definition of relevant contribution is that provided in point e) of the previous paragraph

external valuation service: since these are not prices resulting from actual market transactions, these prices are considered with particular caution and are in any case subject to verification by the Bank;

c. mark to model evaluations, carried out by discounting the expected future flows of the security on the basis of rate curves including a spread deemed appropriate in relation to the issuer risk and the liquidity of the security; for the determination of the spread, the spreads recorded on listed securities of the same issuer with similar duration and liquidity characteristics or those recorded on credit default swaps on the same issuer and of the same maturity or those recorded on issuers with similar risk characteristics (by rating, sector, country) are taken as reference; periodically (and at the time of initial purchase), Risk Management calibrates the valuation technique and verifies its validity using prices of current observable market transactions or based on any available observable market data.

Risk Management verifies the significance of the valuation sources used by comparing, for each sale transaction, the price realised with the price relating to the last valuation carried out, stripped of any price variation attributable to the general trend of relevant market factors.

Disclosure in relation to high-risk financial instruments

In line with the recommendations of the Financial Stability Forum in its report issued on 7 April 2008 and with the Bank of Italy's request in its communication no. 671618 of 18 June 2008 in relation to market disclosure, it is hereby declared that, as at 31 December 2019, the Bank had no outstanding exposure in financial instruments considered to be high risk or involving greater risk than previously commonly believed, including Collateralised Debt Obligations (CDOs), Residential Mortgage-Backed Securities (RMBS), Commercial Mortgage-Backed Securities (CMBS), Special Purpose vehicles and other leveraged finance instruments.

Option for tax consolidation

Banca Profilo, together with its subsidiaries Arepo Fiduciaria Srl and Profilo Real Estate Srl, has joined the so-called "national tax consolidation" scheme provided for by articles 117-129 of the T.U.I.R. (Italian consolidated tax act), of which Arepo BP Spa is the consolidating company as the parent company. With the exercise of the option, the total net income or tax loss of each company participating in the tax consolidation, together with withholdings, deductions and tax credits, are transferred to the parent company, producing a single taxable income or a single loss that can be carried forward resulting from the algebraic sum of its own income or losses and those of the participating subsidiaries and, consequently, a single tax debit/credit.

Auditing

These financial statements as at 31 December 2019 have been audited by Deloitte & Touche S.p.A.

A.2 - MAIN ITEMS OF THE FINANCIAL STATEMENTS

The accounting standards adopted for the preparation of Banca Profilo's financial statements are set out below.

1 - Financial assets measured at fair value through profit and loss

(a) Classification criteria

This category includes financial assets held for trading, financial instruments that are held with the intention of generating profits in the short term from variations in the prices of said instruments and derivative contracts not designated as hedges (HTS business model), in particular:

- listed and unlisted debt securities;
- listed equity securities;
- unlisted equity securities only when their fair value can be reliably determined;
- derivative contracts, with the exception of those designated as hedging instruments, which have a positive fair value at the balance sheet date; if the fair value of a derivative contract subsequently becomes negative, it is recorded under financial liabilities held for trading.

The item also includes financial assets that must be measured at fair value, represented by financial assets that do not meet the requirements for valuation at amortised cost or fair value through other comprehensive income (so-called "SPPI test" not passed) or that are not held under a HTS business model and financial assets designated at fair value, i.e. financial assets so defined at initial recognition. In relation to such cases, an entity may irrevocably designate a financial asset as measured at fair value through profit and loss if, and only if, this significantly reduces an inconsistency in measurement.

The derivative is a financial instrument or other contract with all three of the following characteristics:

a) its value changes in response to changes in a specific interest rate, the price of a financial instrument, the price of a good, the exchange rate of a foreign currency, an index of prices or rates, a credit rating or credit index or other variables;
b) it does not require an initial net investment or requires an initial net investment lower than would be required by other types of contracts from which similar responses to changing market factors can be expected;
c) it will be settled at a future date.

This category includes financial and credit derivatives. The former includes forward contracts for the purchase and sale of securities and currencies, derivative contracts with underlying securities and those without underlying securities linked to interest rates, indexes or other assets, and derivative contracts on currencies. Derivative contracts also include those that may be embedded in other complex financial instruments, which have been recognised separately from the host instrument because:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the primary contract;
- the embedded instruments, even if separate, meet the definition of a derivative;
- the hybrid instruments to which they belong are not measured at fair value with changes in value recognised in the income statement.

This item also includes investments subject to significant influence or joint control which, IAS 28 and IFRS 10 respectively allow for assignment to this portfolio.
Reclassifications to other categories of financial assets are only possible if the entity changes its business model for the management of financial assets. In these cases, which are expected to be highly infrequent, financial assets may be reclassified from the category 'measured at fair value through profit and loss' to one of the other two categories envisaged by IFRS 9 (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. The date of reclassification and its value will be taken into account for the calculation of the effective interest rate of the reclassified asset, and for the stage assignment credit risk allocation activity.

(b) Recognition criteria
The initial recognition of debt and equity securities takes place on the "settlement date", while derivative instruments are recognised on the "subscription date".
The initial book value is equal to the cost (purchase price) intended as the fair value of the instrument, without considering any transaction costs or revenues directly attributable to the instrument which are recorded in the income statement.

(c) Measurement criteria
Subsequent to initial recognition, financial assets held for trading are measured at fair value, with changes recognised in the income statement under item 80 "Net profit (loss) from trading" and item 110 "Net profit (loss) from other financial assets and liabilities measured at fair value through profit and loss" - a) financial assets and liabilities designated at fair value and - b) other financial assets mandatorily measured at fair value.
Market prices are used to determine the fair value of financial instruments listed on active markets.
An active market is defined as one where listings, reflecting normal market transactions, are readily and regularly available through stock exchanges, brokers, intermediaries, companies in the sector, listing services or authorised bodies and express the price of actual and regular market transactions that occurred during a normal reference period.
In relation to securities, the Bank has identified two conditions for a security to be considered listed on an active market, namely:

- the security must be traded on a regulated market or on an alternative stock exchange: a listing on a regulated market, therefore, is in itself neither a necessary nor sufficient condition for an active market to be considered as such;
- the price expressed by that market must be "significant", i.e. the result of regular and effective transactions between counterparties who freely decide to buy and sell and are not forced to do so by their particular stress conditions.

In the absence of an active market, for the purposes of determining the fair value of securities, all relevant market information that is in some way available is considered, favouring, where possible, the use of directly observable market parameters such as:

- prices of recent transactions or market contributions/listings available at the valuation date, even if they relate to a market considered inactive;

- valuations provided by the issuer or by a calculation agent or in any case by an external valuation service, even if, since these are not prices resulting from actual market transactions, they are considered with particular caution and are subject to verification by the Bank;
- mark to model type valuations, carried out by discounting the expected future flows of the security taking into account all available information.

With regard to other financial instruments, i.e. unlisted derivatives, the fair value corresponds to the presumed replacement cost obtained from the price of listed derivative contracts with identical characteristics (by underlying, exercise price and maturity) or by discounting future cash flows (certain or estimated) at market rates recorded by information circuits normally used internationally and/or applying best practice valuation models.

(d) Derecognition criteria
Financial assets held for trading are derecognised when the contractual rights on the cash flows arising from such assets expire or when the financial assets are sold with the transfer of substantially all related risks and rewards.
Financial assets sold are derecognised even when the bank retains the contractual right to receive the cash flows deriving from them, but at the same time assumes the contractual obligation to pay the same flows to third parties.
Securities received as part of a transaction that contractually envisages their subsequent sale and securities delivered as part of a transaction that contractually envisages their repurchase are not recorded in or written off the financial statements.

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

(a) Classification criteria
This category includes financial assets that simultaneously meet the following conditions:
- the financial asset is held according to a business model whose objective is achieved through the collection of contractually envisaged cash flows and through selling ("Hold to Collect and Sell" business model);
- the contractual terms of the financial asset envisage, on specific dates, cash flows represented solely by payments of principal and interest on the amount of capital to be repaid (so-called "SPPI test" passed).

This item also includes equity instruments, not held for trading purposes, for which the option to designate at fair value through other comprehensive income was exercised at the time of initial recognition.
Therefore, the following are included in this item
- debt securities that are part of a Hold to Collect and Sell business model and that have passed the SPPI test;
- equity stakes, which cannot be classified as representing control, an affiliation, or joint control and are not held for trading purposes, for which the fair value through other comprehensive income option was chosen;
- loans that are part of a Hold to Collect and Sell business model and that have passed the SPPI test.

Reclassifications to other categories of financial assets are only possible if the entity changes its business model for the management of financial assets. In these cases, which are expected to be highly infrequent, financial assets may be reclassified from the category 'measured at fair value through profit and loss' to one of the other two categories envisaged by IFRS 9 (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. If assets are reclassified from this category to the amortised cost category, the cumulative profit (loss) recorded in the valuation reserve is adjusted to the fair value of the financial asset at the reclassification date. In the case of reclassification in the category of fair value through profit and loss, the accrued profit (loss) previously recorded in the valuation reserve is reclassified from shareholders' equity to profit (loss) for the year.

(b) Recognition criteria
The initial recognition of debt and equity securities takes place on the "settlement date" and the disbursement date for loans.
Financial instruments are recognised on initial recognition at fair value, which generally coincides with their cost (purchase price) including any transaction costs or income directly attributable to them.

(c) Measurement criteria
Subsequent to initial recognition, financial assets are measured at fair value with the recognition in the income statement of the remuneration of the instrument calculated on the basis of the IRR method, while changes in fair value are recognised in a specific equity item (item 110 - Valuation reserve), contributing to comprehensive in-

come (in item 140 - Financial assets other than equity securities measured at fair value through other comprehensive income), until the financial asset is derecognised or an impairment loss is recognised (in which case a loss is recognised in item 130 - Net value adjustments/reversals for credit risk); at the time of disposal the cumulative profit or loss is then reversed to the income statement under item 100 b) - Income (loss) from disposal or repurchase of financial assets measured at fair value through other comprehensive income.
The equity instruments selected for classification in this category are measured at fair value and the amounts recognised as a contra-entry to equity and contribute to comprehensive income under item 20 - Equity securities measured at fair value through other comprehensive income, and must not be subsequently transferred to the income statement, even in the event of disposal (in the event of disposal, cumulative profits and losses are recognised under item 140 – Reserves). The only component of these equity securities that is recognised in the income statement is represented by the related dividends. Fair value is determined on the basis of the criteria already illustrated for Financial assets measured at fair value through profit and loss.
Financial assets measured at fair value through other comprehensive income - both in the form of debt securities and receivables - are subject to verification of the significant increase in credit risk (impairment) as required by IFRS 9, similar to Financial assets measured at amortised cost, with the consequent recognition in the income statement of a value adjustment to cover expected losses.
All instruments are classified into three classes:

- assets with performance in line with expectations (stage 1 assigned on origination date);
- assets with performance significantly below expectations (stage 2 - performing which showed a deterioration in their creditworthiness);
- non-performing assets (stage 3 or Non-Performing).

The classification must be based on the creditworthiness of the counterparty. The creditworthiness at the date the credit arises shall be compared with the creditworthiness at the valuation date. For assets in the first merit class, a valuation process must be applied to expected losses over a 12-month time period. For assets in classes two and three, the valuation process must be applied throughout the life of the instrument. The process for stages 1 and 2 is generic while it is analytical for NP positions (stage 3). Equity securities are not subject to the impairment test.

(d) Derecognition criteria

Financial assets are derecognised when the contractual rights on the cash flows arising from such assets expire or when the financial assets are sold with the transfer of substantially all related risks and rewards. The economic result of the sale of financial assets is charged to the income statement except for equity instruments.

3 - Financial assets measured at amortised cost

(a) Classification criteria

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

- the financial asset is held according to a business model whose objective is achieved through the collection of contractually envisaged cash flows ("Hold to Collect" business model);
- the contractual terms of the financial asset envisage, on specific dates, cash flows represented solely by payments of principal and interest on the amount of capital to be repaid (so-called "SPPI test" passed).

The following are included in this item once the two requirements set out above have been met:

- loans and advances to banks in various technical forms;
- loans and advances to customers in various technical forms;
- debt securities.

This category also includes operating receivables connected with the provision of financial services and activities.
Reclassifications to other categories of financial assets are only possible if the entity changes its business model for the management of financial assets. In these cases, which are expected to be highly infrequent, financial assets may be reclassified from the category 'measured at amortised cost' to one of the other two categories envisaged by IFRS 9 (Financial assets measured at fair value through profit and loss 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. In the event of reclassification from the category in question to fair value through profit and loss, the cumulative profit (loss) will be recognised in the income statement. If, instead, assets are reclassified to the fair value through other comprehensive income category, the cumulative profit (loss) will be recognised in shareholders' equity under the appropriate valuation reserve.

(b) Recognition criteria

Receivables are initially recognised at the disbursement date or, in the case of a debt security, at the settlement date, on the basis of the fair value of the financial instrument, which is equal to the amount disbursed, or subscription price, including costs or revenues directly attributable to the instrument and determinable from inception, even if paid at a later date. All charges that are reimbursed by the debtor counterparty or that are attributable to internal administrative costs are excluded. In the case of credit transactions concluded at conditions other than market conditions, the fair value is determined using specific valuation techniques; the difference with respect to the amount disbursed or the subscription price is charged directly to the income statement.

(c) Measurement criteria

Subsequent to their initial recognition, "Financial assets held to maturity" are measured at amortised cost, using the effective interest rate method. The result of the application of this method is posted through profit and loss under item 10. Interest income and similar revenues.

Profits or losses relative to these assets are posted to the income statement when the assets are derecognised or impaired.

When preparing the financial statements or interim reports, positions in this category are subject to impairment, with the value adjustments identified recorded in the income statement.

All instruments are classified into three classes:

- assets with performance in line with expectations (stage 1 assigned on origination date);
- assets with performance significantly below expectations (stage 2 - performing which showed a deterioration in their creditworthiness);
- non-performing assets (stage 3 or Non-Performing).

The classification must be based on the creditworthiness of the counterparty. The creditworthiness at the date the credit arises shall be compared with the creditworthiness at the valuation date. For assets in the first merit class, a valuation process must be applied to expected losses over a 12-month time period. For assets in classes two and three, the valuation process must be applied throughout the life of the instrument. The process for stages 1 and 2 is generic while it is analytical for NP positions (stage 3). If the financial assets in question are performing (stages 1 and 2), they are subjected to an assessment, aimed at defining the value adjustments to be recorded in the financial statements, at the level of individual credit relationships (or "securities tranches"), on the basis of the risk parameters represented by probability of default (PD), loss given default (LGD) and exposure at default (EAD). The valuation also takes into account the guarantees received in place.

Loans and securities for which no objective evidence of loss has been individually identified fall within the so-called "performing loans" (performing positions) and are subject to collective valuation.

The valuation model for the generic fund is established on the basis of the following formula:

ECL = EAD x PD x LGD

where:

ECL = Expected Credit Loss EAD = Exposure at Default PD = Probability of Default LGD = Loss given Default

Collective write-downs of securities and loans are therefore calculated according to the following principles:

- at each reporting date, if the credit risk of a financial instrument has not significantly increased with respect to the date of disbursement or purchase (stage 1), the expected loss for that financial instrument should be measured as the amount of expected losses in the following 12 months;
- at each reporting date, if the credit risk of a financial instrument has significantly increased with respect to the date of disbursement or purchase (stage 2), the expected loss for that financial instrument is measured as the amount of expected losses over the remaining life of the instrument (lifetime).

For the purposes of staging financial assets, each asset is classified at the origination date in "stage 1" and subsequently:

- with regard to securities, the deterioration of three notches on the rating attributed to the instrument itself by external rating agencies, together with a final speculative grade rating, is considered evidence of a significant increase in credit risk, and therefore a move to "stage 2" for the security;
- with regard to loans, the deterioration of three notches on the internal rating assigned to the position is considered evidence of a significant increase in credit risk. In this regard, it is considered that, in relation to loans, the credit risk of an instrument may not be considered significantly increased if, at the measurement date, the credit risk of the instrument itself is considered low on the basis of the assessments made by the Credit Committee.

The PDs used are estimated starting from the construction of Pit (Point in time) migration matrices from historical databases on which future PDs are built based on simulations of different macroeconomic scenarios. Finally, PD averages weighted by the probability of occurrence of the scenarios are calculated.
The LGDs used are estimated by models that make them Point in Time and forward looking and can be adjusted based on the guarantees received.
An exception is made for trade receivables, for which the simplified approach provided for by the standard is applied, according to which the credit classification takes place directly in stage 2 (therefore no staging activities are envisaged with reference to performing loans), and the calculation of the Expected Credit Loss (ECL) lifetime on the basis of a provision matrix mechanism linked to each individual loan relationship, depending on the status of the fiduciary mandate (the ECL varies depending on whether the customer relationship is still active or terminated) and the seniority of the loan (the ECL is increased on loans exceeding certain seniority thresholds).
For the classification of non-performing exposures into the various risk categories (bad loans, unlikely to pay, non-performing past-due and/or overdrawn exposures), Banca Profilo refers to the relevant regulations issued by the Bank of Italy. Non-performing loans are subject to an analytical valuation process regardless of the amounts involved. The amount of the value adjustment to be made to each loan is equal to the difference between its book value at the time of measurement (amortised cost) and the present value of expected future cash flows, calculated by applying the original effective interest rate. The envisaged cash flows take into account the expected recovery, estimated recovery times and estimated realisable value of any guarantees. Cash flows relative to loans that are expected to be repaid in the short term are not discounted. The original effective rate of each loan is unvaried over time, even if there has been a restructuring of the agreement which has led to a change in the contractual rate and even if the loan becomes, in practice, contractually non-interest-bearing. Impairment losses are posted to the income statement under this item.

(d) Derecognition criteria

Financial assets measured at amortised cost are derecognised when the contractual rights on the cash flows arising from such assets expire or when the financial assets are sold with the transfer of substantially all related risks and rewards.
For all positions classified as bad loans, the Bank assesses whether it is appropriate to continue to maintain the bad loan as the out-of-court or legal actions underway allow a reasonable expectation of recovery, even partial, or whether it is appropriate to proceed with a total or partial write-off or derecognition, respectively, by virtue of the conclusion of the recovery process or the circumstance that there is no reasonable prospect of recovery.
A write-off, in accordance with IFRS 9, is the reduction of the gross book value of the loan resulting from the acknowledgement that there are no reasonable expectations of its recovery for amounts exceeding those considered collectable or already collected.
It does not imply a waiver by the bank of its legal right to recover the loan and must be effected 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 in order to determine whether a position is among those to be assessed for the purposes of a possible write-off depend on the possible presence of bankruptcy proceedings, the levels of coverage and the seniority of the position in the bad loan status.

4 - Hedging transactions

Banca Profilo avails itself of the possibility, provided for by IFRS 9, to continue to fully apply the provisions of IAS 39 on hedge accounting.
Hedging transactions are defined as the designation of a financial instrument capable of neutralising, in whole or in part, the profit or loss (related to market risks, such as interest rate risk, exchange rate risk or price risk, or the issuer's credit risk) deriving from a change in the fair value or cash flows of the hedged instrument. The hedging intent must be formally defined, not retroactive and be consistent with the risk hedging strategy set out by the Bank's Management. At each balance sheet and mid-year reporting date, it is required to verify that the hedge implemented through the use of the derivative instrument is highly effective in offsetting changes in fair value or expected cash flows of the hedged item; this verification must be prospective and retrospective.
Initial recognition of hedging derivatives takes place on the "trade date", based on their fair value on that date.
The accounting of derivatives as hedging instruments is permitted by IAS 39 only under specific conditions, i.e. when the hedging relationship is:

- clearly defined and documented;
- measurable;
- currently effective.

The coverage relationship ceases when
- the derivative expires, is sold, terminated or exercised;
- the hedged item is sold, expires, or is repaid;
- it is no longer highly likely that the hedged future transaction will occur.

The fair value of the derivative financial instruments designated as hedging is recognised under item 50 - Hedging derivatives under assets if the fair value of the derivative is positive, while if the fair value of the hedging instrument is negative it is recognised under item 40 - Hedging derivatives under liabilities.
IAS 39 recognises three types of hedging:
- hedging of the fair value of an asset or liability already recorded in the financial statements; in this case the profit or loss deriving from changes in the fair value of the hedging instrument is immediately reflected in the income statement, as are the profits or losses from the valuation of the hedged instrument;
- cash flow hedging; in this case the effective portion of the profit or loss on the hedging instrument is initially recognised in shareholders' equity (recognising it in the income statement as the hedged instrument reflects the related flows in the income statement); the ineffective portion of the profit or loss on the hedging instrument is instead recognised directly in the income statement;
- hedging of a net investment in a foreign entity; the accounting is the same as for cash flow hedging transactions.

5 - Equity investments

(a) Classification criteria
This item includes investments held in subsidiaries, jointly controlled companies, associates or companies subject to significant influence.
A subsidiary is defined as the company in which the investor owns directly or indirectly, through its subsidiaries, more than half of the voting rights (51%). Control also exists when the investor owns half, or a smaller portion, of the votes exercisable at the shareholders' meeting if it has:
- control of more than half of the voting rights by virtue of an agreement with other investors;
- the power to determine the financial and operating policies of the investee company by virtue of a statutory clause or a contract;
- the power to appoint or remove the majority of the members of the Board of Directors or equivalent Corporate Governance Body, and control of the investee company is held by that Board or Body.

A jointly controlled company is defined as a company for which contractual, shareholder or other agreements are in place for the joint management of the business and the appointment of directors.
An associate is defined as a company in which at least 20% of the voting rights are held or over which the investor exercises significant influence, also due to particular legal ties, such as participation in shareholders' agreements; significant influence is the power to participate in determining the financial and operating policies of the investee without having control or joint control.

(b) and (c) Recognition and measurement criteria
Investments in associates or jointly controlled companies are recorded at purchase cost plus any additional charges.

If evidence emerges of a reduction in the value of an equity investment, it is necessary to compare the book value of the equity investment with its recoverable value, determined by reference to its value in use. The value in use is in turn determined by means of valuation models; if it is not possible to collect sufficient information for the definition of the value in use through the application of appropriate valuation methodologies, the value in use is considered to be the value of the company's shareholders' equity.

If it emerges that the recoverable value is lower than the book value, the related difference is recognised in the income statement under item "220. Gains (losses) on equity investments". If the reasons for the value adjustment no longer apply, the related reversals are charged to the same income statement item.

Equity investments considered as "strategic investments", which do not fall under the above definitions and are different from those that may be recorded under item "110. Non-current assets and disposal groups held for sale" are classified as assets designated at fair value through other comprehensive income and treated accordingly.

(d) Derecognition criteria
Equity investments are derecognised when the contractual rights on the cash flows arising from them expire or when the investments are sold with the substantial transfer of all risks and rewards of ownership.

6 - Property, plant and equipment

(a) Classification criteria

These are property, plant and equipment (technical plant, furniture, furnishings and equipment of all kinds) used in the business and which are expected to be used for more than one period. Property, plant and equipment include the costs of leasehold improvements; when these costs can be separated from the assets themselves and if they do not have independent functionality and usability but future benefits are expected from them, they are recorded under "other assets" and are depreciated over the shortest period between the expected useful life of the improvement and the residual lease term.
As from 1 January 2019, the item also includes a) rights of use acquired by the lessee through lease contracts and relating to the use of a tangible asset, b) assets granted under operating leases by the lessor and c) improvements and incremental expenses incurred on owned assets or rights to use property, plant and equipment relating to lease contracts.

(b) Recognition criteria

Property, plant and equipment are recorded at cost, including any additional charges directly attributable to the purchase and start-up of the asset. Non-recurring expenditures for maintenance which involve an increase in future economic benefits are booked as an increase in the value of the assets, while expenses for ordinary maintenance are booked to the income statement. Property, plant and equipment, including rights of use acquired through lease contracts, are recognised only when future economic benefits associated with the asset acquired are identified, as well as when the cost of the asset acquired can be reliably determined.
The rights of use acquired through lease contracts arise from the lessee's commitment to pay a fee for a certain period of time for the use of a tangible asset. The right of use is recorded in the Balance Sheet on the date on which the lease contract commences, i.e. on the date on which the lessee can exercise the right of use. The book value of the right of use is determined considering the sum of the financial liability for the lease, the initial direct costs as well as any costs that the lessee will have to incur to restore the leased asset. At the same time, financial liabilities measured at amortised cost will include a financial liability arising from the signing of the lease contract, calculated as the present value of the payments to which the lessee has committed, discounted at the interest rate implicit in the contract or at the lessee's incremental borrowing rate.
For the purpose of recording the right of use deriving from a lease contract, components not directly related to the lease, such as, for example, ancillary services provided by the lessor, must be separated and recognised in the income statement in the financial year in which they are accrued. The lessee is exempt from the recognition of the right of use deriving from a lease contract if the contract is short-term (with a residual term of 12 months or less) and does not provide for an option to purchase the asset by the lessee, and if the asset covered by the contract is of low value. When registering the right of use, an assessment is made of the expected duration of the contract, also taking into account the presence of extension options and termination options, as well as the relative probability of their exercise.

(c) Measurement criteria and revenue recognition criteria

Property, plant and equipment are valued at cost less accumulated depreciation and any impairment losses in accordance with IAS 16. The same criterion is also adopted for investment property, having opted for the option of valuation after cost.
Property, plant and equipment are systematically depreciated over their useful life, understood as the period of time over which the asset is expected to be usable by the company, using the straight-line method. Works of art are not subject to depreciation as their value is generally expected to increase with the passage of time.
In view of the fact that property, plant and equipment may include components with different useful lives, land, whether separate or included in the value of the building, is not subject to depreciation as a fixed asset with an indefinite useful life.
At the end of each financial year or interim period, in the presence of situations that indicate the existence of lasting impairment losses, the recoverable value of the asset, which corresponds to the greater of its value in use (current value of the economic functions of the asset) and its exchange value (presumed disposal value net of transaction costs), is compared with its book value net of depreciation. Any adjustments are posted to the income statement under item 180 "Net value adjustments/reversals on property, plant and equipment". Where the reasons for impairment cease to exist, a reversal is made, which may not exceed the value that the asset would have had, net of depreciation in the absence of previous impairment losses.
With reference to the rights of use resulting from the application of IFRS 16, during the term of the contract from which the right of use originates, it is necessary to restate the liability recorded on the liabilities side of the balance sheet if there

are changes in the payments due for the contract; in return, the book value of the right of use will be modified by the amount equal to the restatement of the liability.

(d) Derecognition criteria
Property, plant and equipment is derecognised from the balance sheet upon disposal, or when the asset is permanently removed from use, and no future economic benefits are expected from its disposal. Gains and losses deriving from the disposal or sale of property, plant and equipment are calculated as the difference between the net sale price and the book value of the asset and are recorded in the income statement on the same date in which they are eliminated from the accounts.
As far as the right of use deriving from lease contracts is concerned, it is derecognised from the Balance Sheet at the end of the contract.

7 - Intangible assets

(a) Classification criteria
IAS 38 defines intangible assets as non-monetary assets, without physical substance but identifiable, used in the performance of the company's business and with a long-term duration. The characteristics necessary to meet the definition of intangible assets are:

- identifiability
- control of the resource in question
- existence of future economic benefits.

In the absence of one of the aforementioned characteristics, the expenditure to acquire or generate the same internally is recognised as a cost in the year in which it is incurred. Intangible assets include software for long-term use and goodwill.
Goodwill is classified under intangible assets. Goodwill represents the positive difference between the purchase cost and the fair value of assets and liabilities acquired as part of business combinations.

(b) Recognition criteria
Intangible assets are recorded at purchase cost including any additional charges and increased by subsequent expenses incurred to increase their initial economic functionality.

(c) Measurement criteria
Intangible assets of limited duration are valued at cost net of amortisation, recorded under item 190 "Net value adjustments/reversals on intangible assets", as governed by IAS 38.
At the end of each financial year or interim period, in the presence of situations indicating the existence of lasting impairment losses, the recoverable value of the asset is estimated, with the difference between the book value of the asset and its recoverable value recognised in the income statement under item 190 "Net value adjustments/reversals on intangible assets".
Intangible assets with an indefinite useful life, such as goodwill, are not amortised but subjected to an impairment test at least once a year, even if no indication of significant impairment has been found.
With the exception of goodwill, for which the impairment losses found can no longer be reinstated in subsequent years, the other intangible assets previously written down may be reversed, but the new book value may not exceed the net book value that would have been determined at the same date in the absence of impairment in previous years.

(d) Derecognition criteria
Intangible assets are derecognised following disposals or when they have exhausted their full economic functionality and no future economic benefits are expected.

Intangible assets - Goodwill

(a) Classification criteria
Goodwill included in intangible assets, recognised in accordance with the criteria established by IFRS 3, represents the positive difference between the purchase cost and the fair value, at the same date, of the assets and liabilities acquired as part of business combinations.

(b) and (c) Recognition and measurement criteria
An intangible asset can be recorded as goodwill when the positive difference between the fair value of the assets acquired and the purchase cost of the equity investment (including additional charges) is representative of the future income generating capacity of the equity investment (goodwill). If the difference proves to be negative (badwill) or in the event that the goodwill is not justified by the equity investment's future income capacity, said difference is recognised directly in the income statement.
Every year (or whenever there is evidence of impairment) a test is carried out to verify the adequacy of the value of goodwill (impairment test). To this end, the cash generating unit to which goodwill is allocated is identified, known as CGU, which represents the minimum level at which goodwill is monitored in accordance with the business model adopted.
The amount of the impairment loss is determined by the difference between the book value of goodwill and its recoverable value, if lower. This

recoverable value is equal to the higher of the fair value of the cash generating unit, net of any selling costs, and its value in use. The resulting value adjustments are posted to the income statement under item 240 "Value adjustments to goodwill". These impairment losses can no longer be reversed in subsequent years.

(d) Derecognition criteria
Intangible assets are derecognised from the balance sheet upon disposal or when no future economic benefits are expected.

8 - Non-current assets and disposal groups held for sale

Banca Profilo does not hold assets classified as non-current assets and disposal groups held for sale or liabilities associated with assets held for sale, nor does it hold equity interests classifiable under this item, which meet the criteria set out in IFRS 5.

9 - Current and deferred taxes

Current taxes are determined by applying the tax rates and tax regulations in force and, to the extent that they have not been paid, are recognised as a liability. Income taxes are posted to the income statement, excluding those relating to items directly credited or charged to shareholders' equity. Income tax provisions are determined on the basis of a prudential forecast of current tax expense, deferred tax assets and liabilities.
With regard to deferred taxation, the balance sheet liability method was adopted. In particular, prepaid and deferred taxes are calculated on the basis of temporary differences – without time limits – between the value attributed to an asset or liability according to statutory criteria and the corresponding value adopted for tax purposes.
Deferred tax assets are recognised in the financial statements to the extent that there is a likelihood of their recovery, assessed on the basis of the Bank's ability to continuously generate positive taxable income. They are recorded under item 100 b) of the assets. Deferred tax liabilities are recorded under item 60 b) of liabilities and represent the tax charge corresponding to all taxable temporary differences existing at the end of the year.
Deferred tax assets and deferred tax liabilities are constantly monitored and are recognised at the tax rates that are expected to apply in the year in which the tax asset will be realised or the tax liability settled, based on the tax rates and tax regulations in force. The balancing entry for accounting assets and liabilities, both current and deferred, generally consists of the income statement under item 270 "Tax on income for the year from continuing operations".
In addition, the tax reserve is adjusted to cover the charges which might result from any already notified tax assessments or litigation pending with the tax authorities.
Banca Profilo has joined the so-called "national tax consolidation" scheme provided for by articles 117-129 of the T.U.I.R. (Italian consolidated tax act), of which Arepo BP Spa is the consolidating company as the parent company. With the exercise of the option, the total net income or tax loss of each company participating in the tax consolidation, together with withholdings, deductions and tax credits, are transferred to the parent company, producing a single taxable income or a single loss that can be carried forward for IRES purposes, resulting from the algebraic sum of its own income or losses and those of the participating subsidiaries and, consequently, a single tax debit/credit.

10 – Provisions for risks and charges

Commitments and guarantees issued
Sub-item a) commitments and guarantees issued includes provisions for credit risk recognised against commitments to disburse funds and guarantees issued, which fall within the scope of application of the rules on impairment pursuant to IFRS 9. For these cases, in principle, the same allocation methods are adopted between the three stages (credit risk stages) and calculation of the expected loss shown with reference to financial assets measured at amortised cost or measured at fair value through other comprehensive income.

Pension and similar obligations
The provisions for risks and charges referred to in liability item 100 b) include pensions funds, i.e. provisions for employee benefits to be paid out after the end of the employment relationship, which are linked to company agreements and qualify as defined benefit plans. A defined benefit plan provides certain benefits linked to factors such as the beneficiary's age, years of service and the remuneration policies adopted by the company. As a result, the company bears the actuarial and investment risk. The obligations incumbent on the company are determined by discounting future payments in proportion to the variables previously stated (age, years of service rendered) in addition to other actuarial variables such as life expectancy and seniority at the time of termination of employment, and consequently accounted for in accordance with IAS 19 Re-

vised: actuarial gains and losses arising from the measurement of defined benefit liabilities are recorded as a contra-entry to shareholders' equity under item "110. Valuation reserves" and shown in the Statement of comprehensive income.

Other provisions
Sub-item c) other provisions for risks and charges include provisions made for legal or employment obligations or for disputes, including those tax-related, arising from a past event for which it is probable that economic resources will be required to fulfil the obligations, provided that a reliable estimate can be made of the amount involved. Provisions are determined in order to represent the best estimate of the expenditure required to meet obligations. In determining the estimate, the risks and uncertainties relating to the facts and circumstances under consideration are taken into account.

11 – Financial liabilities measured at amortised cost

(a) Classification criteria
The liabilities included here are Deposits from banks and Deposits from customers; they consist of the various financial instruments through which the Bank realises interbank and customer funding, net of any amounts repurchased.
Interest expenses are recorded in the income statement under item 20 "Interest expenses and similar charges".

(b) Recognition criteria
The liabilities in question are recorded upon receipt of the amounts collected or, in the case of debt securities, at the time of issue or at the time of a new placement, or cancelled, even in the case of repurchase, on the "settlement date" principle and cannot be transferred to the portfolio of liabilities held for trading. The initial recognition is carried out on the basis of fair value, normally equal to the amount collected or issue price, adjusted for any costs and revenues directly attributable to the various collection or issue transactions. Internal administrative costs are excluded. The fair value of any financial liabilities issued at less than market conditions is estimated and the difference with respect to the market value is booked directly to the income statement. Structured securities are separated into their constituent elements, which are recorded separately, when the derivative components implicit in them have an economic nature and risks different from those of the underlying securities and can be configured as autonomous derivative instruments.

(c) Measurement criteria
After initial recognition, the valuations of financial liabilities are based on the principle of amortised cost using the effective interest rate method, with the exception of short-term liabilities where the time factor is negligible, which remain recognised at the value collected and any costs charged to the income statement on a straight-line basis over the contractual duration of the liabilities.

(d) Derecognition criteria
Financial liabilities are derecognised upon maturity or extinction. Derecognition also occurs when previously issued securities are repurchased; the difference between the book value of the liabilities and the amount paid to purchase them is recorded in the income statement. A new placement in the market of own securities after their repurchase is considered as a new issue and posted at the new price of placement, with no impact on the income statement.

12 - Financial liabilities held for trading

(a) Classification criteria
This item includes trading derivatives with a negative fair value, including implicit derivatives present in structured financial instruments and separated from them for accounting purposes. Also included are any "technical overdrafts" arising from trading in securities.

(b) Recognition criteria
Derivatives are recognised on the "trade date" while transactions in securities are recognised on the "settlement date".
Financial liabilities held for trading are initially recorded at fair value, i.e. at purchase price.

(c) Measurement criteria
Subsequent to initial recognition, financial liabilities held for trading are measured at fair value determined in the manner described in the section on "Financial assets measured at fair value through profit and loss". Financial instruments for which it is not possible to determine the fair value reliably in accordance with the above, are kept at cost. The results of measurement and trading are recorded in the income statement under item 80 "Net profit (loss) from trading".

(d) Derecognition criteria
Financial liabilities held for trading are derecognised when the contractual rights to the cash flows deriving from the liabilities expire or when the financial instruments are sold.

13 - Financial liabilities designated at fair value

Banca Profilo currently has no liabilities classifiable under this item.

14 - Foreign currency transactions

(a) and (b) Classification and initial recognition criteria

Foreign currency transactions are represented by all assets and liabilities denominated in currencies other than the euro, which is the functional currency used by Banca Profilo corresponding to that of the economic environment in which it operates. They are initially recognised in the currency of account using the spot foreign-exchange rates on the date of each transaction.

(c) Measurement criteria

At the end of each financial year or interim period, financial statement items in foreign currency are measured as follows:

- monetary items are converted using the exchange rate on the closing date;
- non-monetary items valued at historical cost are converted using the exchange rate on the date of the transaction;
- non-monetary items that are measured at fair value are converted at the exchange rate on the closing date.

The exchange rate differences resulting from settlement of monetary items or from the conversion of monetary items at rates other than the initial conversion rates, or at the conversion rates of the prior financial statements, are recorded in the income statement under item 80 "Net profit (loss) from trading".
Exchange rate differences relating to items for which measurements are recognised in shareholders' equity, for example Financial assets measured at fair value through other comprehensive income, are recognised in the income statement.
When a profit or a loss on a non-monetary element is recognised in shareholders' equity, the exchange rate difference in relation to said element is also posted to shareholders' equity. Conversely, when a profit or loss is recognised in the income statement, the relative exchange rate difference is also recognised there.

15 - Other information

Employee severance indemnity

On the basis of the new rules governing employee severance indemnity, introduced by the Legislative Decree of 5 December 2005, the employee severance indemnity, referred to under item 110 of liabilities as regards the amounts accrued up to 31 December 2006, is configured as a defined benefit plan and is therefore subject to actuarial valuation using the Projected Unit Credit Method (PUCM), which provides for the projection of future disbursements on the basis of historical, statistical and probabilistic analyses as well as the adoption of appropriate demographic technical bases; the financial discounting of flows is also based on a market interest rate. This actuarial calculation is carried out by independent actuaries.
The costs for the plan are recorded among personnel expenses item 160 "Administrative expenses; a) personnel expenses" as the net amount of contributions paid, contributions of prior periods not yet recorded, accrued interest, expected revenues from the assets of the plan. Actuarial gains and losses, as required by IAS 19, are recognised in a valuation reserve.

Treasury shares

Any treasury shares held by the company are recorded under item 170 "Treasury shares", deducted from shareholders' equity.
Gains or losses resulting from the purchase, sale, issue or cancellation of treasury shares are not recorded in the income statement, but are recorded in shareholders' equity under item 140 "Reserves".

Costs and revenues

Costs are recorded in the accounts at the time they are incurred. Costs directly attributable to financial instruments valued at amortised cost and determinable from the outset, regardless of when they are settled, are charged to the income statement by applying the effective interest rate, for a definition of which reference should be made to "Financial assets measured at amortised cost".
Revenues, in compliance with IFRS 15, derive from contractual obligations with customers and are recognised in the financial statements only if all of the following criteria are met simultaneously:

- the parties to the contract have approved the contract and are committed to fulfilling the relative obligations;
- the entity can identify the rights of each of the parties as regards the goods or services to be transferred;
- the entity can identify the payment terms of the goods or services to be transferred;
- the contract has commercial substance (risk, timescale or amount of future cash flows of the entity are destined to change after the contract);

- the entity is likely to receive the consideration to which it is entitled in exchange for the goods or services that will be transferred to the customer. In evaluating the likelihood of receiving the amount of the consideration, the entity must only take account of the customer's intention and capacity to pay the amount of the consideration when due.

If the consideration is variable, the amount of the consideration to which the entity will be entitled may be recognised if it can be reliably estimated and it is highly probable that the consideration will not be reversed in subsequent periods.
The consideration for the contract, the collection of which as mentioned above must be probable, is allocated to the individual obligations arising from the same. If a contract with customers provides for the provision of a package of services to the customer against a total annual fee, these services constitute different "performance obligations" for the purposes of recording the consideration in the financial statements, among which the Bank allocates the price of the transaction on the basis of the relevant separate sale price.
Revenues are recognised over time, depending on the timing of fulfilment of the obligations, either in a lump sum or alternatively over the duration of the period for fulfilment of the various obligations.

With reference to revenues from financial assets, the following should be noted:

- Interest is recognised according to a time criterion that considers the actual yield of the asset. Negative income components accrued on financial assets are recorded under "Interest expenses and similar charges"; positive income components accrued on financial liabilities are recorded under "Interest income and similar revenues".
- Interest on arrears is posted to item "10. Interest income and similar revenues", exclusively at the moment it is actually collected.
- Dividends are accounted for when the right of shareholders to receive the payment arises.
- Costs or revenues deriving from the buying/selling of financial instruments, determined by the difference between the consideration paid or collected of the transaction and the fair value of the instrument are booked to the income statement at the time of recognition of the financial instrument solely where the fair value is determined:
    - o by making reference to current and observable market transactions regarding the same instrument;
    - o through valuation techniques that use, as variables, solely data deriving from observable markets.

Employee stock option plans
The stock option plans are divided into two types, with different accounting methods depending on the characteristics of the plan:

- equity settled: these are plans in which the beneficiary is granted the right to purchase shares in the company at a fixed price if specific conditions are met. In such cases, the fair value of the option, determined at the time it is granted, is recognised as a cost in the income statement over the life of the plan, with a contra-entry increase in equity reserves;
- cash settled: these are plans in which the beneficiary directly receives the monetary value of the benefit deriving from the theoretical exercise of the stock option. The fair value of the option, determined at the time it is granted, is recognised as a cost in the income statement over the life of the plan, with a contra-entry payable in the balance sheet. The relative entitled amounts of the total cost are recalculated at each reporting date on the basis of the fair value recognition adjustment which, when due, is equivalent to the payment to be made to the employee.

A.3 - DISCLOSURE ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

A.3.1 Reclassified financial assets: change in business model, book value and interest income
Banca Profilo has not changed its "business model" relating to the management of financial instruments, defined on first-time adoption of IFRS 9. No reclassifications were carried out among financial assets during the year.

A.3.2 Reclassified financial assets: change in business model, fair value and effects on comprehensive income
Banca Profilo has not changed its "business model" relating to the management of financial instruments, defined on first-time adoption of IFRS 9. No reclassifications were carried out among financial assets during the year.

A.3.3 Reclassified financial assets: change in business model and effective interest rate
Banca Profilo has not changed its "business model" relating to the management of financial

instruments, defined on first-time adoption of IFRS 9. No reclassifications were carried out among financial assets during the year.

A.4 – Information on fair value

QUALITATIVE INFORMATION

A.4.1 – Fair value level 2 and 3: measurement techniques and inputs used

If a financial instrument cannot be listed on an active market, Risk Management determines its fair value by applying a measurement technique. For this purpose, all relevant market information available in any way shall be taken into account.

As part of the process of determining the fair value of a security not traded in an active market, the following measurement techniques are commonly applied:

- prices of recent transactions or market contributions/listings available at the valuation date, even if they relate to a market considered inactive;
- measurements provided by the issuer or by a calculation agent or in any case by an external evaluation service in the specific manner described below;
- mark-to-model measurements, i.e. obtained using a pricing model appropriate for the type of financial instrument to be valued, fed by market data relevant to the valuation.

When calculating the fair value of a financial instrument not listed on an active market, first of all the existence of recent transactions on the same or a similar financial instrument (by issuer, duration and degree of subordination) shall be verified. Appropriate adjustments are made to the price of these transactions in order to determine their fair value:

- time differences between the observed transaction day and the measurement day: adjustments shall take account of movements in market factors that have occurred in the meantime (e.g. movements in interest rate curves) or changes in factors specific to the financial instrument being measured (e.g. downgrading of the issuer of a security);
- differences between the instrument being measured and the similar instrument on which the transaction was recorded: the adjustments take into account the different duration of the two instruments or the greater complexity of one compared to the other (which may lead market participants to request a higher liquidity premium on one instrument compared to the other, especially in particular market conditions).

The measurements provided by the issuer or by a calculation agent or external valuation service, since they are not prices resulting from actual market transactions, are considered with particular caution and subject to consistency checks by the Bank, based on available market information.

The most commonly used measurement models are the so-called discounted cash flow models. There are two different methodologies in this regard: a) calculation of contractual cash flows and subsequent discount with a market return consistent with the riskiness of the financial instrument; b) calculation of cash flows already weighted for the probability of survival of the counterparty (so-called non-default probability) and subsequent discount on the basis of a free risk rate of return. The factors that are taken into account in determining the risk-adjusted rate of return or the probability of survival of the counterparty are as follows:

- the maturity date of the expected cash flows;
- any uncertainty regarding the amount or maturity of cash flows;
- the credit risk;
- the liquidity of the instrument;
- the reference currency in which payments are to be made.

With particular reference to credit risk, the spreads recorded on listed securities of the same issuer with similar duration and liquidity characteristics, those recorded on credit default swaps on the same issuer with the same maturity or those recorded on issuers with similar risk characteristics (by rating, sector, country) are alternately taken into account.

In the case of the use of a measurement technique that includes a parameter not directly observable on a market (for example, the liquidity spread of a security or the volatility for some unlisted options), this parameter will normally be determined on the basis of the price of the initial transaction, so as to have a valuation on the day of the transaction equal to the actual price of the same (so-called day one profit equal to zero). In such cases, the non-observable parameter shall be kept constant in subsequent valuations unless other transactions on the same or a similar instrument give clear indications that market conditions have changed since the initial situation.

A.4.2 Measurement processes and sensitivity

The financial instruments classified as level 3 amount to a total gross value of € 24.1 million in the financial statements. Based on the criteria set out in the paragraph below, the following were classified as fair value level 3:

- inflation zc securities which, in the sensitivity tests carried out, following a spread movement of 10 basis points, recorded a price change determined at model level of more than 1% (for a total value of the portfolio ranging between € 6.8 and € 7.0 million);
- two model-rated index CDSs which, in the sensitivity test carried out, following a spread movement of 50 basis points, recorded a change in fair value of more than 1% of the nominal value (for a valuation of the derivative ranging between € -13.5 and € -20.9 million).

A.4.3 Fair value hierarchy

Financial instruments are classified in three hierarchical levels, depending on how their fair value is determined and the observability of the parameters used for their valuation.

In particular, the three classes of fair value are as follows:

- Level 1: financial instruments listed on active markets and valued on the basis of their market price, without adjustment. By way of example, this category usually includes listed shares, government securities, bonds listed on active markets (identified on the basis of the parameters indicated below) and regulated derivatives;
- Level 2: financial instruments valued on the basis of techniques and models that use observable input data on an active market; instruments in this category are valued using: a) market prices of similar instruments or prices of the same instruments found on markets considered inactive; b) valuation techniques where all inputs that have a significant impact on the valuation are directly or indirectly based on observable market data. By way of example, this category includes some unlisted or delisted shares, bonds listed on markets deemed inactive for which there are in any case recent market transactions or contributions deemed sufficiently indicative, the majority of the over-the-counter derivatives concluded by the Bank;
- Level 3: financial instruments valued using techniques and models using at least one input parameter that is not based on observable market data and that has a significant impact on their overall valuation. The significance of the impact is judged on the basis of predetermined thresholds and a sensitivity analysis. By way of example, this category may include some unlisted or delisted shares, some structured bonds not listed on active markets, structured or exotic over-the-counter derivatives for the valuation of which an input parameter that cannot be inferred from market data is significant.

For the purpose of identifying Level 1 instruments, a financial instrument shall be considered to be listed on an active market if prices are readily and regularly available and represent actual market transactions, which take place in normal trading between two counterparties. In relation to this definition, the Bank has identified two conditions for a financial instrument to be considered listed on an active market:

1. the instrument must be traded on a regulated market or an alternative stock exchange;
2. the price expressed by that market must be "significant", i.e. the result of regular and effective transactions between counterparties who freely decide to buy and sell and are not forced to do so by their particular stress conditions.

The listing on a regulated market, therefore, is in itself neither a necessary nor sufficient condition for an active market to be considered as such. Verifying the significance of the price and the degree of market activity is a complex process, which requires the intervention of a subjective valuation: it is not possible, in fact, to establish rigid rules, to be applied automatically regardless of market conditions and/or the specific characteristics of the financial instrument to be valued. The judgement, however, although subjective, is not arbitrary and is expressed taking into account a series of objective reference parameters, of a qualitative and quantitative nature, relating to the size and depth of the market and the price formation mechanisms. In particular, the following parameters are taken into account:

- trading volumes and frequency of trading: where available, these parameters constitute a direct index of market depth and the significance of the listing price;
- price variability: the measurement of price variations over time must be compatible with that of securities of the same currency, similar duration and creditworthiness; in other words, the price must vary according to a dynamic traceable to the market variables that determine its return and must not present discontinuities of such a magnitude that they cannot be

justified by the trend of the relevant market factors;

- price availability and frequency of updating: the historical price series must be continuously and frequently updated; in principle, this condition is deemed to be met if, over the last month, different prices have been found in at least half of the working days of the period;
- in the case of a security being traded on an alternative stock exchange, existence of a sufficient number of market makers and relevant listings: the security must be traded by a sufficient number of intermediaries to ensure the constancy of price formation and its effective executability; in principle, this condition is deemed to be met if: i) listings from at least three different brokers are available; ii) the bid/ask spreads of the brokers' listings are not more than 1%; iii) the mid-prices of the different brokers are within a range not exceeding 1%.

From an organisational point of view, the classification according to the fair value hierarchy of all financial instruments included in the Bank's portfolio is carried out by the Risk Management Function.

With particular reference to several bond index CDSs, which are part of an arbitrage strategy (in which Banca Profilo simultaneously takes a CDS position on an index and a CDS opposite sign position on the single names that make up the same index), the model valuation is based on the following steps:

1. on the day of the transaction, on the basis of the upfront collected on the "package" (index CDS + single names CDS) and therefore of the difference between the market value of the index CDS and the sum of the market values of the single names CDS, the amount of the skew expressed in basis points on the credit curve is determined; this value, which cannot be observed in the market prices and therefore not detectable except with a new transaction on the same "package", is kept constant in subsequent valuations;
2. on the day of the valuation, based on the sum of the current market values of the single names CDS, the intrinsic spread is determined, i.e. the credit curve that would determine a CDS valuation on the index equal to the sum of the single names CDS valuations;
3. to the intrinsic spread determined in point 2), the skew referred to in point 1) is then added, calculated on the day of the transaction and kept constant; the credit curve thus obtained (sum of the current intrinsic spread and the original skew) is that used for the index CDS model valuation.

A 4.4 Other information

Almost all transactions in OTC derivatives are backed by collateralisation contracts with daily margining that substantially mitigate counterparty risk. The criteria for the valuation of the derivative portfolio take account of these guarantees with particular reference to the determination of CVA and DVA. For information on the so-called "highest and best use" required by IFRS 13, please refer to that described at the end of table "A.4.5.4".

A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: distribution 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 and loss	390,074	141,829	43	417,786	86,582	43
- Financial assets held for trading	390,074	141,829	-	417,786	86,582	-
b) financial assets designated at fair value	-	-	-	-	-	-
c) other financial assets mandatorily measured at fair value	-	-	43	-	-	43
2. Financial assets measured at fair value through other comprehensive income	214,063	40,733	9,515	370,895	22,021	6,792
3. Hedging derivatives	-	1,271	-	-	2,985	-
4. Property, plant and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	**604,137**	**183,833**	**9,557**	**788,681**	**111,588**	**6,835**
1. Financial liabilities held for trading	47,036	66,596	15,283	104,453	54,280	2,094
2. Financial liabilities measured at fair value	-	-	-	-	-	-
3. Hedging derivatives	-	38,926	-	-	29,259	-
Total	**47,036**	**105,521**	**15,283**	**104,453**	**83,538**	**2,094**

The impact of the "CVA" and "DVA" on the determination of the fair value of derivative financial instruments at individual level amounts to € 115.7 thousand and € 79.4 thousand respectively.

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 and loss				Financial assets measured at fair value through other comprehensive income	Hedging derivatives	Property, plant and equipment	Intangible assets
	Total	of which: a) financial assets held for trading	of which: b) financial assets designated at fair value	of which: c) other financial assets mandatorily measured at fair value				
1. Opening balances	**43**	**-**	**-**	**43**	**6,793**	**-**	**-**	**-**
2. Increases	**-**	**-**	**-**	**-**	**2,722**	**-**	**-**	**-**
2.1. Purchases	-	-	-	-	-	-	-	-
2.2. Profits recognised in:	-	-	-	-	1,474	-	-	-
2.2.1. Income Statement	-	-	-	-	121	-	-	-
- of which capital gains	-	-	-	-	-	-	-	-
2.2.2. Shareholders' equity	-	X	X	X	1,353	-	-	-
2.3. Transfers from other levels	-	-	-	-	1,248	-	-	-
2.4. Other increases	-	-	-	-	-	-	-	-
3. Decreases	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3.1. Sales	-	-	-	-	-	-	-	-
3.2. Refunds	-	-	-	-	-	-	-	-
3.3. Losses recognised in:	-	-	-	-	-	-	-	-
3.3.1. Income Statement	-	-	-	-	-	-	-	-
- of which capital losses	-	-	-	-	-	-	-	-
3.3.2. Shareholders' equity	-	X	X	X	-	-	-	-
3.4. Transfers from other levels	-	-	-	-	-	-	-	-
3.5. Other decreases	-	-	-	-	-	-	-	-
4. Closing balances	**43**	**-**	**-**	**43**	**9,515**	**-**	**-**	**-**

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

	Financial liabilities held for trading	Financial liabilities designated at fair value	Hedging derivatives
1. Opening balances	**2,094**	**-**	**-**
2. Increases	**15,283**	**-**	**-**
2.1. Issuance	-	-	-
2.2. Losses recognised in:	15,283	-	-
2.2.1. Income Statement	15,283	-	-
- of which capital losses	-	-	-
2.2.2. Shareholders' equity	X	-	-
2.3. Transfers from other levels	-	-	-
2.4. Other increases	-	-	-
3. Decreases	**2,094**	**-**	**-**
3.1. Redemptions	-	-	-
3.2. Repurchases	-	-	-
3.3. Profits recognised in:	2,094	-	-
3.3.1. Income Statement	2,094	-	-
- of which capital gains	-	-	-
3.3.2. Shareholders' equity	X	-	-
3.4. Transfers to other levels	-	-	-
3.5. Other decreases	-	-	-
4. Closing balances	**15,283**	**-**	**-**

The table includes CDS derivatives that are part of the arbitrage structures described above.

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

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	986,317	322,880	10,389	666,086	1,050,509	151,916	2,959	892,061
2. Property, plant and equipment held for investment								
3. Non-current assets and disposal groups classified as held for sale								
Total	**986,317**	**322,880**	**10,389**	**666,086**	**1,050,509**	**151,916**	**2,959**	**892,061**
1. Financial liabilities measured at amortised cost	1,541,911			1,541,911	1,690,952			1,690,952
2. Liabilities associated with disposal groups classified as held for sale								
Total	**1,541,911**	**-**	**-**	**1,541,911**	**1,690,952**	**-**	**-**	**1,690,952**

With regard to the determination of the fair value of financial instruments, reference should be made to Part A.1 section 4 of the Bank's accounting policies.

Financial assets measured at amortised cost include both securities held by the bank (broken down by level) and loans and advances to banks and customers, all of which have been classified at level 3. Since these are mainly non instalment transactions or transactions with a maturity of less than one year, the book value is considered an adequate approximation of fair value, which entails classification in level 3 of the hierarchy. Exposures in mortgages and Lombard loans and advances are also classified as level 3 in loans to customers.

A.5 Information on "Day one profit/loss"
As at 31 December 2019 there were no day one profit transactions in place.

PART B – Information on the Balance Sheet

ASSETS

Section 1 – Cash and cash equivalents – Item 10

1.1 Cash and cash equivalents: breakdown

	Total 31/12/2019	Total 31/12/2018
a) Cash	237	176
b) Demand deposits with Central Banks	7,292	4,165
Total	**7,529**	**4,341**

Section 2 - Financial assets measured at fair value through profit and loss - Item 20

2.1 Financial assets held for trading: breakdown by product

Items/Amounts	Total 31/12/2019			Total 31/12/2018		
	L1	L2	L3	L1	L2	L3
A. On-balance sheet assets						
1. Debt securities	272,472	61,876	-	304,544	35,558	-
1.1 Structured securities	9,249	12,142	-	10,770	5,853	-
1.2 Other debt securities	263,223	49,734	-	293,774	29,705	-
2. Equity securities	86,490	-	-	70,171	-	-
3. Units of UCITS	133	1,141	-	84	1,053	-
4. Loans	-	-	-	-	-	-
4.1 Reverse repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total (A)	**359,095**	**63,017**	**-**	**374,798**	**36,611**	**-**
B. Derivative Instruments						
1. Financial derivatives	30,979	38,953	-	42,988	41,746	-
1.1 trading	30,979	38,953	-	42,988	41,746	-
1.2 connected with the fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	-	39,859	-	-	8,226	-
2.1 trading	-	39,859	-	-	8,226	-
2.2 connected with the fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total (B)	**30,979**	**78,812**	**-**	**42,988**	**49,972**	**-**
Total (A+B)	**390,074**	**141,829**	**-**	**417,786**	**86,582**	**-**

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

Items/Amounts	Total 31/12/2019	Total 31/12/2018
A. On-balance sheet assets		
1. Debt securities	334,348	340,102
a) Central Banks	-	-
b) Public administration	233,276	264,289
c) Banks	91,345	42,776
d) Other financial companies	7,333	15,752
of which: insurance companies	17	2,108
e) Non-financial companies	2,393	17,285
2. Equity securities	86,490	70,171
a) Banks	51,773	21,924
b) Other financial companies	7,071	12,635
of which: insurance companies	38	8,406
c) Non-financial companies	27,646	35,613
d) Other issuers	-	-
3. Units of UCITS	1,275	1,136
4. Loans	-	-
a) Central Banks	-	-
b) Public administration	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total (A)	**422,112**	**411,409**
B. Derivatives	**-**	**-**
a) Central Counterparties	30,997	42,967
b) Other	78,794	49,994
Total (B)	**109,791**	**92,960**
Total (A+B)	**531,903**	**504,369**

2.5 Other financial assets mandatorily measured at fair value: breakdown

Items/Amounts	Total 31/12/2019			Total 31/12/2018		
	L1	L2	L3	L1	L2	L3
1. Debt securities	-	-	-	-	-	-
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	-	-	-	-	-	-
2. Equity securities	-	-	43	-	-	43
3. Units of UCITS	-	-	-	-	-	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total	-	-	43	-	-	43

The item "Equity securities" - level 3 - only includes the financial instruments subscribed as part of the support to Banca Carige through the Voluntary Scheme.

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

	Total 31/12/2019	Total 31/12/2018
1. Equity securities	43	43
of which: banks	-	-
of which: other financial companies	-	-
of which: non-financial companies	43	43
2. Debt securities	-	-
a) Central Banks	-	-
b) Public administration	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
3. Units of UCITS	-	-
4. Loans	-	-
a) Central Banks	-	-
b) Public administration	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	43	43

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

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

Items/Amounts	Total 31/12/2019			Total 31/12/2018		
	L1	L2	L3	L1	L2	L3
1. Debt securities	**213,154**	**40,380**	**7,271**	**370,001**	**21,669**	**4,709**
1.1 Structured securities	-	-	-	-	-	-
1.2 Other debt securities	213,154	40,380	7,271	370,001	21,669	4,709
2. Equity securities	**909**	**352**	**2,244**	**894**	**352**	**2,084**
3. Loans	**-**	**-**	**-**	**-**	**-**	**-**
Total	**214,063**	**40,733**	**9,515**	**370,895**	**22,021**	**6,792**

Banca Profilo has classified in this category, in addition to debt securities, certain equity securities deriving from minority and strategic interests, in particular Tinaba, MdotM, First Capital and Profilo Holding.

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

Items/Amounts	Total 31/12/2019	Total 31/12/2018
1. Debt securities	**260,806**	**396,379**
a) Central Banks	-	-
b) Public administration	198,437	339,933
c) Banks	41,037	30,522
d) Other financial companies	1,483	11,872
of which: insurance companies	-	2,085
e) Non-financial companies	19,849	14,051
2. Equity securities	**3,505**	**3,330**
a) Banks	-	-
b) Other issuers:	3,505	3,330
- other financial companies	914	898
of which: insurance companies	-	-
- non-financial companies	2,239	2,079
- other	352	352
3. Loans	**-**	**-**
a) Central Banks	-	-
b) Public administration	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**264,311**	**399,708**

3.3 Financial assets measured at fair value through other comprehensive income: gross value and overall value adjustments

	Gross value				Overall value adjustments			
	Stage 1	of which: Instruments with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Total partial write-offs
Debt securities	260,806	252,670	-	-	288	-	-	-
Loans	-	-	-	-	-	-	-	-
Total 31/12/2019	**260,806**	**252,670**	**-**	**-**	**288**	**-**	**-**	**-**
Total 31/12/2018	**397,083**	**388,204**	**-**	**-**	**705**	**-**	**-**	**-**
of which: impaired financial assets, acquired or originated	X	X	-	-	X	-	-	-

A portion of the bonds in the portfolio of financial assets measured at fair value through other comprehensive income (HTCS) is subject to micro hedge. The strategy for managing this portfolio is to immunise its fair value from movements in interest rates and inflation rate, leaving it exposed only to movements in the credit spreads of the issuers of the securities purchased. To this end, in the event of the purchase of fixed-rate or inflation-linked securities, special hedging derivatives were entered into which transformed the overall payoff of the investment (security plus derivative) into that of a variable-rate security. As at 31 December 2019, out of a notional amount of bonds in the HTCS portfolio of € 250.1 million, € 118.2 million is subject to micro hedge.

Section 4 – Financial assets measured at amortised cost – Item 40

4.1 Financial assets measured at amortised cost: breakdown of loans and advances to banks

Type of transactions/Amounts	Total 31/12/2019						Total 31/12/2018					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Stage 1 and 2	Stage 3	of which: impaired, acquired or originated	L1	L2	L3	Stage 1 and 2	Stage 3	of which: impaired, acquired or originated	L1	L2	L3
A. Loans and advances to Central Banks	-	-	-	-	-	-	-	-	-	-	-	-
1. Time deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Compulsory reserves	-	-	-	X	X	X	-	-	-	X	X	X
3. Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	-	-	-	X	X	X	-	-	-	X	X	X
B. Loans and advances to banks	**178,789**	**-**	**-**	**9,719**	**9,367**	**159,875**	**321,580**	**-**	**-**	**6,865**	**1,952**	**312,329**
1. Loans	159,875	-	-	-	-	159,875	312,329	-	-	-	-	312,329
1.1 Current accounts and demand deposits	53,067	-	-	X	X	X	201,090	-	-	X	X	X
1.2. Time deposits	7,205	-	-	X	X	X	6,409	-	-	X	X	X
1.3. Other loans:	99,602	-	-	X	X	X	104,830	-	-	X	X	X
- Reverse repurchase agreements	54,066	-	-	X	X	X	55,466	-	-	X	X	X
- Financing for lease	-	-	-	X	X	X	-	-	-	X	X	X
- Other	45,536	-	-	X	X	X	49,364	-	-	X	X	X
2. Debt securities	18,915	-	-	9,719	9,367	-	9,251	-	-	6,865	1,952	-
2.1 Structured securities	844	-	-	-	872	-	753	-	-	-	770	-
2.2 Other debt securities	18,070	-	-	9,719	8,495	-	8,498	-	-	6,865	1,182	-
Total	**178,789**	**-**	**-**	**9,719**	**9,367**	**159,875**	**321,580**	**-**	**-**	**6,865**	**1,952**	**312,329**

Loans and advances to banks decreased by € 142.8 million, from € 321.6 million as at 31 December 2018 to € 178.8 million as at 31 December 2019.
This item contains securities issued by banks classified as financial assets at amortised cost. As at 31 December 2019 on a nominal value of bonds, issued by banks, in the HTC portfolio of € 19.8 million, € 10.0 million were subject to micro hedge.

With regard to current accounts, deposits and reverse repurchase agreements, since these are short-term receivables and are settled at market conditions, it is believed, also on the basis of a precise valuation of the counterparties involved, that the book value approximates their fair value.

The amounts deposited as collateral with the counterparties with which the Bank carries out derivative contracts have been classified under the sub-item "Loans - other". The amount of these deposits relating to the previous year, amounting to € 46.7 million, previously classified under "Deposits with a set term", has been reclassified for a correct comparison.

The aggregate also includes the amount of € 7.2 million relating to the deposit, made indirectly, for the compulsory reserve, in accordance with the Bank of Italy regulations.

4.2 Financial assets measured at amortised cost: breakdown of loans and advances to customers

Type of transactions/Amounts	Total 31/12/2019						Total 31/12/2018					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Stage 1 and 2	Stage 3	of which: impaired, acquired or originated	L1	L2	L3	Stage 1 and 2	Stage 3	of which: impaired, acquired or originated	L1	L2	L3
1. Loans	**502,542**	**922**	**-**	**-**	**-**	**506,211**	**576,500**	**1,059**	**-**	**-**	**-**	**579,733**
1.1. Current accounts	248,218	387	-	X	X	X	244,867	420	-	X	X	X
1.2. Reverse repurchase agreements	150,118	-	-	X	X	X	247,516	-	-	X	X	X
1.3. Mortgages	35,569	429	-	X	X	X	34,332	476	-	X	X	X
1.4. Credit cards and personal loans, incl. salary backed loans	-	-	-	X	X	X	-	-	-	X	X	X
1.5 Financing for lease	-	-	-	X	X	X	-	-	-	X	X	X
1.6. Factoring	-	-	-	X	X	X	-	-	-	X	X	X
1.7. Other loans	68,637	107	-	X	X	X	49,785	163	-	X	X	X
2. Debt securities	**304,063**	**-**	**-**	**313,161**	**1,023**	**-**	**151,371**	**-**	**-**	**145,051**	**1,007**	**-**
2.1. Structured securities	-	-	-	-	-	-	-	-	-	-	-	-
2.2. Other debt securities	304,063	-	-	313,161	1,023	-	151,371	-	-	145,051	1,007	-
Total	**806,605**	**922**	**-**	**313,161**	**1,023**	**506,211**	**727,870**	**1,059**	**-**	**145,051**	**1,007**	**579,733**

Loans and advances to customers increased by € 78.6 million from € 728.9 million as at 31 December 2018 to € 807.5 million as at 31 December 2019.
This item contains securities of "customer" issuers classified as financial assets at amortised cost. As at 31 December 2019, € 176.0 million of bonds, not issued by banks, in the HTC portfolio of € 280.0 million were subject to micro hedge.

Impaired assets have a gross exposure of € 6,555 thousand against which specific value adjustments of € 5,633 thousand have been made with a hedge of 85.9%. Impaired assets are attributable to bad loans and past due loans to private and corporate customers.

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

Type of transactions/Amounts	Total 31/12/2019			Total 31/12/2018		
	Stage 1 and 2	Stage 3	of which: impaired assets, acquired or originated	Stage 1 and 2	Stage 3	of which: impaired assets, acquired or originated
1. Debt securities	**304,063**	**-**	**-**	**151,371**	**-**	**-**
a) Public administration	290,937	-	-	135,062	-	-
b) Other financial companies	8,915	-	-	6,862	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	4,212	-	-	9,447	-	-
2. Loans to:	**502,542**	**922**	**-**	**576,500**	**1,059**	**-**
a) Public administration	6	-	-	1,224	-	-
b) Other financial companies	240,096	3	-	320,067	3	-
of which: insurance companies	-	1	-	-	0	-
c) Non-financial companies	83,190	486	-	69,867	573	-
d) Households	179,250	434	-	185,341	482	-
Total	**806,605**	**922**	**-**	**727,870**	**1,059**	**-**

4.4 Financial assets measured at amortised cost: gross value and overall value adjustments

	Gross value				Overall value adjustments			Total partial write-offs
	Stage 1	of which: Instruments with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	323,172	323,172	-	-	194	-	-	-
Loans	659,638	659,638	3,022	6,556	235	8	5,633	**683**
Total 31/12/2019	**982,809**	**982,809**	**3,022**	**6,556**	**429**	**8**	**5,633**	**683**
Total 31/12/2018	**1,047,255**	**1,045,842**	**3,103**	**6,467**	**908**	**-**	**5,408**	**683**
of which: impaired financial assets, acquired or originated	X	X	-	-	X	-	-	-

Section 5 Hedging derivatives – Item 50

5.1 Hedging derivatives: breakdown by type of hedge and levels

	Fair Value 31/12/2019			NA 31/12/2019	Fair Value 31/12/2018			NA 31/12/2018
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives								
1. Fair value	-	1,271	-	37,698	-	2,985	-	61,470
2. Cash flows	-	-	-	-	-	-	-	-
3. Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives								
1. Fair value	-	-	-	-	-	-	-	-
2. Cash flows	-	-	-	-	-	-	-	-
Total	**-**	**1,271**	**-**	**37,698**	**-**	**2,985**	**-**	**61,470**

5.2 Hedging derivatives: breakdown by hedged portfolios and type of hedge

Transactions/Type of hedge	Fair Value							Cash flows		Foreign investments
	Specific						Macro-hedge	Specific	Macro-hedge	
	debt securities and interest rates	equity securities and stock indices	currencies and gold	credit	commodities	other				
1. Financial assets measured at fair value through other comprehensive income	948	-	-	-	X	X	X	-	X	X
2. Financial assets measured at amortised cost	323	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	-	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**1,271**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Financial liabilities	-	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	X	-	X	-	-

Section 7 – Equity investments – Item 70

7.1 Equity investments: information on shareholding

Company name	Registered address	Headquarters	Holding %	Voting rights %
A. Companies subject to exclusive control				
1. Profilo Real Estate S.r.l.	Milan	Milan	100.00%	100.00%
2. Banque Profil de Gestion. S.A.	Geneva	Geneva	60.41%	60.84%
3. Arepo Fiduciaria S.r.l.	Milan	Milan	100.00%	100.00%

7.2 Significant equity investments: book value, fair value and dividends received

Company name	Book value	Fair value	Dividends earned
A. Companies subject to exclusive control			
1. Profilo Real Estate S.r.l.	25,245	28,508	
2. Banque Profil de Gestion. S.A.	26,053	36,749	
3. Arepo FIduciaria S.r.l.	150	2,154	
Total	**51,448**	**67,411**	**-**

7.3 Significant equity investments: accounting information

Company name	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues	Net interest income	Depreciation, amortisation and net impairment losses on property, plant and equipment and intangible assets	Profit (loss) before tax from continuing operations	Profit (loss) after tax from continuing operations	Total profit (loss) after tax from disposal groups held for sale	Profit (loss) for the year (1)	Other comprehensive income after tax (2)	Comprehensive income (3) = (1) + (2)
A. Companies subject to exclusive control														
1. Profilo Real Estate S.r.l.	(2)	(34)	(49,368)	20,655	28,749	2,232	(249)	(443)	1,139	917		917		917
3. Arepo FIduciaria S.r.l.		(2,311)	(1,954)	163	4,102	2,275	(15)	(30)	326	202		202	(5)	197
2. Banque Profil de Gestion. S.A.	(34,017)	(210,601)	(8,289)	189,235	63,672	15,271	2,618	(803)	167	908		906	50	956

All figures are taken from the draft 2019 Financial Statements approved by the Boards of Directors of each company.
Equity investments are recorded at acquisition cost net of any impairment losses that may be reversed if the reasons for them no longer apply.

The equity investment in Banque Profil de Gestion S.A., in which Banca Profilo holds 60.41% of the share capital, is by far the most significant shareholding. The equity investment was tested for impairment in accordance with IAS 36 as set out in the procedure described below.
Banque Profil de Gestion S.a., a bank incorporated under Swiss law and listed on the Zurich Stock Exchange and specialised in private banking, was considered an autonomous Cash Generating Unit (CGU) in view of the substantial autonomy and independence of the cash inflows generated by the entity with respect to other groups of assets. In order to verify any impairment of the equity investment, and therefore goodwill in the consolidated financial statements, given the lack of significant transactions on the markets in recent years, in the presence of stock exchange prices that are not considered representative of the market value in view of the trading volumes of the security, in continuity with the method identified last year, the fair value of the equity investment was verified using the method of market multiples linked to the profitability of Swiss banks' assets in addition to the tangible book value applied to the bank's total assets as at 31 December 2019 divided into "private banking" and "institutional" components (CHF 1.2 billion and CHF 1.7 billion respectively).

The value of the multiple applied to AUM was defined as the median of the Goodwill/Asset Under Management (AUM) ratio and is 1.2% for the five Swiss banks operating in the private banking sector and 0.7% for those operating in the asset management sector. The application of the two multiples to the assets outstanding at 31 December 2019 and taking into account the tangible shareholders' equity, leads to an economic value of the subsidiary of € 71.5 million. To the value thus obtained, in consideration of the different liquidity of the investee company's security in relation to comparable securities, a liquidity discount of 15% was applied, resulting in a total economic value of the investee company of € 60.8 million and a pro-rata value of € 36.7 million. Based on the results achieved and considering that the book value of the investment in the individual financial statements of Banca Profilo is € 26.1 million, no write-down was made either in the Bank's separate financial statements or in the consolidated financial statements.
The verification carried out on the basis of the Dividend Discount Model method also confirmed the retention of the book values.

Based on the above findings, as expressly provided for by IAS 36, since the fair value exceeds the book value, the value in use of the equity investment and its goodwill was not determined.
In view of the results achieved in the impairment test and the methods used to determine fair value, the sensitivity analysis is considered not significant.

For other equity investments, taking into account the nature and size of the companies as well as the full percentage held by Banca Profilo, the procedure that determines the recoverable value as Shareholders' equity of the companies as at 31 December 2019 is considered adequate.

7.5 Equity investments: annual changes

	Total 31/12/2019	Total 31/12/2018
A. Opening balances	**51,448**	**51,448**
B. Increases	**-**	**-**
B.1 Purchases	-	-
- of which business combinations	-	-
B.2 Reversals of impairment losses	-	-
B.3 Revaluations	-	-
B.4 Other changes	-	-
C. Decreases	**-**	**-**
C.1 Sales	-	-
- of which business combinations	-	-
C.2 Value adjustments	-	-
C.3 Write-downs	-	-
C.4 Other changes	-	-
D. Closing balances	**51,448**	**51,448**
E. Total revaluations	**-**	**-**
F. Total adjustments	**-**	**-**

Section 8 - Property, plant and equipment - Item 80

8.1 Property, plant and equipment used in the business: breakdown of assets measured at cost

Assets/Amounts	Total 31/12/2019	Total 31/12/2018
1. Owned assets	**738**	**904**
a) land	-	-
b) buildings	-	-
c) furniture and furnishings	33	44
d) electronic equipment	27	118
e) other	678	742
2. Right-of-use of leased assets	**13,735**	**-**
a) land	-	-
b) buildings	13,387	-
c) furniture and furnishings	-	-
d) electronic equipment	-	-
e) other	348	-
Total	**14,474**	**904**
of which: obtained by enforcing guarantees received	-	-

Item 2. Right-of-use acquired through lease relates to the entry into force of the new accounting standard IFRS 16 and the consequent recognition of rights to use property, motor vehicles and capital goods. For details on the application of the aforementioned accounting standard, reference should be made to the section "Disclosure on first-time adoption of IFRS 16 - Leases", contained in Part A of these Notes.

8.6 Property, plant and equipment used in the business: annual changes

	Land	Buildings	Furniture and furnishings	Electronic equipment	Other	Total
A. Gross opening balances	**-**	**-**	**2,749**	**8,509**	**1,252**	**12,548**
A.1 Total net impairment	-	-	2,705	8,391	510	11,644
A.2 Net opening balances	**-**	**-**	**44**	**118**	**742**	**904**
B. Increases:	**-**	**15,781**	**-**	**-**	**875**	**16,655**
B.1 Purchases	-	-	-	-	93	93
- of which business combinations	-	-	-	-	-	-
B.2 Capitalised expenditure on improvements	-	-	-	-	-	-
B.3 Reversals of impairment losses	-	-	-	-	-	-
B.4 Positive changes in fair value recognised in:	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Transfer from properties held for investment	-	-	X	X	X	-
B.7 Other changes	-	15,781	-	-	781	16,562
C. Decreases:	**-**	**2,393**	**11**	**91**	**591**	**3,086**
C.1 Sales	-	-	-	-	-	-
- of which business combinations	-	-	-	-	-	-
C.2 Depreciation	-	2,261	11	91	392	2,755
C.3 Impairment losses recognised in:	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.4 Negative changes in fair value recognised in:	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) property, plant and equipment held for investment	-	-	X	X	X	-
b) Non-current assets and disposal groups held for sale	-	-	-	-	-	-
C.7 Other changes	-	133	-	-	199	332
D. Net closing balances	**-**	**13,387**	**33**	**27**	**1,026**	**14,474**
D.1 Total net impairment	-	2,206	2,621	8,419	911	14,156
D.2 Gross closing balances	**-**	**15,593**	**2,654**	**8,446**	**1,937**	**28,630**
E. Measured at cost	-	-	-	-	-	-

Sub-item B.7 "Other changes" mainly includes the rights of use recorded on first-time adoption in accordance with accounting standard IFRS 16.

Section 9 – Intangible assets – Item 90

9.1 Intangible assets: breakdown by type

Assets/Amounts	Total 31/12/2019		Total 31/12/2018	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	X	**1,185**	X	**1,682**
A.2 Other intangible assets	**1,854**	**-**	**2,483**	**-**
A.2.1 Assets measured at cost:	1,854	-	2,483	-
a) intangible assets generated internally	-	-	-	-
b) other assets	1,854	-	2,483	-
A.2.2 Assets measured at fair value:	-	-	-	-
a) intangible assets generated internally	-	-	-	-
b) other assets	-	-	-	-
Total	**1,854**	**1,185**	**2,483**	**1,682**

9.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total
		FIN	INDEF	FIN	INDEF	
A. Opening balances	**1,682**	**-**	**-**	**11,941**	**-**	**11,941**
A.1 Total net impairment	-	-	-	9,458	-	9,458
A.2 Net opening balances	**1,682**	**-**	**-**	**2,483**	**-**	**4,165**
B. Increases	**-**	**-**	**-**	**493**	**-**	**493**
B.1 Purchases	-	-	-	493	-	493
- of which business combinations	-	-	-	-	-	-
B.2 Increases of internally generated intangible assets	X	-	-	-	-	-
B.3 Reversals of impairment losses	X	-	-	-	-	-
B.4 Positive changes in fair value	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Other changes	-	-	-	-	-	-
C. Decreases	**497**	**-**	**-**	**1,122**	**-**	**1,619**
C.1 Sales	-	-	-	-	-	-
- of which business combinations	-	-	-	-	-	-
C.2 Value adjustments	497	-	-	1,122	-	1,619
- Amortisation	X	-	-	1,122	-	1,122
- Write-downs	497	-	-	-	-	497
+ shareholders' equity	X	-	-	-	-	-
+ income statement	497	-	-	-	-	497
C.3 Negative changes in fair value:	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
C.4 Transfers to non-current assets held for sale	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
D. Net closing balances	**1,185**	**-**	**-**	**1,854**	**-**	**3,039**
D.1 Total net value adjustments	-	-	-	10,580	-	10,580
E. Gross closing balances	**1,185**	**-**	**-**	**12,434**	**-**	**13,619**
F. Measured at cost	-	-	-	-	-	-

The item "Goodwill" amounting to € 1,185 thousand is made up of goodwill arising from the acquisition of the lending and custody business unit and asset management in 2003 and 2004. The goodwill of the lending and custody business unit mentioned above, already written down by € 3,143 thousand in the 2008 financial statements, in accordance with the provisions of IAS 36, was subjected to an impairment test in order to identify any impairment losses according to the procedure illustrated below, indicating the basic assumptions, estimation method and parameters used.

Goodwill was attributed to the Cash Generating Unit (CGU) to which it belongs, represented by the business unit as a whole, given the substantial autonomy and independence of the cash inflows generated by the aforementioned business unit with respect to other groups of assets. As at 31 December 2019, the business unit consisted of direct and indirect funding of € 182.7 million (administered and managed).

In order to identify any impairment losses attributable to the CGU, the recoverable value was determined using the following methods:

The value in use was determined by applying the income method. The flows were determined on the basis of the assets managed and administered as at 31 December 2019, taking into account the reduction of the same expected during 2020 following the revocation of a management mandate whose disposal will take place during the first quarter of 2020. The future cash flows on residual assets were therefore determined considering the actual profitability of the same recorded in 2019 on the individual positions, net of the related structural costs attributed to the business unit. For the purposes of identifying the scope of customers assigned to this business unit, customers transferred at the date of acquisition, as well as customers subsequently acquired by bankers operating in the business unit, were considered.

In order to determine the value in use, the method of discounting expected income over a ten-year period was used, in continuity with the past. In view of the strong customer loyalty attributed to the business unit and their permanent tenure over the last few years, it has been assumed that assets will fall from the sixth year to zero in the tenth year. The cost of equity (Ke) used to discount expected income, equal to 7.02%, was determined on the basis of the Capital Asset Pricing Model, taking into account a risk-free rate of 1.42% as at 31 December 2019 (10-year BTP rate), the Beta factor of 1.121 (obtained as the average of the coefficients observed for a sample of 15 listed companies operating in the asset management and administration sector) and a market risk premium of 5.0% in line with last year. The expected income flows thus obtained, also considering the commissions for the first quarter of 2020 in relation to the outgoing customer, produce a value in use of € 1,185 thousand.
Based on **sensitivity** analyses carried out using different discount rates (+/- 1%) and profitability rates (+/- 0.05%), the value of the CGU to which goodwill is allocated ranges between € 1.038 and € 1.343 million.

The recoverable value was also estimated using the method of multiples applied to the assets outstanding at the end of the year. In this regard, multiples defined as Price/AUM were recorded as at 31 December 2019 on a sample of banks operating in private banking, with a median of 2.3%. Applying this multiple to the assets outstanding as at 31 December 2019 provides a fair value of Euro 1,160 thousand.

Considering the above, and considering that the book value of goodwill amounts to € 1,682 thousand, a write-down of € 497 thousand was recorded in the Income Statement. It should be noted that, in accordance with IAS 36, write-downs made in previous years cannot be reversed subsequently.

9.3 Other information

As at 31 December 2019, there was no property, plant and equipment as a guarantee of own debts and no commitments to purchase intangible assets.

Section 10 - Tax Assets and Liabilities - Item 100 (Assets) and Item 60 (Liabilities)

10.1 Deferred tax assets: breakdown

	IRES	IRAP	Total
Value adjustments on loans	1,593	41	1,634
Goodwill	137	28	165
Tax losses	1,952	-	1,952
Capital losses on securities classified as Financial assets through other comprehensive income	1,054	214	1,268
Liabilities for pension funds determined at the time of Purchase Price Allocation	-	-	-
Provisions for risks and charges	151	-	151
Other	476	23	499
Total	**5,363**	**306**	**5,669**

10.2 Deferred tax liabilities: breakdown

	IRES	IRAP	Total
Capital gains on securities classified as Financial assets through other comprehensive income	159	32	191
Provision for employee severance indemnity	69	-	69
Intangible assets with a finite useful life determined at the time of Purchase Price Allocation	-	-	-
Other	351	71	423
Total	**579**	**103**	**682**

10.3 Deferred tax assets: annual changes (balancing entry in the income statement)

	Total 31/12/2019	Total 31/12/2018
1. Opening balance	**6,165**	**6,526**
2. Increases	**547**	**166**
2.1 Deferred tax assets recognised during the year	547	166
a) relating to previous years	153	92
b) due to changes in accounting principles	-	-
c) reversals of impairment losses	-	-
d) other	394	74
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
- of which business combinations	-	-
3. Decreases	**2,616**	**527**
3.1 Deferred tax assets derecognised during the year	2,616	527
a) reversals of temporary differences	2,616	527
b) write-downs of non-recoverable items	-	-
c) due to changes in accounting principles	-	-
d) other	-	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases:	-	-
a) transformation into tax credits pursuant to Law no. 214/2011	-	-
b) other	-	-
- of which business combinations	-	-
4. Closing balance	**4,095**	**6,165**

The increases referred to in point 2.1 d) other, include deferred tax assets recorded on goodwill impairment, on Directors' fees not paid in 2019 and on Provisions for risks and charges.
The decreases referred to in point 3.1 refer to the reversal of deferred tax assets pertaining to the year, including € 2,542 thousand for the portion of current IRES (80% of taxable income) which, according to current regulations, can be offset against tax losses carried forward and € 74 thousand for the payment during the year of Directors' fees relating to previous years.
As at 31 December 2019, the remaining portion of deferred tax assets related to tax loss carry forward was significantly reduced as a result of the good results achieved during the year and, consequently, the significant amount of 2019 taxable income; at the end of the year, it amounted to € 2 million and its likelihood of recovery was appreciated also taking into account the expected income outlook. As at 31 December 2019 the bank had no unrecognised deferred tax assets.

10.3 *bis* Deferred tax assets: changes under Italian Law 214/2011

	Total 31/12/2019	Total 31/12/2018
1. Opening balance	**1,634**	**1,634**
2. Increases	**-**	**-**
- of which business combinations	-	-
3. Decreases	**-**	**-**
3.1 Reversals of temporary differences	-	-
3.2 Transformation into tax credits	-	-
a) arising from loss for the period	-	-
b) arising from tax losses	-	-
3.3 Other decreases	-	-
4. Closing balance	**1,634**	**1,634**

10.4 Deferred tax liabilities: annual changes (balancing entry in the income statement)

	Total 31/12/2019	Total 31/12/2018
1. Opening balance	**284**	**284**
2. Increases	**208**	**-**
2.1 Deferred tax liabilities recognised during the year	208	-
a) relating to previous years	-	-
b) due to changes in accounting principles	-	-
c) other	208	-
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
- of which business combinations	-	-
3. Decreases	**-**	**-**
3.1 Deferred tax liabilities derecognised during the year	-	-
a) reversals of temporary differences	-	-
b) due to changes in accounting principles	-	-
c) other	-	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases	-	-
- of which business combinations	-	-
4. Closing balance	**492**	**284**

10.5 Deferred tax assets: annual changes (balancing entry in equity)

	Total 31/12/2019	Total 31/12/2018
1. Opening balance	**4,745**	**835**
2. Increases	**1,299**	**4,729**
2.1 Deferred tax assets recognised during the year	1,299	4,729
a) relating to previous years	7	215
b) due to changes in accounting principles	-	-
c) other	1,293	4,515
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
- of which business combinations	-	-
3. Decreases	**4,471**	**820**
3.1 Deferred tax assets derecognised during the year	4,471	820
a) reversals of temporary differences	4,405	820
b) write-downs of non-recoverable items	65	-
c) due to changes in accounting principles	-	-
d) other	-	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases	-	-
- of which business combinations	-	-
4. Closing balance	**1,574**	**4,745**

10.6 Deferred tax liabilities: annual changes (balancing entry in equity)

	Total 31/12/2019	Total 31/12/2018
1. Opening balance	**5**	**874**
2. Increases	**191**	**5**
2.1 Deferred tax liabilities recognised during the year	191	5
a) relating to previous years	-	-
b) due to changes in accounting principles	-	-
c) other	191	5
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
- of which business combinations	-	-
3. Decreases	**5**	**874**
3.1 Deferred tax liabilities derecognised during the year	5	874
a) reversals of temporary differences	5	874
b) due to changes in accounting principles	-	-
c) other	-	-
3.2 Decreases in tax rates	-	-
3.3 Other decreases	-	-
- of which business combinations	-	-
4. Closing balance	**191**	**5**

The deferred tax assets and liabilities referred to above mainly relate to negative and positive fair value valuations, recorded in shareholders' equity in accordance with IAS/IFRS and pertaining to the securities portfolio classified as financial assets measured at fair value through other comprehensive income. The recovery of deferred tax assets is considered to be reasonably likely to occur with the continued ownership of the securities.

10.7 Other information

Current tax assets	31/12/2019	31/12/2018
IRES prepayments	-	14
IRAP prepayments	-	251
Other receivables and withholdings	1,354	1,103
Total	**1,354**	**1,368**

Current tax liabilities	31/12/2019	31/12/2018
IRES payables	78	11
IRAP payables	306	50
Other payables for current taxes	-	-
Total	**384**	**61**

Section 12 - Other assets - Item 120

12.1 Other assets: breakdown

	31/12/2019	31/12/2018
Receivables for security deposits	6	5
Correspondents for securities and coupons to be collected	8,461	2,192
Loans and advances to customers and subsidiaries for invoices to be collected	1,449	392
Customers for commissions to be collected	1,887	1,742
Items to be settled with Banks and Customers for different transactions	1,258	2,469
Sundry and residual items	6,126	6,157
Total	**19,187**	**12,958**

Sundry and residual items mainly consist of stamp duty accounts and prepaid expenses for administrative expenses.

LIABILITIES

Section 1 – Financial liabilities measured at amortised cost – Item 10

1.1 Financial liabilities measured at amortised cost: breakdown of deposits from banks

Type of transactions/Amounts	Total 31/12/2019				Total 31/12/2018			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Deposits from central banks	**84,570**	X	X	X	**34,712**	X	X	X
2. Deposits from banks	**363,357**	X	X	X	**448,088**	X	X	X
2.1 Current accounts and demand deposits	7,624	X	X	X	20,033	X	X	X
2.2 Time deposits	-	X	X	X	8,964	X	X	X
2.3 Loans	340,708	X	X	X	391,251	X	X	X
2.3.1 Repurchase agreements	340,708	X	X	X	391,251	X	X	X
2.3.2 Other	-	X	X	X	-	X	X	X
2.4 Payables for 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	15,025	X	X	X	27,840	X	X	X
Total	**447,927**	**-**	**-**	**447,927**	**482,800**	**-**	**-**	**482,800**

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

Deposits from Central Banks refer to monetary policy transactions aimed at long-term refinancing, carried out with the European Central Bank through participation in the TLTRO II auction for € 34.6 million and to short-term transactions to optimise Banca Profilo's liquidity position for € 50.0 million. Item "2.6 Other payables" includes the amounts deposited as collateral with the counterparties with which Banca Profilo carries out transactions in derivative contracts. The amount of these deposits relating to the previous year, amounting to € 27.8 million, were previously classified under "Time deposits".

Since these are mainly short-term payables settled at market conditions, and given the financial characteristics of the TLTRO II transactions, the book value is considered to approximate their fair value.

1.2 Financial liabilities measured at amortised cost: breakdown of deposits from customers

Type of transactions/Amounts	Total 31/12/2019				Total 31/12/2018			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	680,395	X	X	X	776,860	X	X	X
2. Time deposits	-	X	X	X	-	X	X	X
3. Loans	394,914	X	X	X	428,401	X	X	X
3.1 Repurchase agreements	394,914	X	X	X	428,401	X	X	X
3.2 Other	-	X	X	X	-	X	X	X
4. Payables for commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Lease liabilities	13,765	X	X	X	-	X	X	X
6. Other payables	4,911	X	X	X	2,891	X	X	X
Total	**1,093,984**	**-**	**-**	**1,093,984**	**1,208,152**	**-**	**-**	**1,208,152**

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

Since these are short-term payables and are settled at market conditions, it is considered that the book value approximates their fair value.
The amounts deposited as collateral with the counterparties with which the Bank carries out derivative contracts have been classified under the sub-item "Other payables". The amount of these deposits relating to the previous year, amounting to € 1.95 million, previously classified under "Time deposits", has been reclassified for a correct comparison.

1.6 Lease liabilities

The lease liabilities included in the aforementioned table 1.2 are representative of the present value of the residual future lease payments under contracts to which IFRS 16 applies. These contracts mainly relate to the rental of property, while the remainder relates to the rental of motor vehicles and office machinery. Among the existing property lease contracts, the one that mainly contributes to the lease payable provides for the payment of € 1.9 million per year until 2025. The remaining property lease contracts have an average maturity of more than five years, while for car and photocopier rental contracts the payable will be paid off over an average of two years.

Section 2 – Financial liabilities held for trading – Item 20

2.1 Financial liabilities held for trading: breakdown

Type of transactions/Amounts	Total 31/12/2019					Total 31/12/2018				
	NV	Fair Value			Fair Value *	NV	Fair Value			Fair Value *
		L1	L2	L3			L1	L2	L3	
A. On-balance sheet liabilities										
1. Deposits from banks	9	26	-	-	26	270	393	-	-	393
2. Deposits from customers	11,582	15,607	-	-	15,607	75,952	78,007	-	-	78,007
3. Debt securities	-	-	-	-	X	-	-	-	-	X
3.1 Bonds	-	-	-	-	X	-	-	-	-	X
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	X	-	-	-	-	X
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total (A)	**11,592**	**15,633**	**-**	**-**	**15,633**	**76,222**	**78,399**	**-**	**-**	**78,399**
B. Derivative Instruments										
1. Financial derivatives	X	31,403	39,778	-	X	X	26,054	46,865	-	X
1.1 Trading	X	31,403	39,778	-	X	X	26,054	46,865	-	X
1.2 Related to the fair value option	X	-	-	-	X	X	-	-	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	X	-	26,818	15,283	X	X	-	7,415	2,094	X
2.1 Trading	X	-	26,818	15,283	X	X	-	7,415	2,094	X
2.2 Related to the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total (B)	**X**	**31,403**	**66,596**	**15,283**	**X**	**X**	**26,054**	**54,280**	**2,094**	**X**
Total (A+B)	**X**	**47,036**	**66,596**	**15,283**	**X**	**X**	**104,453**	**54,280**	**2,094**	**X**

Key
FV* = fair value calculated excluding value adjustments due to variations in the credit rating of the issuer since the date of issue.
NV = Nominal or Notional Value.
L1 = Level 1
L2 = Level 2
L3 = Level 3

This item includes derivative financial instruments classified at level 3, consisting of Credit Default Swaps (CDS), for € 15.3 million (notional value € 170.9 million) linked to an arbitrage strategy aimed at taking a CDS position on an index and, at the same time, a CDS opposite sign position on the individual issuers that make up the same index (so-called "package").

Section 4 - Hedging derivatives - Item 40

4.1 Hedging derivatives: breakdown by type of hedge and levels

	NA 31/12/2019	Fair value 31/12/2019			NA 31/12/2018	Fair value 31/12/2018		
		L1	L2	L3		L1	L2	L3
A. Financial derivatives	**265,760**	**-**	**38,925**	**-**	**251,078**	**-**	**29,259**	**-**
1) Fair value	265,760	-	38,925	-	251,078	-	29,259	-
2) Cash flows	-	-	-	-	-	-	-	-
3) Foreign investments	-	-	-	-	-	-	-	-
B. Credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1) Fair value	-	-	-	-	-	-	-	-
2) Cash flows	-	-	-	-	-	-	-	-
Total	**265,760**	**-**	**38,925**	**-**	**251,078**	**-**	**29,259**	**-**

Key
NA = Nominal or Notional Amount.
L1 = Level 1
L2 = Level 2
L3 = Level 3

4.2 Hedging derivatives: breakdown by hedged portfolios and type of hedge

Transactions/Type of hedge	Fair Value							Cash flows		Foreign investments
	Specific						Macro-hedge	Specific	Macro-hedge	
	debt securities and interest rates	equity securities and stock indices	currencies and gold	credit	commodities	other				
1. Financial assets measured at fair value through other comprehensive income	14,318	-	-	-	X	X	X	-	X	X
2. Financial assets measured at amortised cost	24,608	X	-	-	X	X	X	-	X	X
3. Portfolio	X	X	X	X	X	X	-	X	-	X
4. Other transactions	-	-	-	-	-	-	X	-	X	-
Total assets	**38,926**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Financial liabilities	-	X	-	-	-	-	X	-	X	X
2. Portfolio	X	X	X	X	X	X	-	X	-	X
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Expected transactions	X	X	X	X	X	X	X	-	X	X
2. Financial assets and liabilities portfolio	X	X	X	X	X	X	-	X	-	-

Section 6 – Tax liabilities – Item 60

See Section 10 of the Assets.

Section 8 – Other liabilities – Item 80

8.1 Other liabilities: breakdown

	31/12/2019	31/12/2018
Amounts to be paid to the Treasury for third parties	4,506	1,316
Amounts to be paid to social security institutions	554	651
Payables for tax consolidation	537	299
Amounts to be settled for transactions in securities and funds	1,653	4,158
Various suppliers and invoices to be received	3,544	2,250
Amounts to be paid to Personnel and Directors	7,210	4,687
Non-interest bearing amounts available to customers	2	-
Items to be settled for different transactions	1,324	5,408
Total	**20,542**	**18,769**

The amounts to be settled for transactions in securities and funds and the items to be settled with Banks and Customers for different transactions consist of items in progress that were definitively settled after 31 December 2019.

Section 9 – Employee severance indemnity – Item 90

9.1 Employee severance indemnity: annual changes

	Total 31/12/2019	Total 31/12/2018
A. Opening balances	**1,663**	**1,796**
B. Increases	**934**	**843**
B.1 Provisions for the year	844	843
B.2 Other changes	90	-
- of which business combinations	-	-
C. Decreases	**931**	**976**
C.1 Severance payments	84	135
C.2 Other changes	847	841
- of which business combinations	-	-
D. Closing balances	**1,666**	**1,663**
Total	**1,666**	**1,663**

The amount of the provision represents the actuarial estimate of employee severance indemnity charges as provided for by the new IAS 19 and the supplementary pension reform. Point C.2 shows the amounts paid to the INPS treasury fund and the pension fund.

9.2 Employee severance indemnity: other information

	Total 31/12/2019	Total 31/12/2018
A. Opening balances	**1,663**	**1,832**
B. Increases		
1. Service cost related to performance	844	860
2. Financial charges	-	-
3. Contribution to the plan by participants	-	-
4. Actuarial losses	90	2
5. Exchange differences	-	-
6. Service cost related to performance	-	-
7. Other changes	-	-
C. Decreases		
1. Paid benefits	(84)	(141)
2. Service cost related to performance	-	-
3. Actuarial gains	0.0	0.0
4. Exchange differences	0.0	0.0
5. Reductions	0.0	0.0
6. Repayments	0.0	0.0
7. Other changes	(847)	(852)
D. Closing balances	**1,666**	**1,701**
Total	**1,666**	**1,701**

Since 1 January 2007, in accordance with the provisions of Law no. 296 of 27 December 2006, each employee may choose to allocate their employee severance indemnity to accrue with a supplementary pension scheme or to maintain it with their employer. In the latter case, for companies with more than 50 employees, the employee severance indemnity will be deposited by the employer in a fund managed by INPS on behalf of the State.

In light of the new provisions, the bodies responsible for the technical analysis of the issue have established that the employee severance indemnity accrued since 1 January 2007 for supplementary pension schemes or the INPS treasury fund is to be considered as a "defined contribution plan" and therefore no longer subject to actuarial valuation. The employee severance indemnity of employees who, at the valuation date, do not allocate 100% of their severance indemnity to supplementary pension schemes or who, if they do, have a provision for employee severance indemnity previously accrued by the Company, are still subject to actuarial valuation. For companies with less than 50 employees (all of Banca Profilo's subsidiaries), the employee severance indemnity continues to be considered a "defined benefit plan" and is subject to the "Projected Unit Credit Method" actuarial method (paragraphs 67-69 of IAS 19R).

The amount of employee severance indemnity still subject to actuarial valuation has been estimated by an external professional firm using a model based on the projected unit credit method. The actuarial valuation was carried out on the basis of the Company's personnel data. This data also takes into account estimates of the length of time spent in the company and the expected increase in standing for each employee. In particular, the estimated length of time has been adjusted by a series of parameters such as the employee's sex, number of years in the bank, estimated future years, number of working years in companies prior to the current. The revaluation of employee severance indemnity takes into account, among other things, future increases in standing, contract improvements, if known, as well as future seniority steps calculated on the basis of the employee's grade level and the rules for the accrual of progressions differentiated according to the date of joining the company. The methodology used for the calculations is the same as that used in previous years.

As regards the actuarial estimate, the main basis for calculation used is provided below:

2019	
Mortality	ISTAT 2018 survival table by age and sex
Requirements for retirement	Achievement of the minimum requirements of the Monti-Fornero reforms
Early exit frequency	8.0% p.a
Probability of early exit	1.0% p.a
Percentage of advance payment of employee severance indemnity	70% of accrued employee severance indemnity
Annual technical discount rate	Euro Composite AA curves as at 31 December 2019
Annual inflation rate	1.5% constant
Annual salary growth rate	2.5% per annum for clerical staff
	2.1% per annum for Middle Managers
	2.4% per annum for Executives

The duration of the liability linked to Banca Profilo's provision for employee severance indemnity is 6.7.

As at 31 December 2019, the total value of the provision for employee severance indemnity was € 1,666.0 thousand. As required by the new IAS 19, a sensitivity analysis of the obligation relating to the employee severance indemnity has been carried out with respect to the actuarial assumptions considered most significant, aimed at showing how much the liability in the financial statements would vary in relation to the reasonably possible fluctuations of each of these actuarial assumptions. Specifically, the table below shows the change in the provision for employee severance indemnity, considering an increase or decrease in the discount rate, salary increases, the inflation rate, the probability of termination of employment and the % of requests for advance payments in relation to the provision for employee severance indemnity of 50 basis points.

Changing parameters (figures in €)	+50 basis points		-50 basis points	
	New amount	Change	New amount	Change
Change in discount rate curve	1,612,336	(53,685)	1,722,866	56,846
Change in inflation rate	1,700,323	34,302	1,632,700	(33,321)
Change in the probability of termination	1,634,906	(31,114)	1,715,884	49,864
Change in the percentage of the advance payment of employee severance indemnity	1,663,909	(2,111)	1,668,180	2,160

Section 10 – Provisions for risks and charges – Item 100

10.1 Provisions for risks and charges: breakdown

Items/Amounts	Total 31/12/2019	Total 31/12/2018
1. Provisions for credit risk relating to commitments and financial guarantees issued	6	17
2. Provisions on other commitments and other guarantees issued	-	-
3. Corporate pension funds	-	-
4. Other provisions for risks and charges	917	367
4.1 legal and tax disputes	-	-
4.2 personnel charges	-	-
4.3 other	917	367
Total	**923**	**384**

10.2 Provisions for risks and charges: annual changes

	Provisions on other commitments and other guarantees issued	Pension funds	Other provisions for risks and charges	Total
A. Opening balances	**-**	**-**	**367**	**367**
B. Increases	**-**	**-**	**550**	**550**
B.1 Provision for the year	-	-	550	550
B.2 Changes due to the time value of money	-	-	-	-
B.3 Differences due to discount-rate changes	-	-	-	-
B.4 Other changes	-	-	-	-
- of which business combinations	-	-	-	-
C. Decreases	**-**	**-**	**-**	**-**
C.1 Use during the year	-	-	-	-
C.2 Differences due to discount-rate changes	-	-	-	-
C.3 Other changes	-	-	-	-
- of which business combinations	-	-	-	-
D. Closing balances	**-**	**-**	**917**	**917**

These provisions for risks and charges were established to cover probable future liabilities. Item B.1 Provision for the year amounting to € 550 thousand refers to provisions for a limited number of customer complaints for which the risk of an outlay is considered probable.

10.3 Provisions for credit risk relative to commitments and financial guarantees issued

	Provisions for credit risk relating to commitments and financial guarantees issued			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
1. Commitments to disburse funds	-	-	-	-
2. Financial guarantees issued	4	3	-	6
Total	**4**	**3**	**-**	**6**

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

12.1 "Share capital" and "Treasury shares": Breakdown

	31/12/2019	31/12/2018
1. Share capital	136,994	136,994
2. Share premium	82	82
3. Reserves	14,605	14,682
4. (Treasury shares)	(3,603)	(3,358)
5. Valuation reserves	(2,210)	(9,163)
6. Equity instruments		
7. Profit (loss) for the year	6,726	2,265
Total	**152,594**	**141,502**

On 2 May 2019 Banca Profilo paid a unit dividend of € 0.003 per share, equal to € 2,009 thousand.

12.2 Share capital - Number of shares: annual changes

Items/Types (in units)	Ordinary	Other
A. Shares outstanding as at the beginning of the year	**677,997,856**	**-**
- fully paid	677,997,856	-
- not fully paid	-	-
A.1 Treasury shares (-)	(9,855,731)	-
A.2 Shares outstanding: opening balances	**668,142,125**	**-**
B. Increases	**1,792,486**	**-**
B.1 New issues	-	-
- against payment:	-	-
- business combinations	-	-
- bonds converted	-	-
- warrants exercised	-	-
- other	-	-
- without payment:	-	-
- to employees	-	-
- to Directors	-	-
- other	-	-
B.2 Sale of treasury shares	-	-
B.3 Other changes	1,792,486	-
C. Decreases	**(5,084,844)**	**-**
C.1 Cancellation	-	-
C.2 Purchase of treasury shares	(5,084,844)	-
C.3 Business transferred	-	-
C.4 Other changes	-	-
D. Shares outstanding: closing balances	**664,849,767**	**-**
D.1 Treasury shares (+)	13,148,089	-
D.2 Shares outstanding as at the end of the year	677,997,856	-
- fully paid	677,997,856	-
- not fully paid	-	-

Item B.3 "other changes" refers to the allocations made in April and November 2019 in relation to stock grant plans. For further details on these allocations, please refer to Part I - "Share-Based Payment Agreements" of these Explanatory Notes.
Item C.2 "Purchase of treasury shares" refers to the purchase of treasury shares as part of the activity authorised by the Shareholders' Meeting of 18 April 2019 to support exchanges, using a third-party intermediary (Equita SIM S.p.A.). As at 31 December 2019, 5,084,844 treasury shares, equal to 0.75% of the share capital, had been purchased as part of this activity.

12.3 Share capital: other information
The **share capital** of Banca Profilo amounts to € 136,994,028, fully paid up and consists of 677,997,856 ordinary shares.

12.4 Profit reserves: other information
The reserves include the allocation of profit for 2019 and changes in reserves related to the stock grant plan.

In accordance with Art. 2427 of the Italian Civil Code, no. 7-bis, a detailed list of Shareholders' equity items is also provided with an indication of their possible use, as well as their use in previous years.

Distributable shareholders' equity

Description (€/thousand)	Amount	Possibility of use	Portion available	Summary of uses made in previous years	
				to cover losses	for other reasons (distribution)
Share capital	**136,994**	B	-		
Capital reserves:	**82**				
Share premium reserve	82	A,B	-		
Valuation reserves:	**(2,210)**				
Valuation reserves - FVOCI on equity securities	524	(1)			
Valuation reserves - FVOCI on debt securities	(2,180)	(1)			
Valuation reserves - Actuarial gains and losses	(554)	(1)			
Profit reserves:	**14,606**				
Legal reserves	3,181	B	3,181		
Stock Option Reserve	32	A	32		
Reserve for purchase of treasury shares	3,603				
Other reserves	0	-			
First-Time Adoption (FTA) Reserve - IFRS 9	(696)	A,B,C (2)	(696)		
Retained earnings	8,486	A,B,C	8,486		
Treasury shares	**(3,603)**				
Total	**145,868**		**11,003**		
Result for the year	6,726				
Total shareholders' equity	**152,594**		**11,003**		

Key:
A: for capital increase
B: to cover losses
C: for distribution to shareholders

(1) Reserves are subject to unavailability restrictions pursuant to Article 6 of Legislative Decree no. 38/05
(2) the FTA reserves, if negative, decrease the distributable portion of other reserves.

Other information

1. Financial commitments and guarantees issued (other than those measured at fair value)

	Nominal value of commitments and guarantees issued			Total 31/12/2019	Total 31/12/2018
	Stage 1	Stage 2	Stage 3		
1. Commitments to disburse funds	**228,211**	**-**	**-**	**228,211**	**150,248**
a) Central Banks	-	-	-	-	-
b) Public administration	1,800	-	-	1,800	10,593
c) Banks	83,588	-	-	83,588	8,507
d) Other financial companies	53,484	-	-	53,484	41,399
e) Non-financial companies	17,870	-	-	17,870	21,400
f) Households	71,470	-	-	71,470	68,350
2. Financial guarantees issued	**7,316**	**886**	**-**	**8,202**	**7,086**
a) Central Banks	-	-	-	-	-
b) Public administration	-	-	-	-	-
c) Banks	-	-	-	-	-
d) Other financial companies	-	-	-	-	1,455
e) Non-financial companies	2,154	840	-	2,994	4,383
f) Households	5,162	46	-	5,209	1,247

The guarantees issued consist of sureties issued by Banca Profilo against obligations undertaken by the same towards third parties on behalf of its customers. Irrevocable commitments to disburse funds include purchases of securities not yet settled.

2. Other commitments and other guarantees issued

	Nominal value Total 31/12/2019	Nominal value Total 31/12/2018
1. Other guarantees issued	**68**	**68**
of which: non-performing	68	68
a) Central Banks	-	-
b) Public administration	-	-
c) Banks	-	-
d) Other financial companies	-	-
e) Non-financial companies	-	-
f) Households	68	68
2. Other commitments		
of which: non-performing	-	-
a) Central Banks	-	-
b) Public administration	-	-
c) Banks	-	-
d) Other financial companies	-	-
e) Non-financial companies	-	-
f) Households	-	-

3. Assets pledged as collateral for own liabilities and commitments

Portfolios	Amount 31/12/2019	Amount 31/12/2018
1. Financial assets measured at fair value through profit and loss	275,173	236,940
2. Financial assets measured at fair value through other comprehensive income	123,978	222,978
3. Financial assets measured at amortised cost	204,255	170,952
4. Property, plant and equipment	-	-
of which: property, plant and equipment which constitutes inventory	-	-

Assets pledged as collateral are represented for € 87,808 thousand by securities pledged as collateral for monetary policy operations (loans) with the European Central Bank and the Bank of Italy; for € 485,223 thousand by securities pledged as collateral for repurchase agreements and for € 30,376 thousand by securities pledged as collateral for other transactions.

4. Asset management and trading on behalf of third parties

Type of services	Amount
1. Execution of orders on behalf of customers	**656,442**
a) purchases	327,969
1. settled	327,969
2. unsettled	-
b) sales	328,473
1. settled	328,473
2. unsettled	-
2. Individual portfolio management	**780,300**
3. Custody and administration of securities	**4,324,481**
a) third-party securities held on deposit: relating to custodian bank activities (excluding portfolio management)	-
1. securities issued by the reporting bank	-
2. other securities	-
b) third-party securities held on deposit (excluding portfolio management): other	3,249,839
1. securities issued by the reporting bank	456,883
2. other securities	2,792,956
c) third-party securities deposited with third parties	2,805,670
d) own securities deposited with third parties	1,074,642
4. Other transactions	**952,878**

5. Financial assets subject to offsetting in the financial statements, or subject to master netting or similar agreements

Technical forms	Gross amount of financial assets (a)	Amount of financial liabilities offset in the financial statements (b)	Net amount of financial assets recognised in the financial statements (c=a-b)	Related amounts not subject to offsetting in the financial statements		Net amount (f=c-d-e) 31/12/2019	Net amount 31/12/2018
				Financial instruments (d)	Cash deposits received as collateral (e)		
1. Derivatives	15,827	-	15,827	-	16,890	(1,063)	(10,062)
2. Reverse repurchase agreements	47,790	-	47,790	-	47,790	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total 31/12/2019	**63,618**	**-**	**63,618**	**-**	**64,680**	**(1,063)**	**X**
Total 31/12/2018	**52,908**	**-**	**-**	**-**	**62,969**	**X**	**(10,062)**

This table shows the fair value of derivatives subject to master netting agreements or similar (CSAs) recorded under the balance sheet item "financial assets held for trading" and the amounts of corresponding security deposits recorded under "deposits from banks" and "deposits from customers".
The financial statement values of repurchase agreements made with counterparties with which GMRA framework agreements exist are also provided. The spot value of these transactions, corresponding to their book value, is recorded in Assets under "Financial assets measured at amortised cost" in "loans to banks" or "loans to customers" depending on the type of counterparty.

6. Financial liabilities subject to offsetting, or subject to master netting or similar agreements

Technical forms	Gross amount of financial liabilities (a)	Amount of financial assets offset in the financial statements (b)	Net amount of financial liabilities recognised in the financial statements (c=a-b)	Related amounts not subject to offsetting in the financial statements		Net amount (f=c-d-e) 31/12/2019	Net amount 31/12/2018
				Financial instruments (d)	Cash deposits lodged as collateral (e)		
1. Derivatives	57,416	-	57,416	-	60,406	(2,990)	55,843
2. Reverse repurchase agreements	276,499	-	276,499	-	276,499	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total 31/12/2019	**333,915**	**-**	**333,915**	**-**	**336,905**	**(2,990)**	**X**
Total 31/12/2018	**85,633**	**-**	**85,633**	**-**	**29,790**	**X**	**55,843**

This table shows the fair value of derivatives subject to master netting agreements or similar (CSAs) recorded under the balance sheet item "financial liabilities held for trading" and the amounts of corresponding security deposits recorded under "loans to banks" and "loans to customers".
The financial statement values of repurchase agreements made with counterparties with which GMRA framework agreements exist are also provided. The spot value of these transactions, corresponding to their book value, is recorded in Liabilities under "Financial liabilities measured at amortised cost" in "deposits from banks" or "deposits from customers" depending on the type of counterparty.

7. Securities lending transactions

Banca Profilo has securities lending and borrowing transactions in place mainly with banking counterparties that provide for the payment of cash collateral that is fully available to the bank and is therefore represented in the financial statements in the same way as repurchase agreements. The balance as at 31 December 2019 was € 6.3 million in securities lending and € 58.3 million in securities borrowing.

PART C – Information on the Income Statement

Section 1 – Interest income/expenses and similar revenues/charges – Items 10 and 20

1.1 Interest income and similar revenues: breakdown

Items/Technical forms	Debt securities	Loans	Other transactions	Total 2019	Total 2018
1. Financial assets measured at fair value through profit and loss:	**5,942**	**-**	**10**	**5,952**	**7,078**
1.1 Financial assets held for trading	5,942	-	-	5,942	7,078
1.2 Financial assets designated at fair value	-	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value	-	-	10	10	-
2. Financial assets measured at fair value through other comprehensive income	**5,195**	**-**	**X**	**5,195**	**5,726**
3. Financial assets measured at amortised cost:	**3,070**	**6,772**	**X**	**9,842**	**6,843**
3.1 Loans and advances to banks	499	1,131	X	1,630	706
3.2 Loans and advances to customers	2,571	5,641	X	8,212	6,137
4. Hedging derivatives	**X**	**X**	**(86)**	**(86)**	**-**
5. Other assets	**X**	**X**	**4**	**4**	**3**
6. Financial liabilities	**X**	**X**	**X**	**-**	**-**
Total	**14,208**	**6,772**	**(72)**	**20,907**	**19,650**
of which: interest income from impaired financial assets	-	-	-	-	-
of which: interest income on finance lease	-	-	-	-	-

1.2 Interest income and similar revenues: other information

Interest income and similar revenues relating to transactions with Group companies amounted to € 249.1 thousand.

1.2.1 Interest income from financial assets denominated in foreign currency

	2019	2018
Interest income from financial assets denominated in foreign currency	2,052	1,291

1.3 Interest expenses and similar charges: breakdown

Items/Technical forms	Payables	Securities	Other transactions	Total 2019	Total 2018
1. Financial liabilities measured at amortised cost	(3,018)	-	X	(3,018)	(2,348)
1.1 Deposits from central banks	-	X	X	-	-
1.2 Deposits from banks	(801)	X	X	(801)	(942)
1.3 Deposits from customers	(2,218)	X	X	(2,218)	(1,406)
1.4 Debt securities issued	X	-	X	-	-
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities designated at fair value	-	-	-	-	-
4. Other liabilities and provisions	X	X	(38)	(38)	(56)
5. Hedging derivatives	X	X	-	-	(1,414)
6. Financial assets	X	X	X	-	-
Total	**(3,018)**	**-**	**(38)**	**(3,056)**	**(3,818)**
of which: interest expenses on lease payables	(177)	-	-	(177)	-

1.4 Interest expenses and similar charges: other information

Interest expenses and similar charges relating to transactions with Group companies amount to € 111.6 thousand and mainly relate to the recognition in accordance with IFRS 16 of interest expenses on "Lease liabilities" relating to the use of the Via Cerva property leased to the bank by Profilo Real Estate.

1.4.1 Interest expenses from liabilities denominated in foreign currency

	2019	2018
Interest expenses from liabilities denominated in foreign currency	(66)	(290)

1.5 Differentials on hedging transactions

Items	Total 2019	Total 2018
A. Positive differentials on hedging transactions	3,544	2,098
B. Negative differentials on hedging transactions	(3,630)	(3,513)
C. Balance (A-B)	**(86)**	**(1,414)**

Section 2 - Fee and commission income/expenses - Items 40 and 50

2.1 Fee and commission income: breakdown

Type of services/Amounts	Total 2019	Total 2018
a) guarantees issued	68	87
b) credit derivatives	-	-
c) management, brokerage and advisory services:	25,775	22,742
1. trading in financial instruments	3,003	2,810
2. currency trading	111	190
3. portfolio management	7,995	5,848
4. custody and administration of securities	844	712
5. custodian bank	-	-
6. placement of securities	3,861	3,753
7. order receipt and transmission	4,043	4,322
8. advisory services	4,772	3,557
8.1 related to investments	2,976	2,606
8.2 related to financial structure	1,796	951
9. distribution of third-party services	1,146	1,551
9.1 portfolio management	-	-
9.1.1. individual	-	-
9.1.2. collective	-	-
9.2 insurance products	1,146	1,551
9.3 other products	-	-
d) collection and payment services	62	71
e) securitisation servicing	-	-
f) factoring services	-	-
g) tax collection services	-	-
h) management of multilateral trading facilities	-	-
i) management of current accounts	194	200
j) other services	256	791
Total	**26,354**	**23,891**

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

Channels/Amounts	Total 2019	Total 2018
a) through branches:	**13,003**	**11,152**
1 portfolio management	7,995	5,848
2. placement of securities	3,861	3,753
3. third-party services and products	1,146	1,551
b) off-site distribution:	**-**	**-**
1 portfolio management	-	-
2. placement of securities	-	-
3. third-party services and products	-	-
c) other distribution channels:	**-**	**-**
1 portfolio management	-	-
2. placement of securities	-	-
3. third-party services and products	-	-

Fee and commission income includes that relating to transactions with Group companies amounting to € 1,108.2 thousand.

2.3 Fee and commission expenses: breakdown

Services/Amounts	Total 2019	Total 2018
a) guarantees received	(3)	(3)
b) credit derivatives	-	-
c) management and brokerage services:	(1,966)	(1,909)
1. trading in financial instruments	(1,702)	(1,681)
2. currency trading	-	-
3. portfolio management:	-	-
3.1 own portfolio	-	-
3.2 third-party portfolio	-	-
4. custody and administration of securities	(264)	(227)
5. financial instruments placement	-	-
6. off-site distribution of financial instruments, products and services	-	-
d) collection and payment services	(199)	(161)
e) other services	(85)	(64)
Total	**(2,253)**	**(2,137)**

Section 3 - Dividends and similar income - Item 70

3.1 Dividends and similar income: breakdown

Items/Income	Total 2019		Total 2018	
	Dividends	Similar income	Dividends	Similar income
A. Financial assets held for trading	20,233	43	14,157	-
B. Other financial assets mandatorily measured at fair value	-	-	-	-
C. Financial assets measured at fair value through other comprehensive income	23	-	-	-
D. Equity investments	-	-	901	-
Total	**20,256**	**43**	**15,057**	**-**

Section 4 – Net profit (loss) from trading – Item 80

4.1 Net profit (loss) from trading: breakdown

Transactions/Income components	Capital gains (A)	Trading profits (B)	Capital losses (C)	Trading losses (D)	Net Profit (loss) [(A+B)-(C+D)]
1. Financial assets held for trading	**10,910**	**25,147**	**(2,719)**	**(26,337)**	**7,002**
1.1 Debt securities	7,523	15,025	(1,945)	(12,006)	8,597
1.2 Equity securities	3,317	10,075	(701)	(12,415)	277
1.3 Units of UCITS	69	47	(74)	(7)	36
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	(1,908)	(1,908)
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Financial assets and liabilities: exchange differences	**X**	**X**	**X**	**X**	**-**
4. Derivatives	**90,759**	**234,893**	**(108,900)**	**(235,867)**	**(19,115)**
4.1 Financial derivatives:	59,126	223,788	(76,308)	(224,109)	(17,503)
- On debt securities and interest rates	13,323	96,661	(9,725)	(103,280)	(3,021)
- On equity securities and stock indices	45,803	125,912	(66,583)	(119,505)	(14,373)
- On currencies and gold	X	X	X	X	-
- Other	-	1,215	-	(1,324)	(109)
4.2 Credit derivatives	31,633	11,105	(32,592)	(11,758)	(1,611)
of which: natural hedges related to fair value option	X	X	X	X	-
Total	**101,669**	**260,040**	**(111,619)**	**(262,203)**	**(12,113)**

Section 5 – Net profit (loss) from hedging – Item 90

5.1 Net profit (loss) from hedging: breakdown

Income components/Amounts	Total 2019	Total 2018
A. Gains on:		
A.1 Fair value hedging instruments	32,681	25,852
A.2 Hedged financial assets (fair value)	9,842	19
A.3 Hedged financial liabilities (fair value)	-	-
A.4 Cash-flow hedging derivatives	-	-
A.5 Assets and liabilities denominated in foreign currency	-	-
Total gains from hedging activities (A)	**42,523**	**25,871**
B. Losses on:		
B.1 Fair value hedging instruments	(42,991)	(24,238)
B.2 Hedged financial assets (fair value)	-	(1,944)
B.3 Hedged financial liabilities (fair value)	-	-
B.4 Cash-flow hedging derivatives	-	-
B.5 Assets and liabilities denominated in foreign currency	-	-
Total losses from hedging activities (B)	**(42,991)**	**(26,182)**
C. Net profit (loss) from hedging (A - B)	**(468)**	**(311)**
of which: results of hedge accounting on net positions	-	-

Section 6 – Income (loss) from disposal or repurchase - Item 100

6.1 Income (loss) from disposal or repurchase: breakdown

Items/Income components	Total 2019			Total 2018		
	Profits	Losses	Net profit (loss)	Profits	Losses	Net profit (loss)
A. Financial assets						
1. Financial assets measured at amortised cost	495	-	495	-	-	-
1.1 Loans and advances to banks	91	-	91	-	-	-
1.2 Loans and advances to customers	405	-	405	-	-	-
2. Financial assets measured at fair value through other comprehensive income	8,097	(2,148)	5,949	10,815	(1,876)	8,939
2.1 Debt securities	8,097	(2,148)	5,949	10,815	(1,876)	8,939
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**8,592**	**(2,148)**	**6,444**	**10,815**	**(1,876)**	**8,939**
B. Financial liabilities measured at amortised cost						
1. Deposits from banks	-	-	-	-	-	-
2. Deposits from customers	-	-	-	-	-	-
3. Debt securities issued	-	-	-	-	-	-
Total liabilities (B)	**-**	**-**	**-**	**-**	**-**	**-**

Section 8 – Net value adjustments/reversals for credit risk – Item 130

8.1 Net value adjustments/reversals on financial assets measured at amortised cost: breakdown

Transactions/Income components	Value adjustments (1)			Reversals (2)		Total 2019	Total 2018
	Stage 1 and 2	Stage 3		Stage 1 and 2	Stage 3		
		Write-offs	Other				
A. Loans and advances to banks	**-**	**-**	**-**	**161**	**-**	**161**	**(80)**
- Loans	-	-	-	156	-	156	(60)
- Debt securities	-	-	-	5	-	5	(21)
of which: impaired loans, acquired or originated	-	-	-	-	-	-	-
B. Loans and advances to customers	**-**	**-**	**(225)**	**269**	**-**	**44**	**(325)**
- Loans	-	-	(225)	244	-	19	(81)
- Debt securities	-	-	-	25	-	25	(244)
of which: impaired loans, acquired or originated	-	-	-	-	-	-	-
Total	**-**	**-**	**(225)**	**430**	**-**	**205**	**(405)**

8.2 Net value adjustments/reversals on financial assets measured at fair value through other comprehensive income: breakdown

Transactions/Income components	Value adjustments (1)			Reversals (2)		Total 2019	Total 2018
	Stage 1 and 2	Stage 3		Stage 1 and 2	Stage 3		
		Write-offs	Other				
A. Debt securities	-	-	-	30	-	30	(315)
B. Loans	-	-	-	-	-	-	-
- to customers	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-
of which: impaired financial assets, acquired or originated	-	-	-	-	-	-	-
Total	**-**	**-**	-	**30**	-	**30**	**(315)**

Section 10 - Administrative expenses - Item 160

10.1 Personnel expenses: breakdown

Type of expenses/Amounts	Total 2019	Total 2018
1) Employees	(24,919)	(21,322)
a) wages and salaries	(18,251)	(15,717)
b) social security charges	(4,504)	(3,791)
c) severance indemnity	-	-
d) social security expenses	-	-
e) provision for employee severance indemnity	(2)	(2)
f) provision for pension funds and similar obligations:	-	-
- defined contribution	-	-
- defined benefit	-	-
g) contributions to external pension funds:	(843)	(841)
- defined contribution	(843)	(841)
- defined benefit	-	-
h) costs related to share-based payment agreements	-	-
i) other employee benefits	(1,320)	(972)
2) Other staff	(19)	(26)
3) Directors and Statutory Auditors	(1,264)	(1,212)
4) Retired personnel	-	-
5) Recovery of expenses for employees seconded to other companies	390	461
6) Reimbursement of expenses for third-party employees seconded to the company	(269)	(183)
Total	**(26,081)**	**(22,283)**

10.2 Number of employees by category

	Average number 2019	Average number 2018
Employees		
a) executives	49	48
b) middle managers	75	74
c) remaining staff	45	45
Other staff	-	-
Total	**169**	**167**

10.5 Other administrative expenses: breakdown

	2019	2018
Expenses for professional, legal and advisory services	(1,357)	(1,439)
Insurance premiums	(72)	(78)
Advertising	(735)	(332)
Postal, telegraph and telephone	(312)	(326)
Printed matter and stationery	(44)	(59)
Maintenance and repairs	(270)	(363)
Data processing and transmission services	(8,296)	(7,682)
Electricity, heating and condominium expenses	(244)	(214)
Charges for various services provided by third parties	(974)	(962)
Cleanliness and hygiene	(260)	(248)
Transport and travel	(193)	(213)
Security and transport of valuables	(29)	(24)
Subscription fees	(193)	(154)
Certification fees	(154)	(150)
Subscriptions to newspapers, magazines and publications	(32)	(61)
Rents payable	(976)	(3,422)
Entertainment expenses	(204)	(270)
Indirect taxes and duties	(4,886)	(5,074)
of which stamp duty	(3,867)	(3,794)
Sundry and residual	(702)	(650)
Total	**(19,931)**	**(21,720)**

The item Indirect taxes and duties includes the contribution to the National Resolution Fund of € 0.8 million, of which € 0.2 million requested during the year as an additional call for 2017.

The decrease is due to the introduction of the new IFRS 16 standard which resulted in **lower charges** deriving from the rental and lease of property, plant and equipment with a consequent increase in the item "value adjustments on property, plant and equipment" following the depreciation process of the "right of use" recorded in Assets under "Property, plant and equipment", as well as higher interest expenses relating to the related financial liability.

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 issued: breakdown

The item includes an amount of € 10 thousand relating to reversals of financial guarantees issued.

11.3 Other net provisions for risks and charges: breakdown

Provisions under "Provisions for risks and charges - other" amounting to € 550 thousand refer to provisions for a limited number of customer complaints for which the risk of an outlay is considered probable. The figure for the previous year, on the other hand, included net releases of provisions previously allocated for € 265 thousand.

Section 12 - Net value adjustments/reversals on property, plant and equipment - Item 180

12.1. Net value adjustments on property, plant and equipment: breakdown

Asset/Income component	Depreciation	Value adjustments for impairment	Reversals	Net profit (loss)
	(a)	(b)	(c)	(a + b - c)
A. Property, plant and equipment				
1 Used in the business	(2,755)	-	-	(2,755)
- Owned	(260)	-	-	(260)
- Rights of use acquired through lease	(2,495)	-	-	(2,495)
2 Held for investment	-	-	-	-
- Owned	-	-	-	-
- Rights of use acquired through lease	-	-	-	-
3 Inventory	-	-	-	-
Total	**(2,755)**	**-**	**-**	**(2,755)**

Depreciation of property, plant and equipment was determined in relation to both the degree of use of the assets and their estimated useful life, applying the rates listed below for the calculation:

- property 2.5%
- office furniture and machines 12%
- furnishings 15%
- machinery, apparatus and miscellaneous equipment 15%
- electromechanical and electronic office machines 20%
- armoured counters and safes 20%
- motor vehicles and internal transport 20%
- computer systems 20%
- cars 25%
- alarm systems 30%

The sub-item "Rights of use acquired through lease" relates to the entry into force of the new accounting standard IFRS 16 and the consequent recognition of rights to use property, motor vehicles and capital goods. This item includes the depreciation of Rights of use on a straight-line basis calculated over the duration of the contract. For details on the application of the aforementioned accounting standard, reference should be made to the section "Disclosure on first-time adoption of IFRS 16 - Leases", contained in Part A of these Explanatory Notes.

Section 13 - Net value adjustments/reversals on intangible assets - Item 190

13.1 Net value adjustments/reversals on intangible assets: breakdown

Asset/Income component	Amortisation	Value adjustments for impairment	Reversals of impairment losses	Net profit (loss)
	(a)	(b)	(c)	(a + b - c)
A. Intangible assets				
A.1 Owned	(1,122)	-	-	(1,122)
- Generated internally by the company	-	-	-	-
- Other	(1,122)	-	-	(1,122)
A.2 Rights of use acquired through lease	-	-	-	-
Total	**(1,122)**	**-**	**-**	**(1,122)**

This item includes amortisation related to software for long-term use and long-term costs incurred for the development of procedures related to the "digital channels" project.

Section 14 - Other operating income/expenses - Item 200

14.1 Other operating expenses: breakdown

	2019	2018
Other operating expenses		
Other expenses	(171)	(179)
Total operating expenses	**(171)**	**(179)**

14.2 Other operating income: breakdown

	2019	2018
Recovery of expenses from customers	19	35
Indirect tax recoveries	3,908	3,948
Recovery of expenses on services to Group companies	166	164
Other income	627	647
Total operating income	**4,719**	**4,794**

Section 17 – Value adjustments to goodwill - Item 240

On the basis of the "impairment test" carried out on the goodwill recorded under item 100 "Intangible assets" of the Balance Sheet Assets, as reported in the comment to section 10 of Part B - Information on the Balance Sheet, it was necessary to make a value adjustment of € 497 thousand on the Goodwill relating to the lending and custody and individual asset management business unit in the financial years 2003 and 2004. Please refer to the relevant section of the notes for further details.

Section 19 – Tax on income for the year for continuing operations – Item 270

19.1 Tax on income for the year for continuing operations: breakdown

Income components/Amounts	Total 2019	Total 2018
1. Current taxes (-)	(871)	(88)
2. Changes of current taxes of previous years (+/-)	(99)	245
3. Decreases in current taxes for the year (+)	-	-
3.bis Decreases in current taxes for the year due tax credit related to Law no. 214/2011 (+)	-	-
4. Change in deferred tax assets (+/-)	(2,070)	(379)
5. Change in deferred tax liabilities (+/-)	(208)	-
6. Tax expense for the year (-) (-1+/-2+3+3bis+/-4+/-5)	**(3,248)**	**(223)**

The current IRES charge corresponding to the taxable income for the year, offset against prior-year losses of € 2,784 thousand, is included in point 4) change in deferred tax assets.

19.2 Reconciliation of theoretical to actual tax charge

Income components/Amounts	2019
Current taxes:	***(3,413)***
IRES	(3,158)
- of which a decrease in deferred tax assets for offsetting past tax losses	*(2,542)*
IRAP	(255)
Change in deferred tax assets:	***473***
IRES increases	519
IRES decreases	(74)
IRAP increases	28
IRAP decreases	-
Change in deferred tax liabilities:	***(208)***
IRES increases	(173)
IRES decreases	-
IRAP increases	(35)
IRAP decreases	-
Changes of current taxes of previous years	***(99)***
Taxes pertinent to the period	**(3,248)**

IRAP (Amounts in €/thousand)	2019
Gross profit for the year	9,974
Theoretical rate	5.57%
Theoretical tax burden	556
Non-relevant IRAP costs/revenues	46,141
Increases	4,604
Decreases	(56,133)
Total changes	(5,388)
Tax charge on changes	(301)
Taxable current taxes	4,586
Current tax burden	255
Increase in deferred tax assets for deductible temporary differences	(28)
Decrease in deferred tax assets for deductible temporary differences	-
Increase in deferred tax liabilities for taxable temporary differences	35
Decrease in deferred tax liabilities for taxable temporary differences	
Actual tax charge for the year	263
Actual tax charge for the year %	2.63%

IRES (Amounts in €/thousand)	2019
Gross profit for the year	9,974
Theoretical rate	27.50%
Theoretical tax burden	2,743
Increases	2,408
Decreases	(899)
Total changes	1,509
Tax charge on changes	415
Taxable current taxes	11,483
Current tax burden	3,158
Increase in deferred tax assets for deductible temporary differences	(519)
Decrease in deferred tax assets for deductible temporary differences	74
Increase in deferred tax liabilities for taxable temporary differences	173
Decrease in deferred tax liabilities for taxable temporary differences	
Actual tax charge for the year	2,886
Actual tax charge for the year %	28.93%

Section 22 - Earnings per Share (EPS)

22.1 Average number of diluted ordinary shares

The average number of Banca Profilo's shares outstanding in 2019 was 667,956,185 determined on a monthly basis and taking into account the shares issued net of treasury shares in the portfolio. Basic earnings per share in 2019 amounted to € 0.010. The average number of diluted ordinary shares was 667,956,185. The diluted earnings per share for 2019 is therefore € 0.010.

PART D - Statement of Comprehensive Income

Statement of Comprehensive Income

Items (€/thousand)	Total 2019	Total 2018
10. Profit (loss) for the year	6,726	2,265
Other income without reversal to income statement	**488**	**(29)**
20. Equity securities measured at fair value through other comprehensive income	553	(29)
a) changes in fair value	371	(32)
b) transfers to other components of shareholders' equity	182	4
70. Defined benefit plans	(90)	
100. Income taxes relating to other income without reversal to Income Statement	25	
Other income with reversal to income statement	**6,465**	**(11,180)**
150. Financial assets (other than equity securities) measured at fair value through other comprehensive income	9,659	(16,704)
a) changes in value	6,145	(11,578)
b) reversal to income statement	3,514	(5,126)
- adjustments for credit risk	(30)	315
- realised gains/losses	3,544	(5,441)
c) other changes		
180. Income taxes relating to other income without reversal to income statement	(3,194)	5,524
190. Total other income	**6,953**	**(11,209)**
200. Comprehensive income (Item 10+190)	**13,679**	**(8,944)**

PART E - Information on Risks and Hedging Policies

Section 1 – credit Risk

QUALITATIVE INFORMATION

1 General information

Banca Profilo carries out traditional lending activities, in compliance with the Credit Policy guidelines approved by the Parent Company's Board of Directors. Since the Bank's core business is Private Banking, its credit policy favours loans to private customers, in the form of Lombard loans, i.e. loans secured by pledges on financial instruments or asset management schemes held by customers with Banca Profilo or by mortgage guarantees.

Delivery and counterparty risks are instrumental to the performance of operations typical of the Finance Area. The Bank operates in such a way as to minimise these credit risk components: a) for delivery risk, by using DVP (delivery versus payment) type guarantee mechanisms for the settlement of transactions; b) for counterparty risk, by using collateral agreements with daily margining with all financial counterparties with which it operates in over-the-counter or repo derivatives.

With regard to the spread of the Coronavirus and its consequences, it is not excluded that a general slowdown in the economy may occur, with potential effects - as at 12 March 2020 - which cannot yet be determined for Banca Profilo. These will be constantly monitored during the year 2020. Banca Profilo's balance sheet and liquidity situation as at 12 March 2020 is, however, solid and capable of coping with further worsening market scenarios compared to the current situation.

2 Credit risk management policies

2.1 Organisational aspects

In accordance with the Guidelines issued by the Parent Company and the Group Risk Appetite Framework (RAF), for the performance of activities involving the assumption of credit risk, the Bank has adopted specific Credit Regulations, which formalise the processes and criteria to be applied when granting loans or a credit line: this document is approved by the Board of Directors and periodically reviewed.

The Credit Regulations are based on the following guidelines:

- separation of tasks and responsibilities between the functions that manage the relationship and instruct credit line practices, those that grant and administer credit lines and those that measure and monitor risks;
- attribution of the concession activity to collective bodies (Credit Committee or Board of Directors), with different powers depending on the type of line requested, the amount, the existence or otherwise of collateral based on well-defined limits of autonomy; the decision-making autonomy of individual parties (Chief Executive Officer or other equivalent function) may be provided for operations of reduced amount.

The Credit Regulations also provide for the following:

- the types of collateral deemed eligible and the criteria for determining the spread applied to each type of collateral; the spread shall be determined prudently, taking into account the degree of liquidity of the collateral and the possible variability of its value in relation to changes in market factors;
- the technique of measuring counterparty risk according to a "mark to market + add on" methodology;

the frequency of monitoring compliance with the lines or credit lines granted, the creditworthiness of the customer or counterparty, the appropriateness of the value of the guarantees.

2.2 Management, measurement and control systems

The Bank's Credit Function verifies at least monthly the amount of loans granted and disbursed, the adequacy of guarantees or collateral received, compliance with credit lines for derivative transactions and prepares the related reports at meetings of the Credit Committee and the Board of Directors. The same function periodically reviews the creditworthiness of customers and counterparties.

The Risk Management Function verifies the correct operation of performance monitoring on individual exposures, in particular non-performing exposures, and the consistency of classifications, the appropriateness of provisions and the adequacy of the recovery process.

In accordance with supervisory regulations, counterparty risk is measured internally in terms of mark to market + add on. An amount (add on) is added to the mark to market of the outstanding derivatives, which represents the current exposure to a given counterparty, to take into account the potential future exposure associated with the individual contracts. The add on is differentiated for each derivative contract, depending on its residual duration and type.

2.3 Methods to measure expected losses

The expected loss model has been adopted to measure the impairment of financial assets held in the portfolio, with two types of calculation: 12 months expected credit losses for loans classified as stage 1 and lifetime expected credit losses for those classified as stage 2 or 3.

Non-performing loans are subject to an analytical valuation process regardless of the amounts involved. The quantification of impairment also takes into account existing guarantees. More specifically, the policy on the criteria for the classification and valuation of company assets establishes the minimum write-down percentages for the various stages of non-performing loans, set out below and which can only be reduced in the presence of objective evidence: the actual write-down percentages are decided by the Credit Committee. In particular, past due/overdrawn positions are broken down internally on the basis of:

- days of continuous past due (more than 90 days);
- presence of collateral received;
- percentage coverage of the position by the guarantees.

On the basis of the three indicators, a consistent write-down percentage is applied.

Loans and securities for which no objective evidence of loss has been individually identified fall within the so-called "performing loans" (performing positions) and are subject to collective valuation.
The valuation model for the Generic fund must be established on the basis of the following formula:
ECL = EAD x PD x LGD
where:
ECL = Expected Credit Loss
EAD = Exposure at Default
PD = Probability of Default
LGD = Loss given Default

Collective write-downs of securities and loans must therefore be calculated according to the following principles:

- at each reporting date, if the credit risk of a financial instrument has not significantly increased with respect to the date of disbursement or purchase (stage 1), the expected loss for that financial instrument should be measured as the amount of expected losses in the following 12 months;
- at each reporting date, if the credit risk of a financial instrument has significantly increased with respect to the date of disbursement or purchase (stage 2), the expected loss for that financial instrument should be measured as the amount of expected losses over the remaining life of the instrument (lifetime).

For the purposes of staging financial assets, each asset is classified at the origination date in "stage 1" and subsequently:

- with regard to securities, the deterioration of three notches on the rating attributed to the instrument itself by external rating agencies, together with a final speculative grade rating, will be

considered evidence of a significant increase in credit risk, and therefore a move to "stage 2" for the security;
- with regard to loans, the deterioration of three notches on the internal rating assigned to the position will be considered evidence of a significant increase in credit risk. In this regard, the credit risk of an asset may not be considered significantly increased if, at the measurement date, the credit risk of the asset itself is considered low on the basis of the assessments made by the Credit Committee.

With regard to the criteria for determining PDs and LGDs to be applied by counterparty and instrument to positions, the approaches differ between securities and loans.

With regard to securities, issuer-specific PDs are extracted from listed credit spreads (CDS and listed bonds) or, in the absence of significant market data for an issuer, by proxy methodology. Market spreads are stripped of the risk premium component to arrive at the estimate of real PDs according to a "real world" approach.
LGDs are associated with the respective issues, differentiating according to the level of subordination (senior and subordinated issues) and the country of the issuer (60% and 80% for a developed country issuer, 75% and 100% for an emerging country issuer, respectively); for covered issues, the LGD varies (from 20% to 60%) depending on the rating assigned to the security in question.

With reference to loans, the PDs used are estimated starting from the construction of Pit (Point in time) migration matrices from historical databases on which future PDs are built based on simulations of different macroeconomic scenarios. Finally, PD averages weighted by the probability of occurrence of the scenarios are calculated. For guaranteed loans, the LGDs obtained on the basis of the consortium models are adjusted to 5% if the value of the guarantee (net of internally established prudential spreads) is large in relation to the value of the loan disbursed.

With regard to the historical series of default rates, the bank updated the data at the beginning of 2020, using the data as at 31 December 2019, taking into account the changes in status recorded in 2019 on its credit positions in order to have a more precise calibration of the historical series recorded in the valuation model at the consortium level. In addition, the main macroeconomic variables were updated to determine the forward looking component.
Specifically, three macroeconomic scenarios have been selected at the consortium level: a baseline, an up scenario and a down scenario.
The baseline scenario is the central reference scenario and is therefore considered to be the most likely scenario. The "Down" and "Up" Scenarios represent alternative, respectively worse and better scenarios than the "Baseline Scenario":
- The "Baseline Scenario" reflects the expected macroeconomic evolution. It forecasts positive and gradually accelerating growth for the Italian economy. Specifically, annual GDP growth is expected to be 0.6% in 2020, 0.8% in 2021 and 1.2% in 2022. Among other macroeconomic variables, the unemployment rate is estimated to gradually decline to 9.4% at the end of 2022. The EUR/USD exchange rate is expected to increase slightly from 1.17 at the beginning of 2020 to 1.24 at the end of 2022. Brent oil prices are expected to gradually increase, but still within the USD 60/70 per barrel range. The 3-month Euribor rate is estimated to be almost constant in light of expected unchanged monetary policies. The Italy-Germany Spread is expected to contract gradually due to the simultaneous effect of a rise in the Bund yield, but still at negative levels, and a narrowing of the BTP yield.
- The "Down Scenario" outlines a context of recession for the Italian economy, with annual GDP expected to contract by 0.8% in 2020, 2.3% in 2021 and 1.7% in 2022, and with the unemployment rate gradually increasing to 14.9% at the end of 2022. The EUR/USD exchange rate is expected to oscillate within the range 1.05-1.12. Oil prices are estimated to fall gradually below USD 60 per barrel and then stabilise at around USD 56 per barrel during 2022. The 3-month Euribor rate is expected to fall, stabilising at around -0.65% during 2022. The Italy-Germany Spread is estimated to gradually increase, and above 200 basis points from the first quarter of 2022.
- The "Up Scenario" outlines a context of expansion for the Italian economy, with annual GDP expected to grow strongly, by 2.3% in 2020, 3.8% in 2021 and 3.6% in 2022, and with the unemployment rate gradually decreasing, to 6% at the end of 2022. The 3-month Euribor rate is expected to remain in negative territory in the three-year period 2020-2022, albeit gradually but slowly rising. The EUR is expected to gradually appreciate against the USD, with the exchange

rate rising from 1.20 in the first quarter of 2020 to 1.34 at the end of 2022. Oil prices are estimated to rise gradually to USD 80 per barrel during 2022.

In order to estimate a possible impact on collective credit write-downs in relation to a general economic slowdown and a worsening of the main macroeconomic indicators due to the spread of the Coronavirus epidemic (COVID-19), a simulation of collective write-downs has been carried out with a full realisation of the "Down Scenario" (100% weighting), which shows an increase in value adjustments on performing loans of about 8% compared to the weighting of scenarios illustrated in this section and used for the calculation of collective write-downs for these financial statements.

2.4 Credit risk mitigation policies

In order to contain counterparty risk and in accordance with the provisions of the so-called EMIR regulations, Banca Profilo has entered into collateralisation agreements with all the financial intermediaries with which it operates in the market. These agreements provide for the daily quantification of the reciprocal exposure between two counterparties in terms of the mark-to-market of the derivatives in position and the simultaneous payment of collateral (cash) to secure the exposure, if it exceeds a contractually agreed amount.

The loans granted, on the other hand, are generally covered by collateral and personal guarantees. The types of guarantees involved are:

- pledges on securities deposited with the Bank by customers, managed or administered;
- mortgages on property, against a small proportion of loans granted (mostly to employees);
- sureties;
- other guarantees (assignment of credit, etc.).

3 Non-performing credit exposures

As at 31 December 2019, with reference to traditional financing activities and trade receivables, at Banca Profilo non-performing loans amounted to a gross amount of € 6.6 million, written down by approximately 86%.

3.1 Management strategies and policies

The Bank, in compliance with current supervisory regulations, ensures the correct classification of non-performing loans.
Non-performing loans are subject to an analytical valuation process regardless of the amounts involved. The quantification of impairment takes account of existing guarantees.

Loans past due and/or overdrawn by more than 90 days on an ongoing basis

The total exposure shall be recognised as past due and/or overdrawn if, at the reporting date, the higher of the following two values is equal to or above the 5% threshold:

- average of the past due and/or overdrawn portion on the entire exposure recorded on a daily basis and in the last quarter of the previous year;
- past due and/or overdrawn portion of the entire exposure at the reporting date.

Past due/overdrawn positions are broken down internally on the basis of:

- days of continuous past due (more than 90 days);
- presence of collateral;
- percentage coverage of the position by the guarantees.

Based on these indicators, a minimum write-down percentage is applied.
The write-down percentages and the assumptions that led to their determination are decided by the Credit Committee, on the proposal of the Credit Function and verified by the Risk Management Function.

Unlikely to pay

Classification in this category is linked to the Bank's opinion that, without recourse to actions such as enforcement of guarantees, the debtor is unlikely to meet its credit obligations in full (principal and/or interest). This assessment is independent of whether or not there are any overdue and unpaid amounts.
The classification as Unlikely to pay takes place by resolution of the Credit Committee, on the proposal of the Credit Function.
The assessment process takes into account the guarantees received and the percentage coverage of the position by these guarantees, applying minimum write-down percentages.
The percentages calculated in this way and the assumptions that led to their determination are decided by the Credit Committee, on the proposal of the Credit Function and verified by the Risk Management Function.

Bad loans

Exposures to parties in a state of insolvency, even if not judicially ascertained or in substantially comparable situations.
The Board of Directors is responsible for deciding on the bad loan status and determining the write-down to be applied.
The Credit Committee, having obtained the opinion of the Risk Management Function, prepares the report to the Board of Directors with a proposal for the attribution of the state of insolvency, the reasons and the write-down percentage to be applied, applying minimum values.

The assessment process for non-performing loans must take place at least once a year when the annual financial statements are drawn up and whenever anomalies are found on individual non-performing positions.

QUANTITATIVE INFORMATION

A. Credit quality

A.1 Non-performing and performing credit exposures: amounts, value adjustments, changes and economic distribution.

A.1.1 Breakdown of financial assets by portfolio and credit quality (book values)

Portfolios/quality	Bad loans	Unlikely to pay	Non-performing past due exposures	Performing past due exposures	Other performing exposures	Total
1. Financial assets measured at amortised cost	-	797	125	367	985,028	986,317
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	260,806	260,806
3. Financial assets designated at fair value	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-	-	-
5. Financial assets held for sale	-	-	-	-	-	-
Total 31/12/2019	**-**	**797**	**125**	**367**	**1,245,834**	**1,247,123**
Total 31/12/2018	**-**	**882**	**177**	**43**	**1,445,786**	**1,446,887**

A.1.2 Breakdown of financial assets by portfolio and credit quality (gross and net amounts)

Portfolios/quality	Non-performing				Performing			Total (net exposure)
	Gross exposure	Overall value adjustments	Net exposure	Total partial write-offs*	Gross exposure	Overall value adjustments	Net exposure	
1. Financial assets measured at amortised cost	6,556	(5,633)	922	683	985,832	(437)	985,395	986,317
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	261,093	(288)	260,806	260,806
3. Financial assets designated at fair value	-	-	-	-	X	X	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-	X	X	-	-
5. Financial assets held for sale	-	-	-	-	-	-	-	-
Total 31/12/2019	**6,556**	**(5,633)**	**922**	**683**	**1,246,925**	**(725)**	**1,246,200**	**1,247,123**
Total 31/12/2018	**6,467**	**(5,408)**	**1,059**	**683**	**1,447,583**	**(1,755)**	**1,445,829**	**1,446,887**

Portfolios/quality	Assets with evident poor credit quality		Other assets
	Accumulated capital losses	Net exposure	Net exposure
1. Financial assets held for trading	-	-	444,138
2. Hedging derivatives	-	-	1,271
Total 31/12/2019	**-**	**-**	**445,409**
Total 31/12/2018	**-**	**-**	**436,044**

A.1.3 Breakdown of financial assets by past due ranges (book values)

Portfolios/risk stages	Stage 1			Stage 2			Stage 3		
	1 to 30 days	Over 30 to 90 days	Over 90 days	1 to 30 days	Over 30 to 90 days	Over 90 days	1 to 30 days	Over 30 to 90 days	Over 90 days
1. Financial assets measured at amortised cost	20	101	1	-	2	243	-	-	922
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-	-	-	-
Total 31/12/2019	**20**	**101**	**1**	**-**	**2**	**243**	**-**	**-**	**922**
Total 31/12/2018	**12**	**23**	**1**	**-**	**6**	**-**	**-**	**-**	**1,059**

A.1.4 Financial assets, commitments to disburse funds and financial guarantees issued: changes in overall value adjustments and in total provisions

Types/risk stages	Overall value adjustments									
	Assets included in stage 1					Assets included in stage 2				
	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs
Overall adjustments, opening balance	**908**	**705**	**-**	**-**	**1,612**	**-**	**-**	**-**	**-**	**-**
Increases from financial assets acquired or originated	-	-	-	-	-	-	-	-	-	-
Derecognitions other than write-offs	-	-	-	-	-	-	-	-	-	-
Net value adjustments/reversals for credit risk (+/-)	(479)	(417)	-	-	(896)	8	-	-	-	8
Contractual changes without derecognitions	-	-	-	-	-	-	-	-	-	-
Changes in estimation method	-	-	-	-	-	-	-	-	-	-
Write-offs not directly recorded in the income statement	-	-	-	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	-	-	-	-
Overall adjustments, closing balance	**429**	**288**	**-**	**-**	**717**	**8**	**-**	**-**	**-**	**8**
Recoveries from collections of financial assets subject to write-off	-	-	-	-	-	-	-	-	-	-
Write-offs directly recorded in the income statement	-	-	-	-	-	-	-	-	-	-

A.1.4 Financial assets, commitments to pay funds and financial guarantees issued: changes in overall value adjustments and in total provisions

Types/risk stages	Overall value adjustments						Total provisions for commitments to disburse funds and financial guarantees issued			Total
	Assets included in stage 3					Of which: impaired financial assets, acquired or originated				
	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual write-downs	of which: collective write-downs		Stage 1	Stage 2	Stage 3	
Overall adjustments, opening balance	**5,408**	**-**	**-**	**5,408**	**-**	**-**	**17**	**-**	**-**	**7,037**
Increases from financial assets acquired or originated	-	-	-	-	-	-	-	-	-	-
Derecognitions other than write-offs	-	-	-	-	-	-	-	-	-	-
Net value adjustments/reversals for credit risk (+/-)	225	-	-	225	-	-	(14)	3	-	**(673)**
Contractual changes without derecognitions	-	-	-	-	-	-	-	-	-	-
Changes in estimation method	-	-	-	-	-	-	-	-	-	-
Write-offs not directly recorded in the income statement	-	-	-	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	-	-	-	-
Overall adjustments, closing balance	**5,633**	**-**	**-**	**5,633**	**-**	**-**	**4**	**3**	**-**	**6,364**
Recoveries from collections of financial assets subject to write-off	-	-	-	-	-	-	-	-	-	-
Write-offs directly recorded in the income statement	-	-	-	-	-	-	-	-	-	-

A.1.5 Financial assets, commitments to pay funds and financial guarantees issued: transfers between the different credit risk stages (gross and nominal amounts)

Portfolios/risk stages	Gross exposure/nominal value					
	Transfers between stage 1 and stage 2		Transfers between stage 2 and stage 3		Transfers between stage 1 and stage 3	
	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
1. Financial assets measured at amortised cost	3,764	488	-	-	-	-
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-
4. Commitments to disburse funds and financial guarantees issued	-	-	-	-	-	-
Total 31/12/2019	**3,764**	**488**	**-**	**-**	**-**	**-**
Total 31/12/2018	**-**	**-**	**1,124**	**-**	**-**	**-**

A.1.6 On-balance sheet and off-balance sheet credit exposures to banks: gross and net amounts

Types of exposure/amounts	Gross exposure		Overall value adjustments and total provisions	Net Exposure	Total partial write-offs*
	Non-performing	Performing			
A. On-balance sheet credit exposures					
a) Bad loans	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
b) Unlikely to pay	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
c) Non-performing past due exposures	-	X	-	-	-
- of which: forborne exposures	-	X	-	-	-
d) Performing past due exposures	X	-	-	-	-
- of which: forborne exposures	X	-	-	-	-
e) Other performing exposures	X	311,323	152	311,171	-
- of which: forborne exposures	X	-	-	-	-
Total (A)	**-**	**311,323**	**152**	**311,171**	**-**
B. Off-balance sheet credit exposures					
a) Non-performing	-	X	-	-	-
b) Performing	X	93,771	-	93,771	-
Total (B)	**-**	**93,771**	**-**	**93,771**	**-**
Total (A+B)	**-**	**405,094**	**152**	**404,942**	**-**

"Off-balance sheet" exposures to banks include all financial transactions other than balance sheet ones (guarantees issued, commitments, derivatives, etc.) which entail the assumption of credit risk, regardless of the purpose of said transactions (trading, hedging etc.).

A.1.7 On-balance sheet and off-balance sheet credit exposures to customers: gross and net amounts

Types of exposure/amounts	Gross exposure		Overall value adjustments and total provisions	Net exposure	Total partial write-offs*
	Non-performing	Performing			
A. On balance sheet credit exposures					
a) Bad loans	3,876	X	3,876	-	683
- of which: forborne exposures	-	X	-	-	-
b) Unlikely to pay	1,137	X	339	797	-
- of which: forborne exposures	-	X	-	-	-
c) Non-performing past due exposures	1,544	X	1,419	125	-
- of which: forborne exposures	-	X	-	-	-
d) Performing past due exposures	X	376	4	372	-
- of which: forborne exposures	X	-	-	-	-
e) Other performing exposures	X	1,269,573	568	1,269,005	-
- of which: forborne exposures	X	-	-	-	-
Total (A)	**6,556**	**1,269,949**	**6,206**	**1,270,299**	**683**
B. Off-balance sheet credit exposures					
a) Non-performing	68	X	-	68	-
b) Performing	X	616,105	6	616,099	-
Total (B)	**68**	**616,105**	**6**	**616,167**	**-**
Total (A+B)	**6,624**	**1,886,054**	**6,212**	**1,886,466**	**683**

"Off-balance sheet" exposures to customers include all financial transactions other than balance sheet ones (guarantees issued, commitments, derivatives, etc.) which entail the assumption of credit risk, regardless of the purpose of said transactions (trading, hedging, etc.).

A.1.9 On-balance sheet credit exposure to customers: changes in gross non-performing exposures

Types/Categories	Bad loans	Unlikely to pay	Non-performing past due exposures
A. Gross exposure, opening balance	**3,876**	**1,124**	**1,467**
- of which: exposures transferred but not derecognised	-	-	-
B. Increases	**-**	**12**	**108**
B.1 transfers from performing exposures	-	-	-
B.2 transfers from impaired financial assets, acquired or originated	-	-	-
B.3 transfers from other categories of non-performing exposures	-	-	-
B.4 contractual modifications without derecognitions	-	-	-
B.5 other increases	-	12	108
C. Decreases	**-**	**-**	**32**
C.1 transfers to performing exposures	-	-	-
C.2 write-offs	-	-	-
C.3 collections	-	-	32
C.4 amount realised upon disposal of positions	-	-	-
C.5 losses on disposal	-	-	-
C.6 transfers to other categories of non-performing exposures	-	-	-
C.7 contractual modifications without derecognitions	-	-	-
C.8 other decreases	-	-	-
D. Gross exposure, closing balance	**3,876**	**1,137**	**1,544**
- of which: exposures transferred but not derecognised	-	-	-

A.1.11 On-balance sheet non-performing credit exposures to customers: changes in overall value adjustments

Types/Categories	Bad loans		Unlikely to pay		Non-performing past due exposures	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Overall adjustments, opening balance	**3,876**	**-**	**243**	**-**	**1,290**	**-**
- of which: exposures transferred but not derecognised	-	-	-	-	-	-
B. Increases	**-**	**-**	**97**	**-**	**129**	**-**
B.1 value adjustments of impaired financial assets, acquired or originated	-	X	-	X	-	X
B.2 other value adjustments	-	-	97	-	129	-
B.3 losses on disposal	-	-	-	-	-	-
B.4 transfers from other categories of non-performing exposures	-	-	-	-	-	-
B.5 contractual modifications without derecognitions	-	-	-	-	-	-
B.6 other increases	-	-	-	-	-	-
C. Decreases	**-**	**-**	**-**	**-**	**-**	**-**
C.1 reversals from valuation	-	-	-	-	-	-
C.2 reversals from collection	-	-	-	-	-	-
C.3 profit from disposal	-	-	-	-	-	-
C.4 write-offs	-	-	-	-	-	-
C.5 transfers to other categories of non-performing exposures	-	-	-	-	-	-
C.6 contractual modifications without derecognitions	-	-	-	-	-	-
C.7 other decreases	-	-	-	-	-	-
D. Overall adjustments, closing balance	**3,876**	**-**	**339**	**-**	**1,419**	**-**
- of which: exposures transferred but not derecognised	-	-	-	-	-	-

A.2 Classification of financial assets, commitments to pay funds and financial guarantees issued on the basis of external and internal ratings.

The Bank does not classify exposures according to external or internal ratings.

A.3 Breakdown of secured credit exposures by type of collateral

A.3.1 Secured on-balance sheet and off-balance sheet credit exposures to banks

	Gross exposure	Net exposure	Collateral (1)				Guarantees (2)									Total (1)+(2)
							Credit derivatives					Signature loans				
								Other derivatives								
			Property - mortgages	Property - Financing for lease	Securities	Other collateral	CLN	Central Counterparties	Banks	Other financial companies	Other entities	Public administration	Banks	Other financial companies	Other entities	
1. Secured on-balance sheet credit exposures:	**97,563**	**97,559**	**-**	**-**	**54,066**	**43,493**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**97,559**
1.1 totally secured	97,563	97,559	-	-	54,066	43,493	-	-	-	-	-	-	-	-	-	97,559
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2 partially secured	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Secured off-balance sheet credit exposures:	**19,206**	**19,206**	**-**	**-**	**4,745**	**14,381**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**19,125**
2.1 totally secured	18,525	18,525	-	-	4,745	13,781	-	-	-	-	-	-	-	-	-	18,525
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 partially secured	681	681	-	-	-	600	-	-	-	-	-	-	-	-	-	600
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.3.2 Secured on-balance sheet and off-balance sheet credit exposures to customers

	Gross exposure	Net exposure	Collateral (1)				Guarantees (2)									Total (1)+(2)
							Credit derivatives					Signature loans				
								Other derivatives								
			Property - mortgages	Property - Financing for lease	Securities	Other collateral	CLN	Central Counterparties	Banks	Other financial companies	Other entities	Public administration	Banks	Other financial companies	Other entities	
1. Secured on-balance sheet credit exposures:	**428,000**	**427,454**	**53,758**	**-**	**256,752**	**114,236**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**243**	**424,988**
1.1 totally secured	416,777	416,239	53,758	-	249,292	112,947	-	-	-	-	-	-	-	-	243	416,239
- of which non-performing	1,137	797	429	-	369	-	-	-	-	-	-	-	-	-	-	797
1.2 partially secured	11,223	11,215	-	-	7,460	1,289	-	-	-	-	-	-	-	-	-	8,749
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Secured off-balance sheet credit exposures:	**142,001**	**141,995**	**1,997**	**-**	**99,695**	**39,562**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**144**	**141,398**
2.1 totally secured	138,323	138,317	1,997	-	97,555	38,631	-	-	-	-	-	-	-	-	135	138,317
- of which non-performing	68	68	-	-	50	18	-	-	-	-	-	-	-	-	-	68
2.2 partially secured	3,679	3,678	-	-	2,140	931	-	-	-	-	-	-	-	-	10	3,081
- of which non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

B. Breakdown and concentration of credit exposure

B.1 Breakdown of on-balance sheet and off-balance sheet credit exposures to customers by business segment (book value)

Exposures/Counterparties	Public administration		Financial companies		Financial companies (of which: insurance companies)		Non-financial companies		Households	
	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments
A. On-balance sheet credit exposures										
A.1 Bad loans	-	-	-	-	-	-	-	-	-	3,876
- of which: forborne exposures	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	369	156	429	184
- of which: forborne exposures	-	-	-	-	-	-	-	-	-	-
A.3 Non-performing past due exposures	-	-	3	2	1	-	117	1,414	6	2
- of which: forborne exposures	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	722,656	301	257,827	82	17	-	109,644	163	179,250	26
- of which: forborne exposures	-	-	-	-	-	-	-	-	-	-
Total (A)	**722,656**	**301**	**257,829**	**84**	**18**	**-**	**110,129**	**1,733**	**179,685**	**4,088**
B. Off-balance sheet credit exposures										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	68	-
B.2 Performing exposures	117,526	-	73,575	-	-	-	348,321	6	76,678	0
Total (B)	**117,526**	**-**	**73,575**	**-**	**-**	**-**	**348,321**	**6**	**76,746**	**0**
Total (A+B) 31/12/2019	**840,182**	**301**	**331,404**	**84**	**18**	**-**	**458,450**	**1,739**	**256,431**	**4,088**
Total (A+B) 31/12/2018	**752,080**	**794**	**484,166**	**146**	**4,193**	**1**	**224,343**	**1,687**	**255,489**	**4,142**

B.2 Breakdown of on-balance sheet and off-balance-sheet credit exposures to customers by geographic area

Part 1

Exposures/Geographic areas	Italy		Other European countries		America
	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure
A. On-balance sheet credit exposures					
A.1 Bad loans	-	3,875	-	-	-
A.2 Unlikely to pay	797	339	-	-	-
A.3 Non-performing past due exposures	124	1,418	1	-	-
A.4 Performing exposures	1,120,688	542	137,145	29	6,663
Total (A)	**1,121,609**	**6,175**	**137,146**	**29**	**6,663**
B. Off-balance sheet credit exposures					
B.1 Non-performing exposures	68	-	-	-	-
B.2 Performing exposures	147,363	6	451,166	-	17,352
Total (B)	**147,431**	**6**	**451,166**	**-**	**17,352**
Total (A+B) 31/12/2019	**1,269,040**	**6,181**	**588,312**	**29**	**24,014**
Total (A+B) 31/12/2018	**1,299,209**	**6,682**	**367,802**	**64**	**44,466**

B.2 Breakdown of on-balance sheet and off-balance-sheet credit exposures to customers by geographic area

Part 2

Exposures/Geographic areas	America	Asia		Rest of the world	
	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall 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	4,880	1	-	-
Total (A)	**1**	**4,880**	**1**	**-**	**-**
B. Off-balance sheet credit exposures					
B.1 Non-performing exposures	-	-	-	-	-
B.2 Performing exposures	-	219	-	-	-
Total (B)	**-**	**219**	**-**	**-**	**-**
Total (A+B) 31/12/2019	**1**	**5,100**	**1**	**-**	**-**
Total (A+B) 31/12/2018	**18**	**4,601**	**5**	**-**	**-**

B.3 Breakdown of on-balance sheet and off-balance-sheet credit exposures to banks by geographic area

Part 1

Exposures/Geographic areas	Italy		Other European countries		America
	Net exposure	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure
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	218,722	133	92,449	19	-
Total (A)	**218,722**	**133**	**92,449**	**19**	**-**
B. Off-balance sheet credit exposures					
B.1 Non-performing exposures	-	-	-	-	-
B.2 Performing exposures	4,745	-	87,162	-	-
Total (B)	**4,745**	**-**	**87,162**	**-**	**-**
Total (A+B) 31/12/2019	**223,467**	**133**	**179,611**	**19**	**-**
Total (A+B) 31/12/2018	**301,789**	**359**	**161,964**	**51**	**43**

B.3 Breakdown of on-balance sheet and off-balance-sheet credit exposures to banks by geographic area

Part 2

Exposures/Geographic areas	America	Asia		Rest of the world	
	Overall value adjustments	Net exposure	Overall value adjustments	Net exposure	Overall 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	-	-	-	-	-
Total (A)	**-**	**-**	**-**	**-**	**-**
B. Off-balance sheet credit exposures					
B.1 Non-performing exposures	-	-	-	-	-
B.2 Performing exposures	-	-	-	-	-
Total (B)	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31/12/2019	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31/12/2018	**-**	**-**	**-**	**-**	**-**

B.4 Large exposures

	31/12/2019	31/12/2018
a) Amount - book value	1,986,603	2,275,415
b) Amount - weighted value	128,171	292,602
c) Number	18	20

Large exposures are any of the assets and off-balance sheet items referred to in Part Three, Title II Chapter 2 of Regulation (EU) no. 575/2013 (CRR) - without the application of risk weights or risk categories - to a customer or group of connected customers when its value is 10% or more of eligible capital.

C. Securitisation transactions

Banca Profilo has not carried out any securitisation transactions.

D. Disclosure on structured entities not consolidated line-by-line in the accounts (other than Special Purpose Vehicle for securitisation)

Banca Profilo has not carried out any transactions on structured entities.

E. Transfers

A. Financial assets sold and not fully derecognised

QUALITATIVE INFORMATION

Financial assets sold and not derecognised mainly refer to repurchase agreements carried out during the year on debt securities.
The Bank did not sell any non-performing loans by exchanging fund units.

QUANTITATIVE INFORMATION

E.1 - Financial assets sold and fully recognised and associated financial liabilities: book value

	Financial assets sold fully recognised				Associated financial liabilities		
	Book value	of which: subject of securitisation operations	of which: subject of contracts of sale with repurchase obligation	of which non-performing	Book value	of which: subject of securitisation operations	of which: subject of contracts of sale with repurchase obligation
A. Financial assets held for trading	**365,138**	**-**	**365,138**	**X**	**364,967**	**-**	**364,967**
1. Debt securities	306,879	-	306,879	X	306,707	-	306,707
2. Equity securities	58,259	-	58,259	X	58,259	-	58,259
3. Loans	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
B. Other financial assets measured at fair value, as per mandatory requirements	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
C. Financial assets measured at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. Debt securities	-	-	-	-	-	-	-
2. Loans	-	-	-	-	-	-	-
D. Financial assets measured at fair value through other comprehensive income	**104,587**	**-**	**104,587**	**-**	**104,734**	**-**	**104,734**
1. Debt securities	104,587	-	104,587	-	104,734	-	104,734
2. Equity securities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
E. Financial assets measured at amortised cost	**266,256**	**-**	**266,256**	**-**	**265,922**	**-**	**265,922**
1. Debt securities	266,256	-	266,256	-	265,922	-	265,922
2. Loans	-	-	-	-	-	-	-
Total 31/12/2019	**735,980**	**-**	**735,980**	**-**	**735,622**	**-**	**735,622**
Total 31/12/2018	**510,119**	**-**	**510,119**	**-**	**488,228**	**-**	**488,228**

F. Credit risk measurement models

Banca Profilo does not use internal models to measure credit risk.

Section 2 – Market risk

2.1. Interest rate and price risk – Regulatory trading book

QUALITATIVE INFORMATION

A. General information

Depending on the purpose of the investment and its time period, the financial instruments involved in the activity have been included in different portfolios with different accounting treatment: Hold to Collect (HTC), Hold to Collect & Sell (HTC&S), Hold to Sell (HTS).

With particular reference to interest rate risk, the activities that can generate the same within Banca Profilo are:

- interest rate trading, conducted through the assumption of short-term positions on government securities and listed derivatives (interest rate or government bond futures);
- trading or stable investment activities involving bonds and the related derivatives portfolio - listed or over the counter - with which the Bank manages the interest rate risk of the securities portfolio.

The most significant exposures are on the Euro curve.

B. Processes for the management and methods of measurement of interest rate risk and price risk

For the performance of activities involving the assumption of market risks, the Bank has adopted specific Regulations, in which the persons in charge of operational management are formalised for the different types of risk as well as the system of proxies and operating limits within which they are required to operate: this document is approved by the Board of Directors and periodically revised.

The Market Risk Regulations are based on the following guidelines:
indicate which accounting portfolios are subject to operational delegation to the Finance Area and which are reserved for decisions by the Board of Directors;
establish a system of operating limits consistent with the Group's RAF objectives and the Bank's capital endowment, organised for each portfolio/desk on two levels: a) general Value at Risk (VaR) and stop loss limits, valid for all types of market risk assumed by the various portfolios; b) specific limits for individual relevant market risk factors, established in terms of Greeks and sensitivity;
provide for daily monitoring of all relevant risk indicators, profit & loss trends and compliance with operating limits, carried out by a control function (Risk Management) functionally and hierarchically independent from operational functions.

Trends in market and liquidity risks and the main operating positions are analysed by the Risk Committee, which normally meets fortnightly. The Board of Directors is regularly informed about the level of risks assumed by the various business units and compliance with the operating limits it has approved.

Specifically, with regard to interest rate risk, monitoring takes place in terms of interest rate sensitivity, i.e. the sensitivity of the portfolio's P&L to movements of 1 basis point in the interest curve. There is an overall sensitivity limit and specific limits for the individual reference curves and for the individual time segments of each curve.

Interest rate risk, together with other risk factors, is included in the calculation of the VaR of trading books. The VaR is only used for internal risk measurement purposes and not for the calculation of regulatory capital requirements for market risk, for which the standardised approach is adopted.

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QUANTITATIVE INFORMATION

In 2019, the average exposure to interest rate risk of the securities and proprietary derivatives portfolios, calculated in terms of interest rate sensitivity for a parallel shift of 1 basis point in the interest rate curve, was approximately € 87,300 (compared to € 51,000 in 2018), for a year-end point value of € 105,083 (compared to € 42,108 at the end of 2018).

The following table shows, for each reference curve, the main exposures to interest rate risk outstanding as at 31 December 2019:

Proprietary portfolios: interest rate risk

IR Sensitivity (+1 bp) as at 31.12.2019 (figures in €) Currency	0-1 y	1-3 y	3-5 y	5-7 y	7-10+ y	Total
EUR	(18)	(22)	(59)	(28)	30	(98)
USD	(1)	(5)	(5)	4	(1)	(7)
Other	-	-	-	-	-	-
Total	**(19)**	**(27)**	**(64)**	**(24)**	**29**	**(105)**

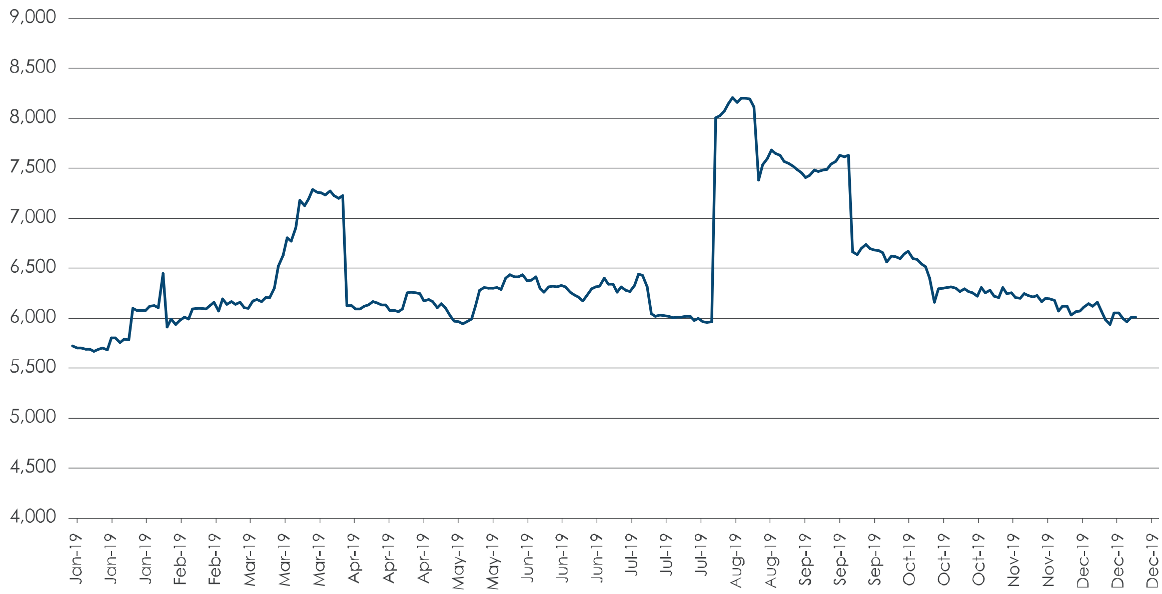
The VaR of Banca Profilo's portfolio over the course of 2019 is also taken into account at this stage, although such indicator refers to all the market risks of the proprietary portfolios and not just interest rate risk: therefore, all other market risk factors (issuer, price and exchange rate) are also included in the VaR calculation.

The graph below shows the trend in the VaR (1d, 99%) during 2019, relating to the total market risks of the Finance Area (HTC, HTC&S, HTS portfolios): the average value for the year was € 6.2 million (compared to € 4.1 million in 2018), with a peak of € 8.1 million reached in mid-August and a year-end point figure of € 5.7 million (compared to € 5.4 million at the end of 2018).

The total daily VaR of the proprietary portfolios gradually increased during the first quarter in parallel with the progressive increase in the HTC portfolio. After an initial reduction at the beginning of the second quarter due to reduced market volatility, the VaR rose sharply in August due to the sharp increase in the spread on Italian government bonds during the period. In the last quarter, with the reduction in the HTC&S portfolio, the overall VaR gradually returned to levels substantially in line with those at the end of 2018.
The market VaR of Banca Profilo, as at 31 December 2019, is approximately 53% due to the HTC portfolio and 38% due to the HTC&S portfolio: the two portfolios, taken as a whole, are made up of approximately 86% government bonds.

The VaR figure for the HTS portfolio alone averaged € 0.4 million in 2019 (in line with the average figure for 2018), with a year-end point figure of € 0.5 million.

Banca Profilo VaR (99%, 1d, € '000)



2.1. *bis* Issuer Risk - Regulatory trading book

QUALITATIVE INFORMATION

A. General information

The Finance Area of Banca Profilo manages a portfolio of bonds and credit default swaps on national and international issuers, exposing to the risk of default of the same issuers and/or unfavourable changes in the credit spread associated with them.

As at 31 December 2019, the Bank had outstanding credit default swaps for a nominal value of € 857 million, of which € 437 million in purchases and € 420 million in sales of protection, for a net purchase position of € 17 million. Credit default swaps are used to hedge the issuer risk of specific positions in securities of the proprietary portfolio or, in the case of index contracts (iTraxx), to generically hedge the portfolio. Protection sale contracts are mainly brokered with similar protection purchase contracts: in particular, there are several pure arbitrage transactions (for a total notional amount of € 656 million), in which the Bank purchased protection on an index and sold protection on the individual components of the same index.

B. Issuer risk management processes and measurement methods

Issuer risk management processes and measurement methods are the same as those used in relation to interest rate risk: please refer to the relevant section for a description of the bodies and offices involved and the system of operating limits.

With regard to specific indicators for issuer risk, monitoring takes place in terms of spread sensitivity, i.e. the sensitivity of the portfolio's P&L to movements of 1 basis point in the credit spread associated with the issuers in position.

In addition to the overall level, the Market Risk Regulations provide for value and spread sensitivity limits per rating class and concentration limits per individual issuer (depending on the rating).

The system of limits is structured in such a way as to favour exposure to issuers with investment grade ratings, which have a lower risk in terms of both the probability of default and the variability of the market spread.

QUANTITATIVE INFORMATION

In 2019, the average overall exposure of Banca Profilo's proprietary portfolios to issuer risk was approximately € 346,000 in terms of spread sensitivity (compared to € 264,000 in 2018), calculated for a movement of 1 basis point of the credit spread associated with the issuers in the portfolio (including government issuers).

As at 31 December 2019, the total exposure was € 348,954 (compared with € 254,865 as at 31 December 2018), broken down by issuer type and rating class as shown in the table below:

Proprietary portfolios: issuer risk (Securities and CDS)

Spread Sensitivity (+1 bp) as at 31.12.2019 (figures in €) Type of issuer	AAA / AA-	A+ / A-	BBB+ / BBB-	Spec. Grade	Total
Governments	21	-	(311)	-	(291)
Corporate	-	(12)	(37)	(10)	(58)
Total	**21**	**(12)**	**(348)**	**(10)**	**(349)**

Consistent with the structure of the operating limits, investments almost exclusively involved investment grade issuers: in terms of spread sensitivity, as at 31 December 2019, 97% of total exposure related to issuers with a rating of BBB- or higher. In particular, 83% of the exposure involved government or supranational securities.

2.1 *ter* Price risk – Regulatory trading book

QUALITATIVE INFORMATION

A. General information

In 2019, the equity segment's operations were characterised by trading operations with a short time period or relative value strategies: the latter, involving the assumption of opposite sign positions on shares and derivatives (index or option futures), involve limited directional risks. The most significant directional positions during the year were in the Small-Mid Cap and Spac segments.

The Bank also operates as a market maker of options on the Italian market with regard to approximately twenty underlyings: the strategy involves the use of equities for detailed delta hedging of options; the main risk factor is represented by the vega.

B. Price risk management processes and measurement methods

Price risk management processes and measurement methods are the same as those used in relation to interest rate risk: please refer to the relevant section for a description of the bodies and offices involved and the system of operating limits.

With regard to the specific indicators for equity risk, there are limits on the overall position and concentration limits on individual equity securities: the latter are diversified according to the securities' listing market and their free float.

QUANTITATIVE INFORMATION

In 2019, the "equivalent delta" value of the equity portfolio (i.e. including the options delta) was equal to an average annual value of € 8.1 million (compared to an average figure of € 11.9 million for 2018) and a year-end point value of € 8.3 million (compared to € 7.8 million as at 31 December 2018).

As at 31 December 2019, the exposure almost exclusively covered European markets:

Trading book: price risk

Equity price sensitivity (+1 bp) as at 31.12.2019 (figures in €)	Italy	France	Germany	Japan	Eurostoxx	GB	Other	Total
Equity exposure	44	22	4	4	3	2	4	82

2.2. Interest rate and price risk - Banking book

QUALITATIVE INFORMATION

A. General information, management processes and measurement methods for interest rate risk and price risk

The interest rate risk of the HTC and HTC&S portfolios and the related hedging derivatives have been taken into account in the figures referred to in para. 2.1, together with trading positions, similarly to that carried out at management level.

If the above securities portfolios are excluded, the interest rate risk relating to the banking book is reduced: Banca Profilo's capital structure is characterised by assets and liabilities mainly on demand or variable rate.

On the lending side, loans and advances to customer are almost entirely variable rate.

On the funding side, those from customers are typically on demand. The only forms of fixed-rate funding are represented by repurchase agreements and interbank deposits to finance the securities portfolio, which together have an average duration of between one and two weeks. Loans with the ECB, which have a residual duration of five months, are instead indexed to the ECB reference rate and in any case represent a minority share of Banca Profilo's total funding.

By virtue of the peculiar composition of its assets and liabilities, the Bank has no micro or macro hedge transactions in place on the interest rate risk of the banking book, with the exception of interest rate swaps entered into to hedge fixed-rate securities in the HTC&S portfolio.

QUANTITATIVE INFORMATION

Applying the standard rate shock scenario (200 bp) provided for by the Bank of Italy's supervisory regulations for quantifying the interest rate risk of the banking book, taking into account the constraint of non-negative interest rates, the impact on the economic value is summarised in the table below:

Currency (€/thousand)	+ 200 bp	- 200 bp
Euro	-554	1.204
USD	356	-299
Other	111	0
Total	**(87)**	**905**

2.2 *bis* Price risk - Banking book

QUALITATIVE INFORMATION

The component of equity and UCITS securities in the banking book is extremely reduced. As a result of the small number of positions, no transactions have ever been carried out to hedge the price risk of this component.

2.3 Exchange rate risk

QUALITATIVE INFORMATION

A. Exchange rate risk: general information, management processes and measurement methods

Within the Bank, foreign exchange trading activity is marginal.

With the exception of trading activities, the management of the Bank's overall exchange rate risk is the responsibility of the Treasury Function, which operates within the Finance Area.

Organisational and IT flows ensure that information about foreign exchange trading on behalf of customers and other trading desks reaches the Treasury on a daily basis, which consolidates these flows into its daily foreign exchange position.

The Treasury operates in such a way as to always remain within the overall open position limit in exchange rates and the position limits on individual currencies set out in the Risk Regulations.

Like the other risk factors, exchange rate risk is included in the daily VaR calculation, according to the methodology illustrated with regard to interest rate risk.

B. Hedging of exchange rate risk

At the reference date of 31 December 2019, there were no exchange rate risk hedging transactions.

QUANTITATIVE INFORMATION

In 2019, Banca Profilo's open position in exchange rates averaged approximately € 2.3 million (compared to an average of € 1.2 million in 2018).

As at 31 December 2019, Banca Profilo had a long net exchange position of € 4.3 million. The year-end exposure for the main currencies against an exchange rate movement of 1% is detailed in the table below:

Exchange rate risk

Exchange rate sensitivity against the euro (+1%) as at 31.12.2019 (figures in €)	USD	GBP	Other	Total
Exposure in exchange rates	37	2	3	43

Section 3 - Derivatives instruments and hedging policies

3.1. Derivative instruments held for trading

A. Financial derivatives

A.1 Financial derivatives held for trading: end of period notional amounts

Underlying assets/Types of derivatives	Total 31/12/2019				Total 31/12/2018			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central Counterparties	Without central counterparties			Central Counterparties	Without central counterparties		
		With clearing agreements	Without clearing agreements			With clearing agreements	Without clearing agreements	
1. Debt securities and interest rates	**-**	**1,003,922**	**-**	**426,498**	**-**	**1,241,689**	**-**	**670,829**
a) Options	-	75,000	-	-	-	365,000	-	-
b) Swaps	-	928,922	-	-	-	876,689	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	426,498	-	-	-	670,829
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and stock indices	**-**	**201,238**	**1,000**	**1,069,963**	**-**	**1**	**6,937**	**636,231**
a) Options	-	201,238	1,000	944,868	-	1	6,637	625,586
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	125,095	-	-	300	10,645
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold	**-**	**64,692**	**5,123**	**-**	**-**	**35,189**	**-**	**-**
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	64,692	5,123	-	-	35,189	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
5. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**-**	**1,269,853**	**6,123**	**1,496,461**	**-**	**1,276,878**	**6,937**	**1,307,059**

A.2 Financial derivates held for trading: gross positive and negative fair values – by type of product

Types of derivatives	Total 31/12/2019				Total 31/12/2018			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central Counterparties	Without central counterparties			Central Counterparties	Without central counterparties		
		With clearing agreements	Without clearing agreements			With clearing agreements	Without clearing agreements	
1. Positive fair value								
a) Options	-	7,405	895	30,987	-	2,284	61	42,967
b) Interest rate swaps	-	29,988	-	-	-	39,158	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	648	-	-	-	255	-	-
f) Futures	-	-	-	10	-	-	-	11
g) Other	-	-	-	-	-	-	-	-
Total	**-**	**38,041**	**895**	**30,997**	**-**	**41,697**	**61**	**42,978**
2. Negative fair value								
a) Options	-	6,710	-	31,401	-	980	16	26,022
b) Interest rate swaps	-	32,981	-	-	-	45,840	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	42	45	-	-	44	-	-
f) Futures	-	-	-	2	-	-	-	16
g) Other	-	-	-	-	-	-	-	-
Total	**-**	**39,733**	**45**	**31,403**	**-**	**46,865**	**16**	**26,038**

A.3 OTC financial derivatives held for trading: notional amounts, gross positive and negative fair values by counterparty

Underlying assets	Central Counterparties	Banks	Other financial companies	Other entities
Contracts not covered by clearing agreements				
1) Debt securities and interest rates				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
2) Equity securities and stock indices				
- notional amount	X	-	1,000	-
- positive fair value	X	-	895	-
- negative fair value	X	-	-	-
3) Gold and currencies				
- notional amount	X	-	426	4,697
- positive fair value	X	-	-	-
- negative fair value	X	-	4	41
4) Commodities				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts covered by clearing agreements				
1) Debt securities and interest rates				
- notional amount	-	776,922	227,000	-
- positive fair value	-	26,633	4,580	-
- negative fair value	-	28,539	4,972	-
2) Equity securities and stock indices	-			
- notional amount	-	100,619	-	100,619
- positive fair value	-	3,043	-	3,137
- negative fair value	-	3,137	-	3,043
3) Gold and currencies	-			
- notional amount	-	58,206	6,486	-
- positive fair value	-	611	37	-
- negative fair value	-	11	31	-
4) Commodities	-			
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other	-	-	-	-
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual maturity of OTC financial derivatives held for trading: notional amounts

Underlying/Residual life	Up to 1 year	Over 1 year up to 5 years	Over 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	454,422	511,500	38,000	1,003,922
A.2 Financial derivatives on equity securities and stock indices	131,335	70,904	-	202,238
A.3 Financial derivatives on currencies and gold	69,815	-	-	69,815
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31/12/2019	**655,572**	**582,404**	**38,000**	**1,275,976**
Total 31/12/2018	**325,620**	**865,778**	**92,417**	**1,283,815**

B. CREDIT DERIVATIVES

B1. Credit derivatives held for trading: end of period notional amounts

Categories of transactions	Trading derivatives	
	on an individual party	on multiple parties (basket)
1. Purchases of protection		
a) Credit default products	59,566	377,365
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
Total 31/12/2019	**59,566**	**377,365**
Total 31/12/2018	**95,277**	**180,836**
2. Sales of protection		
a) Credit default products	334,925	85,000
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
Total 31/12/2019	**334,925**	**85,000**
Total 31/12/2018	**125,747**	**93,500**

B.2 Credit derivatives held for trading: gross positive and negative fair values – by type of product

Types of derivatives	Total 31/12/2019	Total 31/12/2018
1. Positive fair value		
a) Credit default products	39,859	8,226
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
Total	**39,859**	**8,226**
2. Negative fair value		
a) Credit default products	42,101	9,509
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
Total	**42,101**	**9,509**

B.3 OTC credit derivatives held for trading: notional amounts, gross positive and negative fair values by counterparty

	Central Counterparties	Banks	Other financial companies	Other entities
Contracts not subject to netting agreements				
1) Purchase of protection				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
2) Sale of protection				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts included in netting agreements				
1) Purchase of protection				
- notional amount	-	141,231	295,700	-
- positive fair value	-	0	84	-
- negative fair value	-	7,245	22,734	-
2) Sale of protection				
- notional amount	-	143,225	276,700	-
- positive fair value	-	7,882	31,893	-
- negative fair value	-	1,210	10,912	-

B.4 Residual maturity of OTC credit derivatives held for trading: notional amounts

Underlying/Residual life	Up to 1 year	Over 1 year up to 5 years	Over 5 years	Total
1. Sale of protection	84,000	335,925	-	419,925
2. Purchase of protection	72,231	364,700	-	436,931
Total 31/12/2019	**156,231**	**700,625**	**-**	**856,856**
Total 31/12/2018	**190,500**	**303,860**	**1,000**	**495,360**

3.2 Hedge accounting

QUALITATIVE INFORMATION

A. Fair value hedging

The risk management strategy is to immunise the fair value of the HTC and HTC&S portfolios from movements in interest rates and inflation rate, leaving them exposed only to movements in the credit spreads of the issuers of the securities purchased. To this end, in the event of the purchase of fixed-rate securities or securities linked to medium/long-term inflation, special hedging derivatives will normally be entered into to transform the overall payoff of the investment (security plus derivative) into that of a variable-rate security.

D. Hedging instruments

The hedging instruments used are interest rate swaps and inflation swaps.

E. Hedged items

The hedged items are fixed-rate securities or securities linked to medium/long-term inflation held in Banca Profilo's HTC and HTC&S portfolios. As already mentioned in Part A - Accounting policies, the bank continues to use the hedging accounting rules of IAS 39, including the amendment issued by the IASB on 26 September 2019.

QUANTITATIVE INFORMATION

A. Financial hedging derivatives

A.1 Financial derivatives held for hedging: end-of-period notional amounts

Underlying assets/Types of derivatives	Total 31/12/2019				Total 31/12/2018			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central Counterparties	Without central counterparties			Central Counterparties	Without central counterparties		
		With clearing agreements	Without clearing agreements			With clearing agreements	Without clearing agreements	
1. Debt securities and interest rates	-	303,458	-	-	-	312,547	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	303,458	-	-	-	312,547	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity securities and stock indices	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5. Other	-	-	-	-	-	-	-	-
Total	-	303,458	-	-	-	312,547	-	-

A.2 Financial derivatives held for hedging: gross positive and negative fair values – by type of product

Types of derivatives	Positive and negative fair value								Change in the value used to calculate the inefficiency of the hedge	
	Total 31/12/2019				Total 31/12/2018				Total 31/12/2019	Total 31/12/2018
	Over the counter			Organised markets	Over the counter			Organised markets		
	Central Counterparties	Without central counterparties			Central Counterparties	Without central counterparties				
		With clearing agreements	Without clearing agreements			With clearing agreements	Without clearing agreements			
Positive fair value										
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	1,271	-	-	-	2,985	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-	-	-
Total	**-**	**1,271**	**-**	**-**	**-**	**2,985**	**-**	**-**	**-**	**-**
Negative fair value										
a) Options	-	-	-	-	-	-	-	-	-	-
b) Interest rate swaps	-	38,926	-	-	-	29,259	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-	-	-
Total	**-**	**38,926**	**-**	**-**	**-**	**29,259**	**-**	**-**	**-**	**-**

A.3 OTC financial derivatives held for hedging: notional amounts, gross positive and negative fair value by counterparty

Underlying assets	Central Counterparties	Banks	Other financial companies	Other entities
Contracts not subject to netting agreements				
1) Debt securities and interest rates				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
2) Equity securities and stock indices				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Gold and currencies				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
4) Commodities				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
5) Other				
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
Contracts included in netting agreements				
1) Debt securities and interest rates				
- notional amount	-	212,081	91,377	-
- positive fair value	-	1,151	121	-
- negative fair value	-	26,967	11,958	-
2) Equity securities and stock indices				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Gold and currencies				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Commodities				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual maturity of OTC financial derivatives held for hedging: notional amounts

Underlying/Residual life	Up to 1 year	Over 1 year up to 5 years	Over 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	2,500	140,090	160,868	303,458
A.2 Financial derivatives on equity securities and stock indices	-	-	-	-
A.3 Financial derivatives on currencies and gold	-	-	-	-
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31/12/2019	**2,500**	**140,090**	**160,868**	**303,458**
Total 31/12/2018	**-**	**122,866**	**189,681**	**312,547**

3.3 Other information on derivative instruments for trading and hedging

A. Financial and credit derivatives

A.1 OTC financial and credit derivatives: net fair values by counterparty

	Central Counterparties	Banks	Other financial companies	Other entities
A. Financial derivatives				
1) Debt securities and interest rates				
- notional amount	-	989,003	318,377	-
- positive net fair value	-	420	311	-
- negative net fair value	-	38	-	-
2) Equity securities and stock indices				
- notional amount	-	100,619	1,000	100,619
- positive net fair value	-	-	895	95
- negative net fair value	-	-	521	-
3) Gold and currencies				
- notional amount	-	58,206	6,912	4,697
- positive net fair value	-	-	-	-
- negative net fair value	-	-	4	41
4) Commodities				
- notional amount	-	-	-	-
- positive net fair value	-	-	-	-
- negative net fair value	-	-	-	-
5) Other				
- notional amount	-	-	-	-
- positive net fair value	-	14,482	408	-
- negative net fair value	-	43,254	13,618	-
B. Credit derivatives				
1) Purchase of protection				
- notional amount	-	141,231	295,700	-
- positive net fair value	-	-	-	-
- negative net fair value	-	-	-	-
2) Sale of protection				
- notional amount	-	143,225	276,700	-
- positive net fair value	-	-	-	-
- negative net fair value	-	-	-	-

1.1 Other information on financial risks

Below is a table showing Banca Profilo's net exposure to sovereign credit risk, including the securities and credit default swap component.

Sovereign risk

Country (€/thousand)	HTC	HTC&S	HTS	Total
Italy	296,174	193,934	221,329	**711,436**
Germany			12	**12**
The Netherlands			2	**2**
Spain	6,017	4,019		**10,036**
France			7	**7**
Indonesia		501		**500**
USA	4,495		11	**4,507**
Total	**306,686**	**198,454**	**221,361**	**726,501**

Section 4 – Liquidity risk

QUALITATIVE INFORMATION

Liquidity risk: general aspects, processes for the management and methods for measurement of liquidity risk

Liquidity risk is represented by the possibility that a bank may not be able to meet its payment obligations when required, due to the inability to find new sources of funding or to sell assets on the market.

In particular, at Banca Profilo, the value of the securities in its portfolio exceeds the available capital and net direct funding from private and institutional customers: as a result, the Bank's securities portfolio must be largely financed on the market through repurchase agreements or interbank deposits. The liquidity risk, therefore, is provided by the possibility that, at their maturity, financing transactions cannot be renewed and that, alternatively, securities cannot be sold on the market (except at particularly penalising prices).

To monitor liquidity risk, the Board of Directors approved the Liquidity Policy and the Contingency Liquidity Plan. The first document, in accordance with the Group's RAF, sets out the principles that must guide liquidity management and establishes a series of limits to mitigate liquidity risk. In particular, the following have been established:

- limits to the net accumulated liquidity balance on different maturities, also commensurate with the results of the stress tests carried out periodically;
- limits for the LCR indicator, higher than the minimum limits provided for in the supervisory regulations;
- leverage limits;
- concentration limits of funding from the top 5 counterparties, in order to improve the diversification of funding sources;
- overall value limits for non-eligible securities.

The second document (Contingency) provides a series of warning indicators for the prompt identification of a specific and/or systemic liquidity crisis, listing the actions to be taken and the bodies authorised to operate in a crisis situation.

QUANTITATIVE INFORMATION

As at 31 December 2019, the Bank had a net positive liquidity balance on all short-term maturities (up to 3 months), for amounts in excess of approximately € 230 million: the value of eligible securities owned and not engaged in financing operations (and therefore available as a liquidity reserve), net of the haircut applied by the ECB, exceeded the amount of total funding on the wholesale market maturing over all the time periods considered.

At the same date, approximately 92% of the Bank's proprietary bond portfolio was represented by eligible securities that could be used to access ECB financing.

At the end of the year, Banca Profilo had an individual Liquidity Coverage Ratio (LCR) of 280%.

1. Time breakdown by contractual residual maturity of financial assets and liabilities (EURO)

Items/Time brackets	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Unspecified maturity
A. On-Balance sheet assets	**419,744**	**83,727**	**51,574**	**41,088**	**50,360**	**7,678**	**130,443**	**456,601**	**284,238**	**-**
A.1 Government securities	-	-	-	-	2,822	2,227	110,213	388,231	222,922	-
A.2 Other debt securities	6,803	652	3,768	474	5,194	4,703	18,792	57,952	43,477	-
A.3 Units of UCITS	1,275	-	-	-	-	-	-	-	-	-
A.4 Loans	411,667	83,075	47,806	40,613	42,344	748	1,438	10,417	17,839	-
- Banks	93,731	7,207	47,790	-	6,276	-	-	-	-	-
- Customers	317,935	75,869	16	40,613	36,069	748	1,438	10,417	17,839	-
B. On-Balance sheet liabilities	**693,148**	**665,450**	**53,240**	**3,593**	**63,343**	**3**	**36,627**	**327**	**23,302**	**-**
B.1 Deposits and current accounts	669,509	-	-	-	-	-	-	-	-	-
- Banks	7,624	-	-	-	-	-	-	-	-	-
- Customers	661,885	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	23,640	665,450	53,240	3,593	63,343	3	36,627	327	23,302	-
C. Off-balance sheet transactions										
C.1 Physically settled financial derivatives										
- Long positions	3	84,716	23,608	37,401	274,369	26,322	58,902	97,315	76,434	-
- Short positions	-	84,707	-	59,807	49,527	30,280	40,177	177,111	100,630	-
C.2 Cash settled financial derivatives										
- Long positions	35,817	-	-	-	-	-	-	-	-	-
- Short positions	49,892	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be settled										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Commitments to disburse funds										
- Long positions	-	42,336	4,745	-	-	-	-	-	-	-
- Short positions	47,081	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Physically settled credit derivatives										
- Long positions	-	-	-	-	-	17,000	8,000	102,000	-	-
- Short positions	-	-	-	-	-	17,000	8,000	102,000	-	-
C.8 Cash settled credit derivatives										
- Long positions	119	-	-	-	-	-	-	-	-	-
- Short positions	6,924	-	-	-	-	-	-	-	-	-

1. Time breakdown by contractual residual maturity of financial assets and liabilities (OTHER CURRENCIES)

Items/Time brackets	On demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Unspecified maturity
A. On-Balance sheet assets	**5,477**	**-**	**230**	**3,112**	**675**	**583**	**3,250**	**53,928**	**12,483**	**-**
A.1 Government securities	-	-	-	-	1	105	105	6,676	1,780	-
A.2 Other debt securities	583	-	230	30	674	478	3,144	47,252	10,703	-
A.3 Units of UCITS	-	-	-	-	-	-	-	-	-	-
A.4 Loans	4,894	-	-	3,082	-	-	-	-	-	-
- Banks	4,886	-	-	-	-	-	-	-	-	-
- Customers	8	-	-	3,082	-	-	-	-	-	-
B. On- Balance sheet liabilities	**18,510**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Deposits and current accounts	18,510	-	-	-	-	-	-	-	-	-
- Banks	-	-	-	-	-	-	-	-	-	-
- Customers	18,510	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
C. Off-balance sheet transactions										
C.1 Physically settled financial derivatives										
- Long positions	-	6,825	-	6,635	4,896	3	-	35,253	-	-
- Short positions	-	6,853	23,608	30,427	19,717	15	-	19,319	4,896	-
C.2 Cash settled financial derivatives										
- Long positions	1	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be settled										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Commitments to disburse funds										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Physically settled credit derivatives										
- Long positions	-	-	-	-	-	6,231	-	261,261	-	-
- Short positions	-	-	-	-	-	6,231	-	261,261	-	-
C.8 Cash settled credit derivatives										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	22,275	-	-	-	-	-	-	-	-	-

Section 5 - Operational risk

QUALITATIVE INFORMATION

General information, operational risk management processes and measurement methods
Operational risk is defined as the risk of financial loss due to inadequate internal processes or their failures, human error, deficiencies in technological systems or caused by external events.

With reference to operational risk, within Banca Profilo:
- risk factors and loss events were mapped for all the most relevant commercial, production and administrative processes, with documentation of company activities, risk assessment and related mitigation controls;
- periodic tests of the effectiveness of the controls carried out are conducted;
- based on a self-assessment process of risk exposure by the organisational units, the most significant risks were identified in terms of potential impact and frequency;
- operating losses are recorded in a special database, in order to substantiate the self-assessments over time with an objective accounting feedback.

QUANTITATIVE INFORMATION

For the quantification of operational risks for capital requirements purposes, the Group uses the base method.

The operational risk events that occurred in 2019 are not significant overall and are mainly related to provisions for possible disputes with customers.

The type of proceedings and disputes in which the Bank is a defendant can be summarised as follows:

Type of proceeding	Presumed disbursement
Legal disputes	-
Complaints and grievances	917
Total	**917**

PART F - Information on Shareholders' Equity

Section 1 - Shareholders' equity

A. QUALITATIVE INFORMATION

The mandatory capital requirements to which the Bank adheres are those provided for by the regulations on Own Funds and the prudential ratios issued by the Supervisory Body. Their respect is guaranteed by a control and monitoring process constantly carried out by the responsible offices. In particular, with reference to the granting of credit to parties other than banks, insurance companies and financial intermediaries, it should be noted that, precisely in order to guarantee and monitor the capital requirements required by the Supervisory Body, this activity mainly concerns Private Banking customers and is generally subject to the provision of suitable guarantees; this activity is in any case instrumental to managing relations with medium-high end customers.

B. Quantitative information

B.1 Shareholders' equity: breakdown

Items/Amounts	Amount 31/12/2019	Amount 31/12/2018
1. Share capital	136,994	136,994
2. Share premium	82	82
3. Reserves	14,605	14,682
- profit	14,605	14,682
a) legal	3,182	2,955
b) statutory	-	-
c) treasury shares	3,603	3,358
d) other	7,821	8,369
- other	-	-
4. Equity instruments	-	-
5. (Treasury shares)	(3,603)	(3,358)
6. Valuation reserves:	(2,210)	(9,163)
- Equity securities measured at fair value through other comprehensive income	524	(29)
- Hedges of equity securities measured at fair value through other comprehensive income	-	-
- Financial assets (other than equity securities) measured at fair value through other comprehensive income	(2,180)	(8,645)
- Property, plant and equipment	-	-
- Intangible assets	-	-
- Hedge of foreign investments	-	-
- Cash flow hedges	-	-
- Hedging instruments [elements not designated]	-	-
- Exchange differences	-	-
- Non-current assets held for sale and discontinued operations	-	-
- Financial liabilities measured at fair value through profit and loss (changes in its creditworthiness)	-	-
- Actuarial gains (losses) on defined benefit pension plan	(554)	(489)
- Share of valuation reserves of equity investments valued at equity	-	-
- Special revaluation laws	-	-
7. Profit (loss) for the year	6,726	2,265
Total	**152,594**	**141,502**

B.2 Revaluation reserves of financial assets measured at fair value through other comprehensive income: breakdown

Assets/Amounts	Total 31/12/2019		Total 31/12/2018	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	386	2,566	-	-
2. Equity securities	524	-	-	-
3. Loans	-	-	-	-
Total	**910**	**2,566**	**-**	**-**

B.3 Revaluation reserves of financial assets measured at fair value through othet comprehensive income: changes in the year

	Debt securities	Equity securities	Loans
1. Opening balances	**(8,645)**	**(29)**	**-**
2. Positive changes	**6,923**	**613**	**-**
2.1 Fair value increases	4,409	371	-
2.2 Value adjustments for credit risk	105	X	-
2.3 Reversal to income statement of negative reserves from disposals	2,409	X	-
2.4 Transfers to other components of shareholders' equity (equity securities)	-	242	-
2.5 Other changes	-	-	-
- of which business combinations	-	-	-
3. Negative changes	**(458)**	**(60)**	**-**
3.1 Fair value decreases	(296)	-	-
3.2 Reversals for credit risk	(125)	-	-
3.3 Reversal to income statement of positive reserves from disposals	(37)	X	-
3.4 Transfers to other components of shareholders' equity (equity securities)	-	(60)	-
3.5 Other changes	-	-	-
- of which business combinations	-	-	-
4. Closing balances	**(2,180)**	**524**	**-**

B.4 Valuation reserves for defined benefit plans: annual changes

The valuation reserve relating to defined benefit plans decreased from a negative balance of € 489 thousand to a negative balance of € 554 thousand.

Section 2 - Own funds and regulatory ratios

The Parent Company of the Banca Profilo Banking Group is Arepo BP S.p.A. and is required to report to the Supervisory Body on a consolidated basis on regulatory capital and prudential ratios in accordance with current regulations. For the purposes of full disclosure on the Own Funds and capital adequacy, reference should therefore be made, as required by the 5th update of Bank of Italy Circular 262/2005, to the Pillar III report prepared by the Parent Company Arepo BP, which is made public, according to the terms of the law, on Banca Profilo's website at the following address: www.bancaprofilo.it/investor-relations/Pillar III informativa_al_pubblico.

It should also be noted that in the Report on Operations of this document, in the section "Reclassified Balance Sheet Figures", information on Banca Profilo S.p.A.'s Own Funds and capital adequacy is available.

PART G – Business Combinations transactions concerning companies or lines of business

Section 1 – Transactions carried out during the year

Banca Profilo did not carry out any business combinations during the year.

PART H – Transactions with related parties

1) Information on the remuneration of key management personnel

This information refers to those who have the power and responsibility, directly or indirectly, for the planning, management and control of the activities of Group companies.
With regard to transactions of greater significance, it should be noted that during 2019 the bank communicated to Consob, pursuant to Article 13, paragraph 3, letter c, point i) of Consob Regulation no. 17221 of 13 March 2010 and subsequent updates, the framework resolutions passed in January 2019 concerning the following transactions:

- Repurchase agreements with Extrabanca S.p.A., (a company in which AREPO BP has a significant joint control interest) where the individual transactions may not have a duration of more than 3 months and the total value of the outstanding transactions may not exceed € 80 million. Transactions are governed by the GMRA (Global Master Repurchase Agreement) framework agreement concluded at normal market conditions. The balance of these transactions as at 31 December 2019 amounted to € 47.8 million in repo transactions;
- Treasury transactions with Sator Immobiliare SGR S.p.A. and the real estate funds it manages (a subsidiary of the Fondo Sator Private Equity "A" L.P. which holds an indirect controlling interest in Banca Profilo) for a total maximum of € 30 million in deposits remunerated at market conditions. The balance of outstanding deposits with Banca Profilo as at 31 December 2019 amounted to € 11.3 million.

The table below shows the remuneration of directors, statutory auditors and key management personnel.

Role (amounts in €/thousand)	Fixed Remuneration	Fees for participation in committees (a)	Non-equity variable compensation		Non-monetary benefits	Other remuneration	Total	Fair value of equity compensation (c)	End of term of office or termination of employment indemnity
			Bonuses and other incentives (b)	Profit participation					
Board of Directors	980 (d)	75	169		10		1,233	6	
Board of Statutory Auditors and Supervisory Board	170	-			-		170		
Key management personnel	2,916	-	1,286		99		4,302	159	338
Total	**4,066**	**75**	**1,455**		**109**		**5,705**	**165**	**338**

Notes:
'(a) Remuneration as a member of the Remuneration Committee, Appointments and Risk Control Committee
'(b) In the case of deferred bonuses, both the upfront portion of the year to which they relate and the relevant portions of deferred components relating to previous years are provided
'(c) The Fair Value of the shares (Stock Grant Plan) granted in 2019 is provided
'(d) The amount also includes remuneration from employment

31/12/2019

Definition (amounts in €/thousand)	Assets *				Liabilities *	
	Item 30 - Financial assets measured at fair value through other comprehensive income	Item 40 - Financial assets measured at amortised cost	Item 80 - Property, plant and equipment	Item 130 - Other assets	Item 10 - Financial liabilities measured at amortised cost	Item 80 - Other liabilities
a.1) Entities which, directly or indirectly, through one or more intermediaries, control Banca Profilo						
Arepo Bp S.p.A.	-	2,108	-	517	276	552
Sator Investments S.a.r.l.	-	-	-	-	1,620	-
Total group a.1)	**-**	**2,108**	**-**	**517**	**1,896**	**552**
a.2) Entities which, directly or indirectly, through one or more intermediaries, are controlled by Banca Profilo						
- Banque Profil de Gestion SA	-	224	-	4	700	-
- Profilo Real Estate Srl	-	20,655	10,330	11	10,381	-
- Arepo Fiduciaria Srl	-	782	-	-	2,060	26
Total group a.2)	**-**	**21,661**	**10,330**	**15**	**13,140**	**26**
b) Key management personnel	**-**	**5,843**	**-**	**-**	**3,145**	**2,257**
c) Close family members of the personnel referred to in point b	**-**	**551**	**-**	**-**	**2,415**	**-**
d) Entity controlled, jointly controlled or subject to significant influence or in which a significant share, in any case not less than 20% of the voting rights by a party referred to in letter b above, is held directly or indirectly	**-**	**10,000**	**-**	**-**	**4,089**	**-**
e) Related parties of Banca Profilo's related parties	**6,847**	**4,013**	**-**	**48**	**13,776**	**10**
f) Other related parties	**-**	**47,850**	**-**	**-**	**-**	**48**
On Banca Profilo balance sheet item total	**264,311**	**986,317**	**14,474**	**19,187**	**1,541,911**	**20,542**
Total related-party transactions	**6,847**	**92,027**	**10,330**	**579**	**38,461**	**2,893**
Incidence %	**3%**	**9.3%**	**71.4%**	**3.0%**	**2.5%**	**14.1%**

* = as per items in the mandatory annual financial statements Bank of Italy Circular no. 262 of 22.12.2005 and subsequent updates.

31/12/2019

Definition (amounts in €/thousand)	Revenues *			Costs *				
	Item 10 - Interest income and similar revenues	Item 40 - Fee and commission income	Item 230 - Other operating income	Item 20 - Interest expenses and similar charges	Item 50 - Fee and commission expenses	Item 180 - Net value adjustments/reversals on property, plant and equipment	Item 190 - Administrative expenses - Other	Item 190 - Administrative expenses - Personnel expenses
a.1) Entities which, directly or indirectly, through one or more intermediaries, control Banca Profilo								
Arepo Bp S.p.A.	-	-	152	-1	-	-	-14	169
Sator Investments S.a.r.l.	-	-	-	-	-	-	-	-
Total group a.1)	**-**	**-**	**152**	**-1**	**-**	**-**	**-14**	**169**
a.2) Entities which, directly or indirectly, through one or more intermediaries, are controlled by Banca Profilo								
- Banque Profil de Gestion SA	-	20	-	-	-	-	-	-
- Profilo Real Estate Srl	249	-	5	-111	-	-1,879	-10	10
- Arepo Fiduciaria Srl	-	1,088	11	-	-	-	-	-
Total group a.2)	**249**	**1,108**	**16**	**-112**	**-**	**-1,879**	**-10**	**10**
d) Key management personnel	**49**	**151**	**2**	**-**	**-**	**-**	**-**	**-7,493**
e) Close family members of the personnel referred to in point d	**3**	**96**	**-**	**-1**	**-**	**-**	**-**	**-**
f1) Entity controlled, jointly controlled or subject to significant influence or in which a significant share, in any case not less than 20% of the voting rights by a party referred to in letter d above, is held directly or indirectly	**73**	**145**	**-**	**-**	**-**	**-**	**-1**	**-**
f) Related parties of Banca Profilo's related parties	**313**	**712**	**36**	**-39**	**-7**	**-**	**-**	**2**
g) Other related parties	**8**	**-**	**-**	**-160**	**-**	**-**	**-**	**-153**
On Banca Profilo balance sheet item total	**20,907**	**26,354**	**4,549**	**-3,056**	**-2,253**	**-2,755**	**-19,931**	**-26,081**
Total related-party transactions	**696**	**2,212**	**206**	**-314**	**-7**	**-1,879**	**-25**	**-7,465**
Incidence %	**3.3%**	**8.4%**	**4.5%**	**10.3%**	**0.3%**	**68%**	**0.1%**	**28.6%**

* = as per items in the mandatory annual financial statements Bank of Italy Circular no. 262 of 22.12.2005 and subsequent updates.

PART I - Share-Based Payment Agreements

This section provides information on share-based payment agreements that are recognised in the balance sheet under "reserves" (liability item 150) as equity settled plans. The related cost is recognised under Personnel Expenses. Further information can be found in the Report on Operations.

A. QUALITATIVE INFORMATION

1. Description of share-based payment agreements

The April 2015 Shareholders' Meeting of Banca Profilo approved a Stock Grant Plan in favour of its employees both to comply with the requirements of the regulatory bodies for the payment of the variable component of the remuneration for "key employees", under the definition provided by the Bank of Italy on the subject of remuneration (see Circular 285/2013) and to provide for motivational and retention mechanisms for the remaining personnel, if certain conditions are met. The Plan was subsequently extended by the 2017 Shareholders' Meeting.

The Plan provides for: (i) the assignment of shares, both for the upfront and deferred components, once the malus conditions for each individual deferral period have been exceeded (detailed in the Bank's Remuneration Policy in force at the time - see Remuneration Report available at the following web address: www.bancaprofilo.it/CorporateGovernace/Documenti Societari/Remunerazioni) and in the absence of individual malus situations and (ii) the attribution of the same, after the retention periods, as a result of the relationship and absence of individual malus situations.

The Beneficiaries of the Plan are the Chief Executive Officer, the General Manager and the other employees of the Bank and its subsidiaries who have joined the Plan, or the executive directors of the latter; the operating procedures of the Plan are differentiated according to whether or not the staff fall under the category of "key employees".

In particular, for "key employees" the retention and deferral periods provided for by the Remuneration Policy in force at the time apply.

Under the existing stock grant plan, 1,556,462 Banca Profilo's shares were allocated in April 2019 and 236,024 in November 2019; in both cases, the treasury shares held in the portfolio by Banca Profilo were used as planned.

B. QUANTITATIVE INFORMATION

1 Annual changes
The stock option plan expired in 2017.

PART L – Segment Reporting

Representation by business segments was chosen as the primary reporting method, based on the requirements of IFRS 8, as it reflects the responsibilities for making operational decisions, based on the Group's organisational structure.

The defined sectors of activity are:

- **Private Banking & Investment banking** relating to the activities of the Private Banking Area with administered and managed Italian private and institutional customers, as well as the Investment Banking activities and the activities of the subsidiary Arepo Fiduciaria;
- **Finance**, relating to the management and development of trading activities on own account and on behalf of third parties in financial instruments and services related to their issue and placement;
- **Digital channels**, relating to the activities carried out in partnership with Tinaba on a digital platform;
- **Corporate Centre**, which oversees the guidance, coordination and control functions of the entire Group; this sector includes overheads, intra-group eliminations and the activities of the subsidiary Profilo Real Estate.

2019

Breakdown by operating segment: income statement figures

(€/thousand)	Private & Inv. Banking	Finance	Digital Channels	Corporate Centre	Total 12 2019
Net interest income	3,598	10,652	(16)	4	14,237
Other net revenues	22,828	18,790	(185)	1,153	42,586
Net fee and commission income	*22,676*	*1,593*	*(183)*	*15*	*24,101*
Profit (loss) from trading	*-*	*17,212*	*-*	*563*	*17,775*
Other income and charges	*152*	*(16)*	*(2)*	*575*	*709*
Total net revenues	**26,426**	**29,442**	**(200)**	**1,156**	**56,824**
Total operating expenses	(18,569)	(10,741)	(2,939)	(13,798)	(46,048)
Operating income	**7,857**	**18,700**	**(3,140)**	**(12,642)**	**10,776**

2018

Breakdown by operating segment: income statement figures

(€/thousand)	Private & Inv. Banking	Finance	Digital Channels	Corporate Centre	Total 12 2018
Net interest income	3,048	13,025	1	(241)	15,832
Other net revenues	20,664	7,683	(173)	699	28,873
Net fee and commission income	*20,315*	*1,682*	*(173)*	*(71)*	*21,753*
Profit (loss) from trading	*-*	*5,994*	*-*	*304*	*6,298*
Other income and charges	*350*	*7*	*-*	*465*	*822*
Total net revenues	**23,712**	**20,708**	**(172)**	**457**	**44,706**
Total operating expenses	(16,657)	(9,556)	(2,395)	(13,003)	(41,611)
Operating income	**7,055**	**11,152**	**(2,566)**	**(12,546)**	**3,094**

Net fee and commission income relating to Private & Investment banking mainly refers to portfolio management, securities placement and advisory fees. Net fee and commission income relating to Finance relates exclusively to commissions on trading in financial instruments.

2019

Breakdown by operating segment: balance sheet figures

(€/thousand)	Private & Inv. Banking	Finance	Digital Channels	Corporate Centre	Total 12 2019
Loans	286,468	521,060	-	-	807,528
Direct funding	675,622	407,202	11,160	-	1,093,984
Indirect funding	3,693,338	47,618	5,648	-	3,746,604

2018

Breakdown by operating segment: balance sheet figures

(€/thousand)	Private & Inv. Banking	Finance	Digital Channels	Corporate Centre	Total 12 2018
Loans	281,985	446,910	34	-	728,929
Direct funding	774,049	432,085	2,019	-	1,208,152
Indirect funding	3,369,226	84,072	3,421	-	3,456,719

Part M – Information on leases

Section 1 - Lessee

QUALITATIVE INFORMATION

The Bank has entered into lease contracts within the scope of IFRS 16 for the purpose of carrying out its business activities. In respect of these contracts, the right to use the leased assets and the related liability arising from each contract are recorded in the financial statements.
These contracts are accounted for in accordance with the provisions of IFRS 16 as detailed in section A.2 of Part A - Accounting Policies, to which reference should be made.
The main types of property, plant and equipment that the Bank recognises relate to buildings and others (cars and photocopiers).
The rights of use recorded in relation to these lease contracts are mainly used for the provision of services to customers, or for administrative purposes, and accounted for using the cost method. In the case of sub-leases, the relevant lease contract (financial or operating, depending on the contractual characteristics) is recognised in accordance with accounting standards. The Group has only one sublease agreement with the Parent Company Arepo BP for premises located in Rome.

As already mentioned in Part A, rights of use and the corresponding payables for short term lease contracts (12 months) or for assets with a limited unit value (equal to or less than € 5 thousand) are not recorded in the accounts. The related lease payments arising from these types of assets are recorded under item "160. Administrative expenses" on an accrual basis.
Please note that the Bank has not carried out any sale and leaseback transactions.

QUANTITATIVE INFORMATION

As also explained in Section 8 - Property, plant and equipment of Part B - Information on the balance sheet - Assets, Banca Profilo holds rights of use for lease contracts with a book value of € 13.7 million as at 31.12.2019.
During the year, these rights of use implied the recording of depreciation of € 2.5 million, of which:
- € 2,261 thousand relating to buildings;
- € 234 thousand relating to other (cars and photocopiers).

The book value of lease payables is shown in Part B - Information on the balance sheet - Liabilities - Section 1 - Financial liabilities measured at amortised cost - Item 10, to which reference should be made.
During the year, these lease payables involved the recognition of interest expenses for € 177 thousand, as shown in Part C - Information on the income statement - Section 1 - Interest - Items 10 and 20 of the income statement of these Explanatory Notes.
With reference to short-term leases and assets with a modest unit value, it should be noted that during the year lease payments of € 126 thousand were recorded.
It should also be noted that, in order to determine the duration of lease contracts under the scope of IFRS 16, Banca Profilo takes into account the non-cancellable period provided for in the contract, as well as any renewal options, assessing the reasonable certainty of renewal by the Bank. With particular reference to contracts that provide for the lessee's right to tacitly renew the lease at the end of an initial period, the contractual duration for IFRS 16 purposes is determined by assessing the duration of the initial period, the possible existence of business plans for the disposal of the leased business, as well as any other circumstances that may indicate reasonable certainty about the renewal.

Considering this, the amount of cash flows, not reflected in the calculation of lease payables, to which Banca Profilo is potentially exposed, is to be attributed exclusively to the possible renewal of lease contracts, not incorporated in the original calculation of lease liabilities in light of the information available as at 1 January 2019 for contracts recognised on first-time adoption of the standard, or at the date of commencement of the lease for contracts entered into during 2019.

Section 2 - Lessor

Banca Profilo does not lease its assets to third parties.

Summary statements of the Parent Company Arepo BP

Below is the summary statement required by Article 2497-*bis* of the Italian Civil Code extracted from the financial statements of Arepo BP S.p.A. for the year ended 31 December 2018. For an adequate and complete understanding of the balance sheet and financial position of the entity indicated above as at 31 December 2018, as well as the economic result achieved in the financial year ended on that date, please refer to the financial statements which, together with the Independent Auditors' report, are available in the forms and manner required by law.

Arepo BP S.p.A. Separate Statutory Balance Sheet

Assets (Amounts in €)	**31/12/2018**	**31/12/2017 Re-stated**
10 Cash and cash equivalents	**54**	**3**
40 Financial assets measured at amortised cost	**233,325**	**2,123,130**
a) loans and advances to banks	233,325	2,123,130
70 Equity investments	**98,054,382**	**95,324,286**
80 Property, plant and equipment	**157**	**470**
100 Tax assets	**2,162,130**	**1,665,598**
a) current	694,124	599,239
b) deferred	1,468,006	1,066,359
120 Other assets	**353,240**	**859,425**
Total Assets	**100,803,288**	**99,972,912**

Liabilities and Shareholders' equity	**31/12/2018**	**31/12/2017 Re-stated**
10 Financial liabilities measured at amortised cost	**1,800,600**	**3,001,603**
b. deposits from customers	1,800,600	3,001,603
60 Tax liabilities	**10,702**	**-**
a) current	10,702	-
80 Other liabilities	**906,425**	**544,408**
90 Employee severance indemnity	**26,770**	**24,319**
110 Valuation reserves	**(1,631)**	**(1,476)**
140 Reserves	**(5,476,791)**	**(5,769,784)**
150 Share premium	**69,855,099**	**69,855,099**
160 Share capital	**35,060,000**	**35,060,000**
180 Profit (Loss) for the year (+/-)	**(1,377,887)**	**(2,741,257)**
Total Liabilities and Shareholders' Equity	**100,803,288**	**99,972,912**

Arepo BP S.p.A. Separate Income Statement

Items (Amounts in €)	2018	2017 Re-stated
10 Interest income and similar revenues	3,953	3,905
20 Interest expenses and similar charges	(33,248)	(1,603)
30 Net interest income	**(29,295)**	**2,302**
50 Fee and commission expenses	(429)	(401)
60 Net fee and commission income	**(429)**	**(401)**
70 Dividends and similar income	2,115,443	423,089
80 Net profit (loss) from trading	-	(240,000)
120 Net interest and other banking income	**2,085,719**	**184,990**
150 Net result from financial activities	**2,085,719**	**184,990**
160 Administrative expenses:	**(1,227,081)**	**(1,124,366)**
a) personnel expenses	(755,008)	(780,912)
b) other administrative expenses	(472,073)	(343,454)
180 Net value adjustments/reversals on property, plant and equipment	**(313)**	**(313)**
200 Other operating income/expenses	**7,860**	**10,004**
210 Operating expenses	**(1,219,534)**	**(1,114,676)**
220 Gains (losses) on equity investments	**(2,619,767)**	**(2,120,000)**
260 Profit (loss) before tax from continuing operations	**(1,753,583)**	**(3,049,687)**
270 Tax on income for the year for continuing operations	375,696	308,430
280 Profit (loss) after tax from continuing operations	**(1,377,887)**	**(2,741,257)**
300 Profit (loss) for the year	**(1,377,887)**	**(2,741,257)**

Annexes to Separate Financial Statements

Reclassified separate balance sheet

Assets (Amounts in €/thousand)	31/12/2019	31/12/2018	Changes	
			Absolute	%
Cash and cash equivalents	7,529	4,341	3,189	73.5
Financial assets measured at fair value through profit and loss	531,946	504,411	27,535	5.5
Financial assets measured at fair value through other comprehensive income	264,311	399,708	-135,398	-33.9
Financial assets measured at amortised cost	986,317	1,050,509	-64,192	-6.1
Hedging derivatives	1,271	2,985	-1,714	-57.4
Equity investments	51,448	51,448	-	0.0
Property, plant and equipment	14,474	904	13,569	n.s.
Intangible assets	3,039	4,165	-1,126	-27.0
Tax assets	7,023	12,277	-5,255	-42.8
Other assets	19,187	12,958	6,229	48.1
Total Assets	**1,886,543**	**2,043,706**	**-157,163**	**-7.7**

Liabilities (Amounts in €/thousand)	31/12/2019	31/12/2018	Changes	
			Absolute	%
Financial liabilities measured at amortised cost	1,541,911	1,690,952	-149,041	-8.8
Financial liabilities held for trading	128,915	160,827	-31,912	-19.8
Hedging derivatives	38,926	29,259	9,667	33.0
Tax liabilities	1,066	350	716	n.s.
Other liabilities	20,542	18,769	1,773	9.4
Employee severance indemnity	1,666	1,663	3	0.2
Provisions for risks and charges	923	384	539	n.s.
Total liabilities	**1,733,949**	**1,902,204**	**-168,255**	**-8.8**
Share capital	136,994	136,994	-	0.0
Share premium	82	82	-	0.0
Reserves	14,605	14,682	-77	-0.5
Valuation reserves	(2,210)	(9,163)	6,953	-75.9
Treasury shares (-)	(3,603)	(3,358)	-245	7.3
Profit for the year	6,726	2,265	4,462	n.s.
Shareholders' equity	152,594	141,502	11,092	7.8
Total liabilities	**1,886,543**	**2,043,706**	**-157,163**	**-7.7**

Reclassified separate income statement

Items (Amounts in €/thousand)	2019	2018	Changes Absolute	Changes %
Net interest income (1)	14,237	15,832	-1,595	-10.1
Net fee and commission income	24,101	21,754	2,347	10.8
Net result from financial activities and dividends (2)	17,776	6,298	11,478	182.3
Other operating income/expenses (3)	709	821	-112	-13.7
Total net revenues	**56,824**	**44,706**	**12,118**	**27.1**
Personnel expenses	(26,081)	(22,283)	-3,798	17.0
Other administrative expenses (4)	(16,091)	(17,926)	1,836	-10.2
Value adjustments on intangible assets and property, plant and equipment	(3,877)	(1,403)	-2,474	176.3
Total operating expenses	**(46,048)**	**(41,611)**	**-4,437**	**10.7**
Operating income	**10,776**	**3,095**	**7,681**	**n.s.**
Net provisions for risks and charges (5)	(539)	113	-652	n.s.
Net value adjustments/reversals for credit risk relating to financial assets measured at amortised cost	205	(405)	610	n.s.
Net value adjustments/reversals on financial assets measured at fair value through other comprehensive income (6)	30	(315)	345	n.s.
Value adjustments to goodwill	(497)	-	-497	n.s.
Profit (loss) for the year before tax	**9,974**	**2,487**	**7,487**	**n.s.**
Tax on income for the year for continuing operations	(3,248)	(223)	-3,025	n.s.
Profit (loss) for the year after tax	**6,726**	**2,265**	**4,461**	**n.s.**

(1) coincides with item 10. Interest Income and item 20. Interest Expense net of the economic effects deriving from the redemption of inflation-linked securities included in "Net result from financial activities and dividends" for an amount of € 3.6 million.
(2) includes Items 70. Dividends and similar income, 80. Net profit (loss) from trading including the economic effects deriving from the redemption of inflation-linked securities recorded under item 10. Interest Income for an amount of € 3.6 million, 90. Net profit (loss) from hedging, 100. Income (loss) from disposal/repurchase of the mandatory annual financial statements (Circ. 262 Bank of Italy) and 110. Net profit (loss) from other financial assets and liabilities measured at fair value through profit and loss
(3) coincides with Item 230. Other operating income/expenses included among the operating expenses of the mandatory annual financial statements (Circ. 262 Bank of Italy) net of the recovery of stamp duty payable by customers.
(4) other administrative expenses are shown net of the recovery of stamp duty payable by customers.
(5) coincides with Item 200. Net provisions for risks and charges included among the Operating expenses of the mandatory annual financial statements (Circ. 262 Bank of Italy).
(6) includes Item 130 b) Net value adjustments/reversals on financial assets measured at fair value through other comprehensive income: breakdown and Item 250. Gains (losses) on equity investments in the mandatory annual financial statements (Circ. 262 Bank of Italy).

Annex pursuant to Art. 149-duodecies of Consob Regulation 11971/99

Disclosure on audit fees and other non-audit services
Annex pursuant to Art. 149-duodecies of CONSOB regulation 11971/99

Banca Profilo 2019 Financial Statements

Type of service (in €/thousand)	Party providing the service	Recipient	Fees without VAT (**)
Auditing services	Deloitte & Touche S.p.A.	Banca Profilo S.p.A.	105
Release of attestations	Deloitte & Touche S.p.A.	Banca Profilo S.p.A.	2
Other services (*)	Deloitte & Touche S.p.A.	Banca Profilo S.p.A.	14
Other services (*)	Deloitte Consulting S.r.l.	Banca Profilo S.p.A.	53
Total			**174**

(*) Methodological support in relation to the "IFRS 16 - Leases" and "EMIR Regulation - OTC Derivatives" projects
(**) the fees shown, pertaining to the 2019 financial year, are those contracted, including any indexing but not out-of-pocket expenses and value added taxes.

Certification of the Separate Financial Statements

CERTIFICATION OF THE SEPARATE FINANCIAL STATEMENTS PURSUANT TO ART. 81-TER OF CONSOB REGULATION NO. 11971/99 AND SUBSEQUENT AMENDMENTS AND ADDITIONS

1. The signatories Fabio Candeli, as Chief Executive Officer and Giuseppe Penna, as Manager Responsible for Preparing the Company's Financial Reports of Banca Profilo S.p.A., hereby certify, also in consideration of the provisions of art. 154-*bis*, paragraphs 3 and 4, of Italian Legislative Decree no. 58 dated 24 February 1998:

• the adequacy in relation to the characteristics of the company and

• the effective application of the administrative and accounting procedures for the formation of the separate financial statements in 2019.

2. The assessment of the adequacy of the administrative and accounting procedures for the formation of the separate financial statements were based on an internal model set in place by Banca Profilo S.p.A. coherent with the *Internal Control – Integrated Framework* issued by the *Committee of Sponsoring Organizations of the Tradeway Commission (CoSo)*, which represents the standard for the internal audit system generally accepted at international level.

3. We also hereby certify that:

3.1 the separate financial statements as at 31 December 2019;

a) were drawn up in compliance with the applicable international accounting standards recognised in European Community as per EC Regulation no. 1606/2002 of the European Parliament and Council, dated 19 July 2002;

b) comply with the results of the accounting records and journal entries;

c) are suitable for providing a true and fair view of the balance sheet, income statement and financial situation of the issuer.

3.2 The report on operations includes a reliable analysis of operating performance and results, as well as the situation of the issuer, together with a description of the main risks and uncertainties to which the same are exposed.

Milan, 12 March 2020

Signed by	Signed by
Chief Executive Officer	***Manager Responsible for Preparing the Company's Financial Reports***
Fabio Candeli	Giuseppe Penna

Report of the Board of Statutory auditors

REPORT OF THE BOARD OF STATUTORY AUDITORS
pursuant to Art. 153, Italian Legislative Decree 58/1998

Dear Shareholders,

This report, prepared pursuant to Art. 153 of Italian Legislative Decree 58/1998 (“TUF”), refers to activities carried out by the Board of Statutory Auditors (the “Board”) of Banca Profilo S.p.A. (“Profilo” or the “Bank”) in the year ending 31 December 2019, in compliance with reference regulations and also taking into account the code of conduct of the Board of Statutory Auditors recommended by the Italian accounting profession.

The Board met 16 times during the year. Through one of its own representatives or, frequently, in joint meetings, the Statutory Auditors attended 12 meetings of the Board of Directors, 5 meetings of the Appointments Committee, 6 meetings of the Remuneration Committee and 14 meetings of the Control and Risk Committee.

1. Supervision of compliance with the law and the Articles of Association

Also through consistent attendance of Board of Directors meetings, the Board periodically obtained reports from the Directors on activities carried out and on transactions of greater importance in economic, financial and capital terms resolved and implemented during the year, carried out by the Bank and Group companies, also pursuant to Art. 150, paragraph 1 of the TUF.

Based on the information obtained, the Board can reasonably guarantee that such transactions comply with law and with the Articles of Association, and are not manifestly imprudent, risky, in conflict with Shareholders’ Meeting resolutions or such as to compromise the integrity of company assets. In addition, the transactions in potential conflict of interest were decided in compliance with law, regulatory instructions and the Articles of Association, after assessment by the Control and Risk Committee where appropriate.

Among the significant events of the year, the Board deems it appropriate to mention the following in consideration of their significance in terms of assessment of the Bank’s solidity:

- the review, compared to the previous year, of the Overall Capital Ratio (OCR) of the Banca Profilo Banking Group, in relation to the increase in the Capital Conservation Buffer (CCB) as indicated below:
    - CET1 Ratio: 7.950%
    - Tier 1 Ratio: 9.770%;
    - Total Capital Ratio: 12.190.

The capital values of the sub-consolidated Banca Profilo are significantly higher than Supervisory Authority requirements.

2. Supervision of compliance with the principles of sound administration and the adequacy of the organisational structure

The Board gained knowledge of and constantly supervised the adequacy of the organisational structure, compliance with the principles of sound administration, adequacy of the regulations imposed by the Company on its subsidiaries pursuant to Art. 114, paragraph 2 of the TUF, by acquiring information from managers of the competent departments and meetings with the Independent Auditors in the framework of mutual exchange of relevant data and information.

In this respect, based on direct discussion with the Organisation Department and other corporate departments during periodic meetings and on evidence emerging from audits conducted by the Control Departments, the Board found the organisation and regulatory structure of the Bank to be substantially adequate.

During the year, the organisational action associated with adaptation of the internal organisation to MIFID II regulations were close to completion. In particular, the procedures for providing customers with ex post reports on investment service costs were completed on time.

A major application is currently being implemented in the finance area, suited to the Bank’s operations.

No critical issues were reported by the Boards of Statutory Auditors and other control bodies of the subsidiaries.

Furthermore, the Board found no evidence of atypical and/or unusual transactions with Group companies, third parties or related parties.

Lastly, the Board audited the processes that led to definition of the Company’s remuneration policies, with particular reference to the remuneration criteria for the Chief Executive Officer, managers of the business and control departments and the Financial Reporting Officer.

3. Supervision of the internal control and risk management system

The Board supervised the adequacy of the internal control and risk management systems by maintaining continuous dialogue with the second and third level control departments, promoting and ascertaining their coordination in reference to activity planning and, especially, to the reporting process to the corporate bodies on issues emerging from the controls carried out.

In relation to the line controls (or first level controls), the Board monitored their adequacy by examining the audits conducted by the second and third level corporate control departments.

To summarise, the activities of the Board were carried out through:

- meetings with the Bank’s Chief Executive Officer to examine the internal control and risk management system;
- continuous meetings with managers of the Audit, Compliance and Anti-Money Laundering and Risk Management departments to assess the work planning, based on identification and assessment of the main risks present in the processes and organisational units, and its actual implementation during the year;
- examination of all Internal Audit, Compliance and Anti-Money Laundering and Risk Management reports.
- examination of the round tables held by the Control Departments and information on the results of monitoring of implementation of the remedial actions identified;
- examination of the annual reports and action plans of the corporate control departments;
- periodic acquisition of reports from the business department managers;
- discussion of the results of work of the Independent Auditors;
- consistent attendance at Control and Risk Committee meetings;
- attendance at Appointments Committee and Remuneration

Committee meetings.

In carrying out its activities, the Board maintained continuous dialogue with all the control departments.

In particular, the Internal Audit Department operates on the basis of three-year and annual plans. Over the three-year period, the audit is guaranteed of all processes identified in the risk assessment used to define the action priorities. The annual plan defines which activities and processes will be audited in line with the three-year plan and on a risk-based approach. The plans are approved annually by the Board of Directors, after consulting the Director assigned pursuant to the Corporate Governance Code and the Control and Risk Committee.

In 2019, the Internal Audit activities fully covered the scope of audits that the department planned to carry out. No significant critical issues emerged from the activities conducted, though a need was frequently found for the competent internal structures to implement improvement actions to mitigate the risks intrinsic to certain processes and operating practices. In this respect, the Board verified that the department’s findings were quickly acted upon or, if complex action was necessary, suitable initiatives were rapidly activated.

In any event, the reliability of the Internal Control System as a whole was not compromised, and is therefore confirmed adequate.

The Compliance and Anti-Money Laundering Department directly monitors the regulatory areas concerning market integrity, investor protection and business transparency (e.g., MIFID II, market abuse, banking transparency, new product placement, private banker activities and anti-money laundering) and, based on a “graduated” model, the regulatory areas monitored by other specialist units.

As part of the activities carried out by the Anti-Money Laundering Department, the Board monitored the internal structures’ constant compliance with regulations on combating money laundering and terrorist financing. With regard to ex post controls carried out on compliance with anti-money laundering procedures, there are no critical issues to report, although a number of improvement areas were identified, particularly in relation to adequate customer due diligence processes.

Organisational and procedural changes were made during the year as required by developments in external regulations on the setup of a common group database on anti-money laundering.

The Risk Management Department ensures the management and continuous monitoring of risks to which the Bank is exposed, especially in reference to credit, financial, market and operational risks. No critical aspects emerged from the audits performed that are worthy of report.
As ICAAP contact, the Risk Manager coordinates the process of preparing the ICAAP and ILAAP reports.

The recovery plan was approved during the year and the RAF was updated in accordance with the plan. The ICAAP results confirm that the Group's capital complies with the prudential requirements as it is well above the established minimum thresholds and RAF limits, both in baseline and adverse macroeconomic scenarios. The fact that the Bank operates with a capitalisation level higher than the established minimum thresholds constitutes a prudential element designed to include a buffer against risks identified as unmeasurable.

In reference to liquidity risk, the liquidity position and composition of funding sources appear to be consistent with the strategic objectives decided by the Board of Directors of the Parent Company for 2019.

The Board confirms that the annual reports of the Control Departments conclude with an overall opinion in favour of the internal control structure. This opinion was agreed by the Board of Directors which, in this respect, was also based on a specific investigation conducted by the Control and Risk Committee.

With regard to business continuity and IT risk, the Board examined the "Summary report on the IT risk position" prepared in accordance with Bank of Italy Circular no. 285/2013. In terms of business continuity, the tests planned during the year also for CSE - the outsourcer used for IT services - were carried out with a positive outcome. As regards IT risk, the annual audit did not bring to light any material issues.

Following assignment to the Board of Supervisory Board duties relating to corporate administrative liability, referred to in Art. 6, paragraph 4-*bis*, Italian Legislative Decree 231/2001, the Board examined and obtained information on the organisational and procedural control of business activities implemented in accordance with the aforementioned

Decree. The Supervisory Board, which met 10 times, reported on activities carried out during the year ending 31 December 2019 without finding critical issues worthy of mention, confirming an overall satisfactory situation essentially in line with that envisaged in the Organisation, Management and Control Model, the latest version of which was approved by the Board of Directors on 12 December 2019.

Based on the activities undertaken, the information obtained and contents of the reports of the Control Departments, the Board considers there are no critical issues such as to invalidate the structure of the internal control and risk management system.

4. Supervision of the administrative accounting system and the financial reporting process

In its capacity as Internal Control and Audit Committee, also as a result of changes to the law introduced by Italian Legislative Decree 135/2016, the Board monitored the process and controlled the effectiveness of the internal control and risk management systems as regards financial reporting.

Financial reporting is managed by the Financial Reporting Officer, adopting models that refer to the best market practices and provide reasonable certainty of the reliability of financial reports, the effectiveness and efficiency of operating activities and compliance with laws and internal regulations. The processes and controls are periodically reviewed and updated if necessary.

Control of the correct operation of the model governing compliance with Italian Law 262/2005 is guaranteed by a series of checks carried out by the Internal Audit and Administration departments of the Bank.

The Board met periodically with the Financial Reporting Officer to exchange information regarding the administrative and accounting system and its reliability for the purpose of correct representation of operating events. The Board also examined the statements of the Chief Executive Officer and the Financial Reporting Officer in compliance with the provisions of Art. 154-*bis* of the TUF, and met with the Internal Audit Department to verify the results of audits conducted in this respect.

In the light of activities carried out, the Board of Statutory Auditors found no shortcomings that could invalidate the opinion of adequacy and effective application of the administrative and accounting procedures.

During the year, the Independent Auditors reported no critical issues to the Board that could invalidate the adequacy of the internal control system with regard to administrative and accounting procedures.

The Board ascertained that the information flows provided by the non-EU subsidiary, Banque Profil de Gestion, are suitable for conducting annual account audits and interim limited reviews as envisaged by Art. 15 of the Consob Market Regulations.

5. Supervision of related party transactions

The Board supervised the compliance of the Related Parties Procedure with current regulations and its correct application. The Board attended meetings of the Control and Risk Committee, appointed in compliance with current regulations on such matters and as envisaged in related internal regulations to assess the Bank's interest in executing related party transactions of lesser and greater importance, as well as the convenience and essential fairness of the related conditions.

The Board periodically received information relating to transactions executed. It also received a report summarising the related party transactions carried out in 2019 that were exempt from application of the procedures.

The Board found no intercompany transactions or related party transactions in conflict with the interests of the Company and/or not at arm's length.

The Board verified that, in the Directors' Report on Operations and the Notes to the financial statements, the Board of Directors had provided adequate disclosure of the related party transactions, taking into account the provisions of current regulations.

Also taking into consideration the results of activities of the various departments affected by the Related Parties Procedure, the Board considers that the related party transactions are adequately monitored.

6. Methods for actual implementation of the corporate governance rules

The Board assessed the method used to implement the Corporate Governance Code promoted by Borsa Italiana and adopted by Banca Profilo in the terms illustrated in the "Report on Corporate Governance and Ownership Structure".

In compliance with provisions of the Corporate Governance Code, the Board audited the correct application of criteria and verification procedures adopted by the Board of Directors to assess the independence of its members in accordance with the criteria envisaged in law and in the aforementioned Corporate Governance Code.

The Board also self-assessed the independence of its own members. The outcome confirmed that the requirements of law and the Corporate Governance Code were met. Furthermore, no Statutory Auditor had an interest, personal or on behalf of third parties, in any Company transaction in 2019.

During 2019, the Board carried out the self-assessment process to gather opinions of members of the control body in relation to the Board's operations and regarding its composition.

The results, assessments carried out and conclusions reached were discussed at board level, minuted and reported to the Board of Directors.

The Board members have complied with the cumulative office requirements of Art. 144-*terdecies* of the Consob Issuers' Regulation.

7. Supervision of auditing activities

In accordance with the provisions of Art. 19 of Italian Legislative Decree 39/2010, the Board carried out the prescribed supervision of operations of the appointed Independent Auditors.

The Board met periodically with the Independent Auditors, Deloitte & Touche S.p.A., for the required exchanges of information. At these meetings, the Independent Auditors never indicated any events considered censurable or irregularities that would call for a report pursuant to Art. 155, paragraph 2 of the TUF.

On **1 April 2020**, the Independent Auditors released its Audit Reports, pursuant to Art. 14 of Italian Legislative Decree 39/2010 and Art. 10 of Regulation (EU) 537/2014, on the separate and consolidated financial statements as at 31 December 2019.

With regard to opinions and certifications, in their audit report and opinion on the financial statements the Independent Auditors:

- issued an opinion confirming that the separate and consolidated financial statements of Banca Profilo give a truthful and fair view of the Bank's financial position as at 31 December 2019, of the economic result and cash flows for the year ending on that date, in compliance with International Financial Reporting Standards adopted by the European Union and with measures issued in implementation of Art. 9, Italian Legislative Decree 38/05 and Art. 43, Italian Legislative Decree 136/15;
- issued a consistency opinion confirming that the Directors' Report on Operations accompanying the separate and financial statements as at 31 December 2019 and certain specific disclosures in the "Report on Corporate Governance and Ownership Structure" as indicated in Art. 123-*bis*, paragraph 4 of the TUF, the responsibility for which lies with the Bank's directors, were prepared in compliance with law;
- declared that, based on their knowledge and understanding of the business and its related context acquired during the audit activities, there were no significant errors in the Directors' Report on Operations to report.

With regard to financial statements formation, the Board:

- confirms that at the meeting of 12 March 2020 the Board of Directors declared compliance of the impairment procedure with the provisions of IAS 36;
- the financial statements provided information on the main factors of uncertainty that could affect future scenarios in which the Group might be required to operate as a result of potential economic effects of the COVID-19 epidemic, also disclosing that the nature and extent of the potential

impact cannot be estimated at present. It was reported that the significant events and related consequences occurred after the reporting date and were attributable to types of events which, in accordance with IAS 10, do not require the adjustment of financial statement values. Lastly, it was pointed out that it is believed that the information and sensitivity analyses provided with reference to the main items of the financial statements subject to estimate are capable of reflecting the impacts related to the elements of uncertainty assumed at the date of preparation of the Financial Report.

On 1 April 2020, the Independent Auditors also submitted the additional Report envisaged in Art. 11 of Regulation (EU) 537/2014 to the Board, in its capacity as "Internal Control and Audit Committee". The Report found no significant shortcomings in the internal control system in relation to the financial reporting process that would need to be brought to the attention of the department managers responsible for governance activities. The Board will arrange for the Company's Board of Directors to be informed of the contents of the additional report, accompanied by any remarks, pursuant to Art. 19 of Italian Legislative Decree 39/2010. With regard to the previous year, the Board of Statutory Auditors informed the Board of Directors at the meeting held on 30 April 2019.

The Independent Auditors also submitted a declaration to the Board regarding its independence, as required by Art. 6 of Regulation (EU) 537/2014, from which no situations emerge that could compromise independence. Lastly, the Board confirmed the Transparency Report prepared by the Independent Auditors and published on its website pursuant to Art. 18 of Italian Legislative Decree 39/2010.

During 2019, the Independent Auditors was awarded the following assignments, in addition to audit activities, either directly or through other companies in its partner network:

- methodological support to the Parent Company Arepo BP S.p.A. in the examination phase regarding application of the new standard IFRS 16 - Leases to the consolidated financial statements of Arepo BP.
- methodological support to Banca Profilo in the examination phase of the project relating to the EMIR Regulation with reference to OTC derivatives.

Taking into account the absence of other assignments awarded by Banca Profilo and its investees to the Independent Auditors and to its network partners, the Board believes there are no critical issues relating to the independence of Deloitte.

8. Omissions or censurable events, opinions issued and initiatives undertaken

The Board is not aware of any events, reports pursuant to Art. 2408 of the Italian Civil Code or depositions to be brought to the attention of the Shareholders' Meeting.

The Board issues the opinions required by current regulations.

During the activities undertaken and on the basis of information obtained, no omissions, censurable events, irregularities or in any event significant circumstances that would need to be reported to the Supervisory Authority or mentioned in this Report.

9. Conclusions

At the ordinary Shareholders' Meeting of 23 and 24 April 2020, on first and second call respectively, note that the agenda covered the following, as well as approval of the financial statements as at 31 December 2019 and the allocation of profit:

- the Remuneration Report, including the proposed review of the remuneration and incentive policy for personnel and the disclosure regarding its implementation in 2019;
- the proposal for authorisation of the purchase and sale of treasury shares; related and contingent resolutions, in relation to the potential purchase of treasury shares for a maximum value of € 2 million.

Taking into consideration the specific duties of the Independent Auditors in relation to accounting audit and verification of the reliability of the financial statements, the Board has no observations to put to the Shareholders' Meeting, pursuant to Art. 153 of the TUF, in relation to approval of the financial statements as at 31 December 2019 accompanied by the Directors' Report on Operations as submitted by the Board of Directors and to the allocation of profit for the year according to the timing and methods again as proposed by the Company's Board of Directors.

Milan, 1 April 2020

Board of Statutory Auditors

Chairman

Nicola Stabile (signed)

Standing Auditors

Andrea Amaduzzi (signed)

Sonia Ferrero (signed)

Independent auditors' report

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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
Banca Profilo S.p.A.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Banca Profilo S.p.A. (the "Bank"), which comprise the separate balance sheet statement and the separate income statement as at 31st December 2019, and the separate statement of comprehensive income, separate statement of changes in equity and separate cash flow statement 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 31st December 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. 9 of Italian Legislative Decree no. 38/05 and 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 Banca Profilo S.p.A. 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

There are no key audit matters to report.

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. 9 of Italian Legislative Decree no. 38/05 and to art. 43 of Italian Legislative Decree no. 136/15 and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Deloitte.

In preparing the financial statements, the Directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Bank or for the termination of the operations or have no realistic alternatives to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of 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.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of Banca Profilo S.p.A. appointed us on 27th April 2017 as auditors of the Bank for the years from 31st December 2017 to 31st December 2025.

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 and art. 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of Banca Profilo S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and the ownership structure of Banca Profilo S.p.A. as at 31st December 2019, including their consistency with the related financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98 with the financial statements of Banca Profilo S.p.A. as at 31st December 2019 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and some specific information contained in the report on corporate governance and the ownership structure are consistent with the financial statements of Banca Profilo S.p.A. as at 31st December 2019 and are prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the entity and of the related context acquired during the audit, we have nothing to report.

DELOITTE & TOUCHE S.p.A.

Signed by
Antonio Zecca
Partner

Milan, Italy
April 1st, 2020

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

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PRESS RELEASE

Disclosure of the distribution of 2019 dividends

- **In compliance with Bank of Italy and ECB recommendations on the distribution of dividends for 2019, Banca Profilo has also suspended the proposed allocation of profit, postponing its approval to a later Shareholders' Meeting**
- **The new Shareholders' Meeting will be called in the fourth quarter of 2020, after a new assessment by the Board of Directors**
- **The Bank in any event remains hopeful of arranging the proposed distribution of dividends, as disclosed to the market on 12 March, once the current pandemic-related scenario has been overcome**

Milan, 1 April 2020 - In reference to the Bank of Italy and European Central Bank recommendations of 27 March this year, issued in consideration of the current COVID-19 pandemic and aiming to strengthen banks' own funds, Banca Profilo has decided to abide by the Supervisory Authorities' instructions and defer, at least until 1 October 2020, the distribution of dividends from 2019 profits, initially planned following the resolution of ordinary Shareholders' Meeting to be held on 23-24 April.

With the aim of preserving the opportunity of distributing the expected dividends totalling € 5,937,430, as per the press release published on 12 March, the Board of Directors of Banca Profilo today resolved to:

- comply with the recommendation of the Supervisory Authorities, adopting the option indicated by the ECB that offers the possibility to confirm the proposed dividend distribution, making its actual payment subject to a new assessment by the Board of Directors, once the uncertainties associated with the COVID-19 pandemic have been overcome and, in any event, no earlier than 1 October 2020;
- postpone, therefore, the proposed distribution of 2019 dividends, conferring mandate upon the Chairman to not put the resolution proposal to the vote until the next Shareholders' Meeting, which the Board of Directors hereby commits to calling, in compliance with the terms indicated by the Bank of Italy and the ECB, at a time suitable to ensuring the distribution of dividends as soon as the current health emergency has been overcome, after the Board's reassessment and in line with the Authorities' indications.

Banca Profilo remains hopeful that the proposed dividend distribution can take place as soon as circumstances permit, in accordance with Bank of Italy instructions.

In fact, the Bank considers that, also in the current economic and financial context, the proposed dividend distribution could remain valid, taking into account the specific financial position, among the strongest in the industry and able to absorb any additional stress scenarios, the diversification of its business model which has proved its capacity to generate income even in periods of crisis, and the limited exposure to credit risk.

Given the above, note that the profit allocation proposal referred to in the Board of Directors' resolution of 12 March, disclosed to the market and reflected in the financial reporting package to be made available to the public tomorrow, will be subject to a future ordinary Shareholders' Meeting to be held in the last quarter of 2020, unless further impediments arise from the COVID-19 emergency that are as yet unforeseeable and without prejudice to any additional instructions from the Bank of Italy and the European Central Bank.

The Banca Profilo Group, a specialist in Private Banking, Investment Banking and Capital Markets is present in Milan, Rome, Genoa, Turin, Brescia and Reggio Emilia, and in Geneva through the subsidiary Banque Profil de Gestion.

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