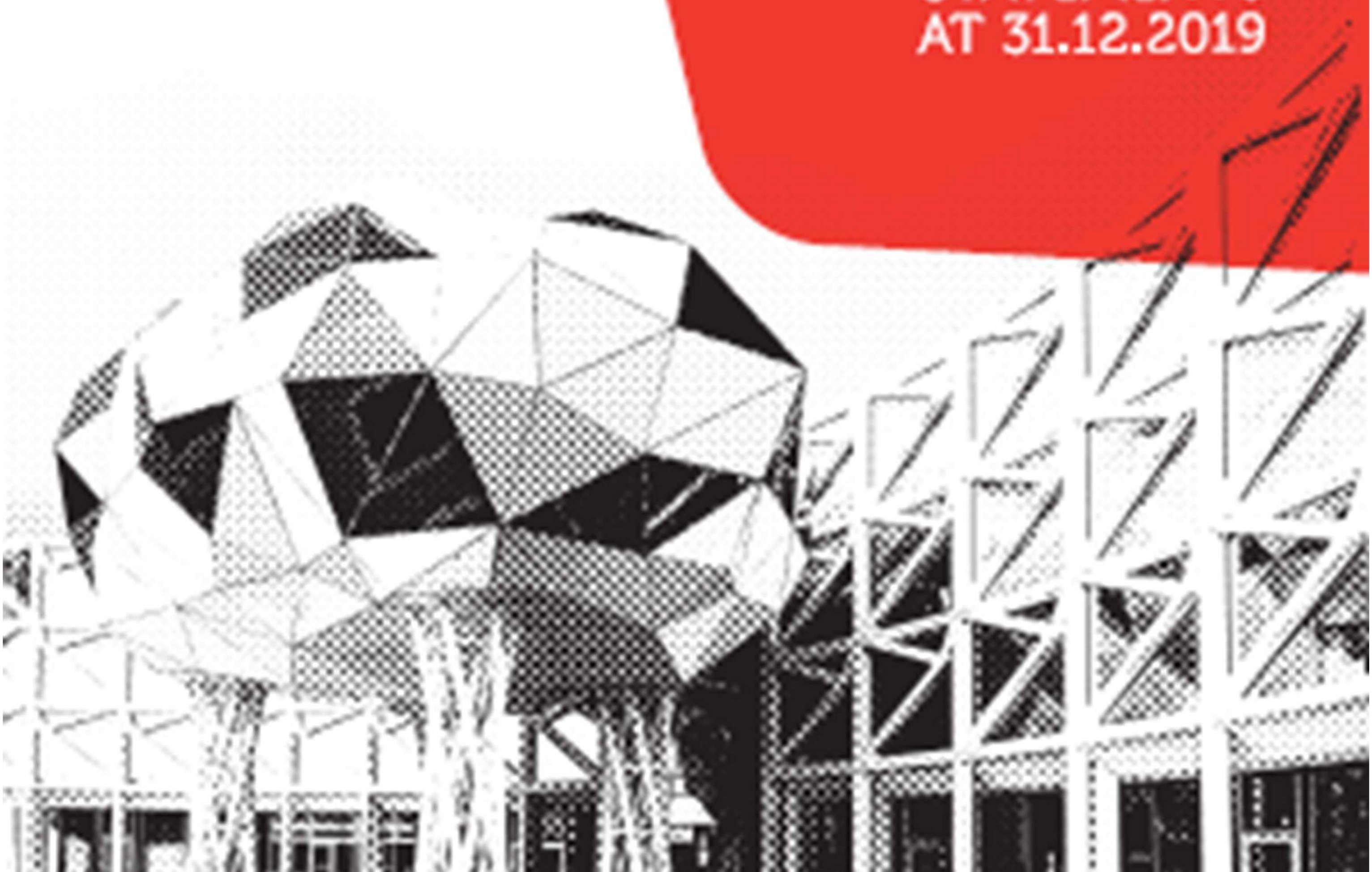
CiviBank

133[RD] YEAR

ANNUAL REPORT 2019

REPORTS AND FINANCIAL STATEMENTS AT 31.12.2019



Reports and Financial Statements at 31/12/2019

Draft Financial Statements

Meeting of the Board of Directors of 11 March 2020

BANCA DI CIVIDALE
A cooperative joint-stock company – founded in 1886
Registered office and headquarters: Via Sen. Guglielmo Pelizzo n. 8/1;
33043 Cividale del Friuli;
Bank of Italy Register No. 5758.8.0; Italian Banking Association Code 05484.1;
Taxpayer ID, VAT reg. no. and Udine Companies Register no. 00249360306;
Share capital at 31/12/2019: € 50,913,255, fully paid-in
A member of the Interbank Deposit Protection Fund

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Boards and senior management of Banca di Cividale at the date of approval of the financial statements at and for the year ended 31/12/2019

Board of Directors

Chairperson	Michela Del Piero
Deputy Chairpersons	Andrea Stedile Guglielmo Pelizzo
Directors	Alberto Agnoletto Manuela Boschieri Massimo Fuccaro Riccardo Illy Franco Sala Livio Semolič

Board of Statutory Auditors

Chairperson	Pompeo Boscolo
Standing members	Gianluca Pico Gianni Solinas
Substitute members	Pietro Cicuttini Chiara Repetti

Board of Arbitrators

Chairperson	Renzo Zanon
Standing members	Lorenzo Cozzarolo Giampaolo Piccoli Alessandro Rizza Eugenio Scarbolo
Substitute members	Giuseppe Bertolo Valentino Custrin

Senior management

General Manager	Federico Fabbro
Acting Assistant General Manager	Gianluca Picotti
Assistant General Manager	Gabriele Rosin

Independent Auditors KPMG S.p.A.

Notice of Ordinary Shareholders' Meeting

The Ordinary Shareholders' Meeting of Banca di Cividale S.c.p.a (hereinafter "**CiviBank**", the "**Bank**" or the "**Company**") is convened for Monday, **15 June 2020**, at 9:30 AM, in first call and, where necessary, for Tuesday, **16 June 2020**, at 9:30 AM, in second call, at the offices of notary Filippo Zabban in Milan, Via Metastasio 5, to pass resolutions on the following

Agenda

1. Individual financial statements at and for the year ended 31 December 2019:
    1.1. Approval of the financial statements of Banca di Cividale S.c.p.a. at and for the year ended 31 December 2019, accompanied by the directors' report on operations, the Statutory Auditors' report and the Independent Auditors' report.
    1.2. Allocation of the result for the year entirely to retained earnings.
2. Proposal to set the share premium pursuant to Art. 2528, para. 2, of the Italian Civil Code, and Art. 6, para. 1, of the Articles of Association.
3. Authorisation to purchase and dispose of treasury shares pursuant to Articles 2357 and 2357-*ter* of the Italian Civil Code through the use of the provision for the purchase of treasury shares.
4. Partial renewal of the Board of Directors:
    4.1 Appointment of three members of the Board of Directors for the years 2020-2022.
    4.2 Determination of compensation.
5. Appointment of the Board of Statutory Auditors:
    5.1 Appointment of the Statutory Auditors and the Chairperson of the Board of Statutory Auditors for the years 2020-2022.
    5.2 Determination of compensation.
6. Approval of the remuneration and incentive policies of Banca di Cividale S.c.p.A. for the year 2020 and information regarding the implementation of the policies approved by the Shareholders' Meeting for the year 2019.

Information on share capital at the date of this notice of meeting

At the date of this notice of meeting, the Bank's subscribed and paid-in share capital amounted to €50,913,255.00 and was divided into 16,971,085 ordinary shares. At the Shareholders' Meeting, each shareholder will be entitled to one (1) vote, regardless of the number of shares held. At the date of this notice of meeting, the Bank held 262,438 treasury shares.
The total number of shareholders entitled to participate in and vote at the Shareholders' Meeting is 14,482.

Methods of conduct of the Shareholders' Meeting

In view of the ongoing health emergency caused by the Covid-19 pandemic, and in accordance with the fundamental principles of protection of the health of the Company's shareholders, employees, officers and advisors, the Bank has decided to adopt the methods provided for in Decree-Law No. 18 of 17 March 2020, converted by Law No. 27 of 24 April 2020 (the "**Cure Italy Decree-Law**") to hold the Shareholders' Meeting. Pursuant to the Cure Italy Decree-Law, **entitled shareholders may participate in the Shareholders' Meeting solely through the designated representative** pursuant to Art. 135-*undecies* of Legislative Decree No. 58 of 24 February 1998 (the "**Consolidated Finance Act**" or "**CFA**") according to the methods set out below, with shareholders and their proxies other than the aforementioned designated representative barred from access to the location of the meeting. In addition, proxy authorisation (or sub-authorisation) will be granted to the designated representative in derogation from the provisions of Art. 150-*bis*, para. 2-*bis*, of Legislative Decree No. 385 of 1 September 1993, Art. 135-*duodecies* of the CFA, Art. 2539, para. 1, of the Italian Civil Code and Art. 23 of the Bank's Articles of Association (the "**Articles of Association**"), which impose limits on the number of proxy authorisations that may be granted to a single party.
For this purpose, the Bank has designated Società per Amministrazioni Fiduciarie Spafid S.p.A. ("**Spafid**" or the "**Designated Representative**"), with its registered office in Milan, the designated representative pursuant to Art. 135-*undecies* of the CFA.
In accordance with the provisions of the Cure Italy Decree-Law, directors, statutory auditors, representatives of the independent auditors, the Designated Representative and the other persons whose participation is requested may also participate in the Shareholders' Meeting by telecommunications systems that guarantee

their identification and participation, without requiring them to be in the same location as the Chairperson and the secretary taking the minutes.

Standing to participate in the Shareholders' Meeting and exercise of voting rights

Pursuant to Art. 23 of the Articles of Association, standing to participate in the Shareholders' Meeting and exercise voting rights – exclusively through the Designated Representative – falls to those who (i) are registered in the Shareholder Register for at least 90 days prior to the date of the Shareholders' Meeting in first call (*i.e.* **17 March 2020**) and (ii) have demonstrated ownership of their shares through a specific share ownership certificate issued by the intermediary responsible for keeping the accounts (*i.e.* the depository bank) and submitted by the end of the second (2nd) day before the date of the Shareholders' Meeting in first call (*i.e.* by **13 June 2020**) according to the methods indicated on the Bank's website at the address www.CiviBank.it, in the section "Our Shareholders" – "2020 Ordinary Shareholders' Meeting".
With regard to the share ownership certificate referred to in (ii):

1. shareholders who have deposited their shares in an account held with the Bank are not required to provide the Bank with the share ownership certificate referred to in (ii), since ownership of the shares will be verified at the Bank's initiative;
2. shareholders who have deposited their shares in an account held with depositary intermediaries other than the Bank are required to append the share ownership certificate referred to in (ii) to the proxy authorisation (or sub-authorisation) form for the Designated Representative;
3. all shareholders who, pursuant to Art. 23, para. 5, of the Articles of Association, wish to grant sub-authorisation to the Designated Representative through another shareholder must append the share ownership certificate referred to in (ii) to the proxy authorisation form, even if their shares are deposited in an account held with the Bank.

No provision has been made for procedures for voting by mail or by electronic systems.

Representation at the Shareholders' Meeting and proxy authorisation for the Designated Representative

Pursuant to the Cure Italy Decree-Law, shareholders of the Bank authorised to participate in the Shareholders' Meeting and to exercise voting rights may participate in the Shareholders' Meeting **solely through the Designated Representative**, by granting a specific proxy authorisation (or sub-authorisation) to Spafid, at no cost to them (except for transmission expenses).
The proxy authorisation (or sub-authorisation) for the Designated Representative may be granted, according to the methods described below, using either:

1. the "ordinary proxy authorisation form" pursuant to Art. 135-*novies* of the CFA; or
2. the "designated representative proxy authorisation form" pursuant to Art. 135-*undecies* of the CFA;

as illustrated below.

Proxy authorisation for the Designated Representative pursuant to Art. 135-novies of the CFA

Shareholders of the Bank entitled to participate in the Shareholders' Meeting and exercise voting rights may elect to be represented at the Shareholders' Meeting by the Designated Representative by granting the latter a proxy authorisation (or sub-authorisation) pursuant to Art. 135-*novies* of the CFA containing voting instructions on all or some of the matters on the agenda. The proxy authorisation (or sub-authorisation) will have effect solely for matters in relation to which voting instructions are provided.
The proxy authorisation (or sub-authorisation) must be granted using a hand-signed paper document or an electronically signed electronic document pursuant to Art. 135-*novies*, para. 6, of the CFA. For this purpose, shareholders may use the specific proxy authorisation form available from the Company's website at the address www.CiviBank.it, in the section "Our Shareholders" – "2020 Ordinary Shareholders' Meeting", and at the Company's registered office and branches ("ordinary proxy authorisation form").
Pursuant to Art. 5 of the Bank's Shareholders' Meeting Regulations (the "**Shareholders' Meeting Regulations**"), in the event of sub-authorisation pursuant to Art. 135-*novies* of the CFA, the signature of the shareholder who has granted proxy authorisation to a person other than the Designated Representative must be authenticated by the employees of the Bank appointed by the Board of Directors or by a public official authorised to do so, while ensuring, in any event, confidentiality regarding voting instructions and observance of the social-distancing measures imposed by the current emergency situation.
The proxy authorisation (or sub-authorisation) must be delivered to the Designated Representative, with the subject line of the e-mail or outside of the envelope indicating "Proxy authorisation for the Designated Representative for the 2020 CiviBank Ordinary Shareholders' Meeting" along with a signed copy of an

identification document and, where the shareholder is a legal entity, documentation attesting to signing authority in accordance with Art. 7 of the Bank's Articles of Association.
It also bears recalling that: (i) shareholders who have deposited their shares in an account held with intermediaries other than the Bank are required to append the share ownership certificate of the intermediary responsible for keeping the accounts (*i.e.* the depository bank) to the form; and (ii) all shareholders with proxy authorisation who, pursuant to Art. 23, para. 5, of the Articles of Association, wish to grant sub-authorisation to the Designated Representative must append the share ownership certificate of the intermediary responsible for keeping the accounts (*i.e.* the depositary bank) to the proxy authorisation form, even if the shareholders are deposited in an account held with the Bank.
The notification of proxy authorisation (or sub-authorisation) must be performed according to the methods specified on the Bank's website at the address www.CiviBank.it, section “Our Shareholders” – “2020 Ordinary Shareholders' Meeting”, and in the ordinary proxy authorisation form.
In order to allow the Company and the Designated Representative to receive and verify proxy authorisations in advance of the commencement of the proceedings of the Shareholders' Meeting, it is recommended that entitled persons have their proxy authorisations (or sub-authorisations) delivered by 11:59 PM on the second (2nd) day before the date of the Shareholders' Meeting in first call (*i.e.* by **13 June 2020**)([1]). The proxy authorisation (or sub-authorisation) and voting instructions may be modified and withdrawn by that same deadline according to the same methods as established for granting them.

Proxy authorisation to the Designated Representative pursuant to Art. 135-undecies of the CFA

Shareholders of the Bank entitled to participate in the Shareholders' Meeting and exercise voting rights may also elect to be represented by the Designated Representative by granting the latter a specific proxy authorisation pursuant to Art. 135-*undecies* of the CFA containing voting instructions on all or some of the matters on the agenda. The proxy authorisation will only be effective for the matters on which voting instructions have been granted.
The proxy authorisation for the Designated Representative must be granted by signing the specific proxy authorisation form available, with the related instructions for compilation and transmission, from the Company’s website at the address www.CiviBank.it, section “Our Shareholders” – “2020 Ordinary Shareholders' Meeting”, as well as from the Company's registered office and branches (“designated representative proxy authorisation form”).
The proxy authorisation must be delivered to the Designated Representative, with the subject line of the e-mail or outside of the envelope indicating “Proxy authorisation for the Designated Representative for the 2020 CiviBank Ordinary Shareholders' Meeting” along with a signed copy of an identification document and, where the shareholder is a legal entity, documentation attesting to signing authority in accordance with Art. 7 of the Bank's Articles of Association.
It should also be noted that shareholders who have deposited their shares in an account held with depository intermediaries other than the Bank are required to append the share ownership certificate of the intermediary responsible for keeping the accounts (*i.e.* the depository bank) to the form.
The proxy authorisation must be delivered, together with the above documentation, by the end of the second (2nd) day before the date of the Shareholders' Meeting in first call (*i.e.* by 11:59 PM on **13 June 2020**)([2]) according to the methods indicated on the Bank's website at the address www.CiviBank.it, section “Our Shareholders” – “2020 Ordinary Shareholders' Meeting”, and in the proxy authorisation form for the designated representative. The proxy authorisation and voting instructions may be modified and withdrawn by the same deadline according to the same methods established for granting them.

([1]) Where the proxy authorisation (or sub-authorisation) form is submitted through non-electronic channels (*i.e.* delivery to the collection points set up at the Bank’s branches), entitled shareholders are required to have their proxy authorisations (or sub-authorisations) delivered to the Bank's branches **by 1:00 PM on 12 June 2020**. This is necessary in the light of the branch opening hours in the current emergency situation related to the Covid-19 epidemic and the time technically required for the Bank to transmit the proxy authorisation (or sub-authorisation) forms it has received to Spafid.

([2]) Where the proxy authorisation (or sub-authorisation) form is submitted through non-electronic channels (*i.e.* delivery to the collection points set up at the Bank’s branches), entitled shareholders are required to have their authorisations delivered to the Bank's branches **by 1:00 PM on 12 June 2020**. This is necessary in the light of the branch opening hours in the current emergency situation related to the Covid-19 epidemic and the time technically required for the Bank to transmit the proxy authorisation forms it has received to Spafid.

Shares for which proxy authorisation has been granted will be counted when determining whether the Shareholders' Meeting has been duly constituted; in respect of matters for which voting instructions have not been provided, the shares will not be counted when determining the majority and percentage of capital required to pass resolutions.

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For any clarification regarding the granting of proxy authorisation to the Designated Representative (and in particular regarding the compilation of the proxy authorisation form, voting instructions and their transmission), Spafid may be contacted by e-mail at the address confidential@spafid.it or by telephone at the numbers (+39) 0280687319 or (+39) 0280687331 (from 9 AM to 5 PM on office business days).

Right to ask questions regarding the matters on the agenda

Those with voting rights may ask questions regarding the matters on the agenda up to nine (9) days before the date of the Shareholders' Meeting in first call (*i.e.* by **6 June 2020**). Persons who demonstrate ownership of the shares on the date they submit their question are entitled to a response.
Only questions regarding the matters on the agenda will be considered.
Questions must be submitted, in writing, by ordinary e-mail to the address assemblea2020@CiviBank.it, including in the subject-line of the e-mail the phrase "*2020 Shareholders' Meeting – questions regarding the matters on the agenda*". Questions must be accompanied (i) by the personal particulars of the requesting shareholder (surname and name, place and date of birth or, in the case of an entity or company, name, registered office and taxpayer identification code) and (ii) a specific certification, with effect until the date of submission of the question, issued by the depositary intermediary, attesting to the ownership of the shares by the requesting party.
The certification referred to in (ii) is not required (a) for shareholders who have deposited their shares in an account held with the Bank; and (b) for shareholders who have deposited their shares in an account held with a depositary intermediary other than the Bank, where the Company receives the share ownership certificate of the depositary intermediary in question required for participation in the Shareholders' Meeting.
Responses will be provided to questions received by the deadlines indicated, after it has been verified that the questions are pertinent and the person asking them has standing to do so, by publishing the responses on the Company's website at the address www.CiviBank.it, in the section "Our Shareholders" – "2020 Ordinary Shareholders' Meeting", at least five (5) days before the Shareholders' Meeting (*i.e.* by **10 June 2020**).
The Company may provide a single response to questions with the same content.

Partial renewal of the Board of Directors and appointment of the Board of Statutory Auditors

As a consequence of the approval by the Ordinary Shareholders' Meeting of the Individual Financial Statements of CiviBank at and for the year ended 31 December 2019 (item 1 on the agenda), the terms of office will be up for: (i) three (3) members of the Board of Directors currently in office; and (ii) the entire Board of Statutory Auditors. Accordingly, the Ordinary Shareholders' Meeting referred to in this notice of meeting will be called upon: (i) to appoint three (3) new members of the Board of Directors for the years 2020-2022 and (ii) to appoint the Chairperson of the Board of Statutory Auditors, two (2) standing members and two (2) substitute members of the Board of Statutory Auditors for the years 2020-2022. It bears recalling, in this regard, that pursuant to Art. 24 of the Articles of Association and Art. 16 of the Shareholders' Meeting Regulations, members of the Board of Directors and Board of Statutory Auditors are selected without applying the vote-by-list mechanism.
Pursuant to Art. 24 of the Articles of Association and Art. 15 of the Shareholders' Meeting Regulations, candidates for company offices may be (a) nominated by groups of shareholders representing at least 1.5% of those entitled to vote in the Shareholders' Meeting or (b) selected by the Board of Directors. Pursuant to Art. 14 of the Shareholders' Meeting Regulations, all candidates must meet the requirements established by the applicable laws and regulations in force from time to time. Candidates other than those selected by the Board of Directors, in accordance with Art. 24 of the Articles of Association and Art. 16 of the Shareholders' Meeting Regulations, must be presented to the Bank personally at the company's office, or by registered mail with return receipt, at least 15 (fifteen) days before the date of first call of the Shareholders' Meeting (*i.e.* by **31 May 2020**). Once it has been verified that they meet formal requirements, nominations will be promptly

disclosed to the public on the Company's website at the address www.CiviBank.it, in the section "Our Shareholders" – "2020 Ordinary Shareholders' Meeting".
Each shareholder may contribute to presenting a maximum number of candidates equal to the number of the members of the company bodies to be elected. In the event of failure to comply with this rule, the shareholder's endorsement of the candidates will not be regarded as valid and therefore will not be counted for any of the candidates supported by the shareholder concerned. Moreover, the signatures of shareholders supporting candidates other than those proposed by the Board of Directors must be authenticated by the same persons responsible for authenticating proxy authorisations for the Shareholders' Meeting. The Bank will promptly verify the satisfaction of formal requirements by the candidates presented. In the event of irregularities, the improperly nominated candidates will be disqualified and notice thereof will be given promptly.
Shareholders entitled to participate in the Shareholders' Meeting and exercise voting rights will be asked to place a mark next to the names of the individual candidates selected for the office of director, statutory auditor and chairperson of the Board of Statutory Auditors. The foregoing is without prejudice to the right of each entitled shareholder to enter the surnames and names of individuals not included in the lists in the dedicated spaces. Votes cast in a way that does not enable the intentions of the shareholder casting the vote or the identity of the person voted for to be determined unambiguously will be disregarded.
Pursuant to Art. 24 of the Articles of Association and Art. 18 of the Shareholders' Meeting Regulations, the candidates who have received the most votes will be elected. In the event of a tied vote, the eldest candidate will be elected. The same selective criterion will apply to identifying standing statutory auditors, substitute statutory auditors and the chairperson of the Board of Statutory Auditors.
Pursuant to Art. 24 of the Articles of Association and Art. 18 of the Shareholders' Meeting Regulations, those elected to company offices will be required to inform the Bank of the acceptance of the position within five (5) business days from the resolution appointing them to the position. If such acceptance is not forthcoming, the first of those not elected will be considered appointed.

Documentation
The documentation regarding the subjects on the agenda of the Shareholders' Meeting, including, in particular, the illustrative reports of the Board of Directors on the matters on the agenda containing the draft resolutions – will be made available to the public on the date of publication of this notice at the company's registered office, on its website at the addresswww.CiviBank.it, in the section "Our Shareholders" – "2020 Ordinary Shareholders' Meeting", and from the authorised storage facility "*eMarket Storage*" at the address www.emarketstorage.com.
This notice of meeting is being published on the Company's website at the address www.CiviBank.it, in the section "Our Shareholders" – "2020 Ordinary Shareholders Meeting", in the *Official Journal of the Italian Republic* and on the authorised storage facility "*eMarket Storage*" at the address www.emarketstorage.com.

* * *

The Company thanks the Shareholders for their collaboration in complying fully with this notice and with the special and other laws that have given rise to it.
The information contained in this notice may be subject to updates, changes or additions in view of the current emergency situation relating to the Covid-19 epidemic and the consequent measures adopted from time to time by the competent authorities. Any and all updates, changes or additions to the information in this notice will be provided promptly according to the same methods as adopted for publishing this notice.

* * *

Cividale del Friuli, 13 May 2020

The Chairperson of the Board of Directors
(Michela Del Piero)

Letter from the Chairperson

Dear shareholders,

For our institution, 2019 was a year of consolidation, as envisaged in the "2019-2022 Strategic Plan" approved by the Board of Directors.

It has been a process of considerable effort and satisfaction, not least due to the goals shared by our 600 employees, who achieved significant results. We are raising the Bank to levels of excellence, simultaneously growing it in size and making a crucial contribution to the regional economy.

All of this has yet to be reflected in the bottom line, which while improved (+33%) compared to previous years has yet to reach the levels that we have in mind, since earnings, while significant, have been retained in full.

For years we have been allocating almost all the earnings generated to provisions for loans granted years ago that entered into default as a result of the lengthy Lehman Brothers crisis. The total amount allocated to impairment losses since 2012 is €406 million, and the results are plain to see in this year's indicators. In addition, in recent years we allocated over €24 million requested of us by the various bail-out funds for banks in crisis.

The bank's fundamental indicators are all up sharply compared to one year earlier, including the CET1 (an indicator of capital solidity), LCR (a liquidity indicator) and gross NPL ratio (which measures non-performing loans). The less known Texas Ratio improved by nearly 20 percentage points in 2019 and is now 65%, half the level of 2016. The net NPL ratio was also reduced by more than half from 2016 to 2019.

These are very important signs of reinforcement appreciated by those who are familiar with these values and care about this bank's development – a strong foundation for achieving the results envisaged in the ongoing Strategic Plan.

It is important to note that the process of consolidation of CiviBank is nearly without parallel in Italy. It is fair to say that it is one of the very few banks in Italy to have achieved these levels of solidity and growth without asking its shareholders for a single euro during the crisis: CiviBank has not held a capital increase since 2006-2007 (13 years), and this is a not insignificant point. In addition, Cividale does not have any outstanding convertible or subordinated debt.

We even achieved considerable volume growth during the consolidation process. This is borne out by the thousands of local entrepreneurs, tradespeople and households financed by CiviBank, which disbursed €610 million in new loans in 2019 – higher growth than the industry at large. Over the last four years, CiviBank has disbursed new loans of €1,900 million, all in our community, and ranks number-one among banks for the use by its customers of the subsidised forms of credit made available by the Region of Friuli Venezia Giulia. A similar initiative has been launched using the instruments made available by the regional development company Veneto Sviluppo.

The trust placed in us by our customers has also grown, as shown by the indirect funding figure (+9.5%), which has improved above all in terms of the assets under management component entrusted to the bank for management and invested in its bancassurance products. Direct funding has also grown (+4.6%), including the online channel, which directs resources raised in Italy and internationally to Friuli Venezia Giulia through partnership with fintech companies.

Branches were also opened in local markets viewed as strategic and high-potential in 2019: Oderzo, Castelfranco Veneto and Vicenza, in order to increase the bank's ability to generate income over time. Others will soon follow in pursuit of this same goal, as part of a judicious strategy for occupying the commercial void created by the disappearance of the two Veneto-based banks.

We remain aware of the problem of share value, but it will be solved after a serious process of consolidation and then growth, as compatible with the adverse circumstances that are conditioning economic development.

Everyone knows that CiviBank's shares are not listed on the Italian Stock Exchange but on the HI-MTF market (like those of almost all other Italian regional banks), are held only in Friuli Venezia Giulia and have a very small free float. At present fewer than 700,000 shares, or approximately 4% of those outstanding, are up for sale. The remaining 96% remains firmly in the hands of our shareholders. However, these few sales orders are enough to drive the price down. This is why we cannot understand those who discredit their own bank, encouraging the sale of shares and driving the price down almost without trading, harming themselves and all the other shareholders.

Finally, it is important to always keep in mind our starting point, that is to say the bank's condition at the peak of the crisis, when expressing a serious view of where we find ourselves today, albeit in a zero interest rate environment (with clear compression of the bank's margins) and a bit of negative publicity, to be answered with facts.

The outlook for 2020 is strongly conditioned by the Covid-19 emergency, the effects of which are seen in terms of growth and profitability levels. The economic implications of the extended lockdown are truly worrisome, yet once again our bank has succeeded in playing its role as local credit provider by adopting prompt, effective measures.

The regional development company Friulia expanded the agreement reached with CiviBank on 2 December last relating to loans to micro and small enterprises in Friuli Venezia Giulia. In particular, the terms of the loans that may be disbursed by CiviBank have been extended, allowing it to now conclude loans to companies drawing on the Liquidity Facility with terms of up to 72 months, compared to the original 36 months. The loans will benefit from the €4 million of funds made available by Friulia at no charge. The longer loan terms apply to all loans of up to €25 thousand granted by 31 December 2020.

This agreement is further proof that local organisations are tangibly and effectively ready and able to support local businesses at difficult times such as the present. CiviBank's role in supporting the regional economy can be seen even more clearly as a result of the active partnership with the regional development company and credit guarantee consortia.

In view of the launch of Phase 2 of the Covid-19 emergency, the Board of Directors set aside initial funds of €20 million to support the real economy in Northeastern Italy. The suspension measures pursuant to Decree-Law No. 18/2020 and the Italian Banking Association Credit Agreement are accompanied by initial funds available to companies operating in all sectors of the economy in order to enable them to resume business as soon as possible after overcoming the contingent difficulties. In constant dialogue with local credit syndicates and public institutions, CiviBank has also set up a team of specialists responsible for supporting branches in effectively transmitting and channelling the support measures being prepared by the region, central government and EU to individual customers, businesses and employers. The funds set aside are part of the broader array of instruments supporting the local economy that CiviBank has also adopted in coordination with systemic initiatives, in particular the new guarantee facilities provided for under the Central Guarantee Fund and credit guarantee consortia.

The bank's 64 branches based in Friuli Venezia Giulia and Veneto (from Trieste to Vicenza) remain open to assist customers even at this critical juncture, albeit with reduced hours and by appointment for the most urgent transactions. Updates regarding the operating procedures for the methods adopted were published on the Bank's website.

Mention should also be made of the enormous volume of moratoria granted on loan payments by individuals and companies to provide support with the initial difficulties that emerged within our social fabric in the course of the emergency, with the related procedures greatly simplified.

It also bears recalling that at the very beginning of the pandemic the Bank formed a specific internal team to manage the emergency, keeping in constant contact with the Italian Banking Association and the Region of Friuli Venezia Giulia. CiviBank immediately confronted the problem of protecting its employees against infection with the coronavirus by adopting flexible working arrangements using new technologies and remote connections, where possible. Branch personnel were equipped with all necessary protective equipment and meet with customers by appointment during reduced hours. Meetings and training courses are held online only and the cleaning of bank premises has been intensified, combined with specific disinfection of surfaces. At both the Cividale head office and branches mechanical ventilation is in place to regularly change out and purify the air. In addition, we contracted a health insurance policy to protect employees in the event of hospitalisation relating to Covid-19.

Finally, we have not forgotten those who are working on the front lines of this emergency: the doctors, nurses and other healthcare personnel dedicated tirelessly to caring for those suffering from the coronavirus and other conditions. We sought to provide tangible support to the Department of Anaesthesia and Intensive Care of the Udine Health Authority by donating €50 thousand for the purchase of medical equipment (a donation in which the CiviBank Employees Club also participated), supporting a charitable initiative launched by Confindustria Udine. We have also promoted and supported other important initiatives to purchase personal protective equipment (above all face masks), sanitisation devices, medical diagnostic equipment and instruments to facilitate the work done by operators.

Financial highlights and balance sheet ratios

BALANCE SHEET DATA (thousands of euro)	31/12/2019	31/12/2018	Change %
Financial assets - securities and derivatives	1,143,610	912,344	25.3%
Loans to customers	2,832,876	2,673,027	6.0%
Total assets	4,337,840	3,879,397	11.8%
Direct funding	2,697,388	2,578,939	4.6%
Indirect funding	1,126,978	1,029,095	9.5%
- of wich: Assets under management	906,365	812,278	11.6%
Total funding	3,824,366	3,608,035	6.0%
Shareholders' equity	284,920	274,018	4.0%

Reclassified balance sheet

ASSETS (thousands of euro)	31/12/2019	31/12/2018	Change %
Cash and cash equivalents	118,579	29,747	298.6%
Financial assets measured at fair value through profit or loss	35,660	29,710	20.0%
Loans to customers	*14,613*	*14,156*	*3.2%*
Securities and derivatives	*21,047*	*15,554*	*35.3%*
Financial assets measured at fair value through other comprehensive income	167,107	318,469	-47.5%
Securities	*167,107*	*318,469*	*-47.5%*
Financial assets measured at amortised cost	3,802,116	3,290,966	15.5%
Due from banks	*28,397*	*53,774*	*-47.2%*
Loans to customers	*2,818,263*	*2,658,871*	*6.0%*
Securities	*955,456*	*578,320*	*65.2%*
Investments in associates and companies subject to joint	3,190	3,769	-15.4%
Property, plant and equipment and intangible assets	89,561	76,612	16.9%
Owned	*74,211*	*76,612*	*-3.1%*
Rights of use acquired with leases - IFRS 16	*15,350*	*-*	*N.S.*
Tax assets	71,247	74,706	-4.6%
Other assets	50,380	55,416	-9.1%
Total assets	**4,337,840**	**3,879,397**	**11.8%**

LIABILITIES (thousands of euro)	31/12/2019	31/12/2018	Change %
Due to banks measured at amortised cost	1,266,666	928,844	*36.4%*
Due to customers measured at amortised cost	2,685,040	2,509,157	*7.0%*
Securities issued measured at amortised cost	12,348	69,782	*-82.3%*
Financial liabilities held for trading	125	168	-25.2%
Tax liabilities	2,379	3,544	-32.9%
Other liabilities	78,051	81,292	-4.0%
of which lieasing liabilities - IFRS 16	*15,580*	*-*	*N.S.*
Specific provisions (1)	8,310	12,591	-34.0%
Shareholders' equity (2)	284,920	274,018	4.0%
Total liabilities	**4,337,840**	**3,879,397**	**11.8%**

(1) The aggregates include items "90. Employee termination benefits" and "100. Provisions for risks and charges";
(2) The aggregate includes items "110. Valuation reserves," "130. Equity instruments," "140. Reserves," "150. Share premium," "160. Share capital", "170. Treasury shares," and "180. Net income (loss) for the year".
Amounts payable to institutional counterparties (Cassa Compensazione e Garanzia) have been reclassified from "Due to customers" to "Due to banks".

Reclassified income statement

RECLASSIFIED INCOME STATEMENT (thousands of euro)	31/12/2019	31/12/2018	Change %
Net interest income	60,472	60,430	0.1%
Net commissions	32,551	30,022	8.4%
Dividends	160	10,538	-98.5%
Net trading income	2,008	(739)	*N.S.*
Other operating income (expenses) (3)	584	657	-11.1%
Operating income	**95,774**	**100,907**	**-5.1%**
Personnel expenses	(41,994)	(41,157)	2.0%
Other administrative expenses (1)	(18,330)	(20,060)	-8.6%
Net impairment/write backs on property, plant and equipment and intangible assets (2)	(4,878)	(2,705)	80.4%
of which right of use depreciation - IFRS 16	*(2,074)*		N.S.
Operating cost	**(65,202)**	**(63,922)**	**2.0%**
Income (loss) from operating	**30,572**	**36,985**	**-17.3%**
Charges/write-backs on impairment of loans	(25,847)	(25,055)	3.2%
Charges/write-backs on impairment of other financial assets	697	(11)	N.S.
Charges/write-backs on impairment of equity investments	(79)	-	-
Goodwill impairment	-	(2,190)	-100.0%
Profit (loss) on disposal of investments	(70)	67	-205.3%
Net provisions for risks and charges	1,926	(5,653)	N.S.
Income (loss) before tax from continuing operations	**7,199**	**4,144**	**73.7%**
Tax on income from continuing operations	(2,123)	367	N.S.
Levies and other charges concerning the banking industry after tax	(2,342)	(2,468)	-5.1%
Net income	**2,733**	**2,043**	**33.8%**

(1) Other administrative expenses include recoveries of taxes and duties and other recoveries recognised under "200. Other operating income/expenses" (€7,644 thousand in 2019 and €7,383 thousand in 2018);
(2) Net adjustments to property, plant and equipment and intangible assets include items "180. Charges/write-backs on impairment of property, plant and equipment" and "190. Charges/write-backs on impairment of intangible assets."
(3) Other income and expenses correspond to operating income/expenses net of the reclassifications presented above.

BALANCE SHEET RATIOS	31/12/2019	31/12/2018
Indirect funding from customers / Total funding	29.5%	28.5%
Assets under management / Indirect funding from customers	80.4%	78.9%
Direct funding from customers / Total liabilities	62.2%	66.5%
Loans to customers / Direct funding from customers	105.0%	103.6%
Loans to customers / Total assets	65.3%	68.9%

CREDIT RISK INDICATORS	31/12/2019	31/12/2018
Bad Loans / Loans to customers	6.8%	10.8%
Net bad loans / Loans to customers	2.4%	4.2%
Cost of risk / Income (loss) from operating	78.2%	80.3%
Net bad loans / Regulatory capital	23.8%	38.1%
Bad loans hedging	12.4%	17.4%
Net Bad loans hedging	6.5%	9.5%
Other impaired loans hedging	50.6%	50.8%
Cost of credit	-0.91%	-0.90%

Profitability ratios	31/12/2019	31/12/2018
Net interest income/Operating Income	63.1%	59.89%
Net commision income/Operating Income	34.0%	29.75%
Cost/income	68.1%	63.35%
Net income for the period/Total Assets	0.06%	0.05%
Net income for the period/RWA	0.12%	0.36%

Productivity ratios	31/12/2019	31/12/2018
Operating cost / N° of employees	107	108
Operating income / N° of employees	157	170
Loans to customers / N° of employees	4,652	4,508
Direct funding / N° of employees	4,429	4,349

Structure ratios	31/12/2019	31/12/2018
Loans to customers / Total net assets	65.3%	68.90%
Direct funding / Total net assets	62.2%	66.48%
Assets under management / Indirect funding from customers	80.4%	78.93%
Loans to customers / Direct funding from customers	105.0%	103.65%
Total assets / Shareholders' equity	1522.5%	1415.74%

OPERATING STRUCTURE	31/12/2019	31/12/2018
N° of employees	609	593
Branches	64	64

Basic Earning per share	31/12/2019	31/12/2018
Adjusted attributable profit	2,733	2,043
Weighted average number of shares	16,971,085	16,971,085
Basic Earning per share	**0.16**	**0.12**

SOLVENCY RATIOS	31/12/2019	31/12/2018	Change
Risk weighted assets (Rwa)	2,188,699	2,152,267	36,432
Common Equity Tier 1 capital	298,496	287,730	10,766
Total own funds	298,496	292,050	6,446
CET1 capital ratio	13.64%	13.37%	27
- Total capital ratio	13.64%	13.57%	7
Common Equity Tier 1 capital - fully phased	*276,576*	265,204	11,372
Total own funds- fully phased	*276,576*	269,525	7,051
CET1 capital ratio - fully phased	*12.81%*	12.52%	2883.31%
Total capital ratio - fully phased	*12.81%*	12.73%	843.07%

OTHER ECONOMIC INFORMATION*	31/12/2019	31/12/2018
Operating cost / Operating income (cost income ratio)*	68.1%	63.3%

** Normalised to exclude BRRD/Interbank Deposit Protection Fund contribution costs.*

Directors' report on operations

The macroeconomic scenario[3]

The international economy

The growth of the world economy has remained modest and the risks for global growth continue to be oriented towards the downside. The agreement between China and the United States has reduced the economic tensions between the two countries, but the tariffs in effect remain high. Among the main emerging economies, in China stabilisation is on the horizon, after the slowdown seen in the summer months. In Brazil and Russia, the macroeconomic scenario shows modest growth, versus declining growth in India. The latest estimates published by the OECD indicate an increase in global GDP of 1.8% in 2019. Economic activity continues to be burdened by weak global trade. The main risk factors include the risk of tensions between the United States and Iran and concerns of further slowing of the Chinese economy. The United Kingdom's withdrawal from the EU (Brexit), implemented on 17 October 2019, involves a transitional period set to end on 31 December 2020.

Euro Area

Growth slowed in the Euro Area. In the third quarter of 2019, GDP increased by 0.3% in real terms on the previous period, following an increase of 0.2% in the previous quarters (Figure 1). The moderate growth reflects a weakness in trade and the uncertainties that penalised the manufacturing sector in particular and slowed investment growth. The most recent economic data point to growth stabilising in the Euro Area. Inflation, as measured by the IAPC (Harmonised Consumer Price Index), rose to 1.3% in December 2019 from 1.0% in November. Over the medium term, inflation is expected to climb due to the ongoing economic expansion and the ECB's monetary policy measures.

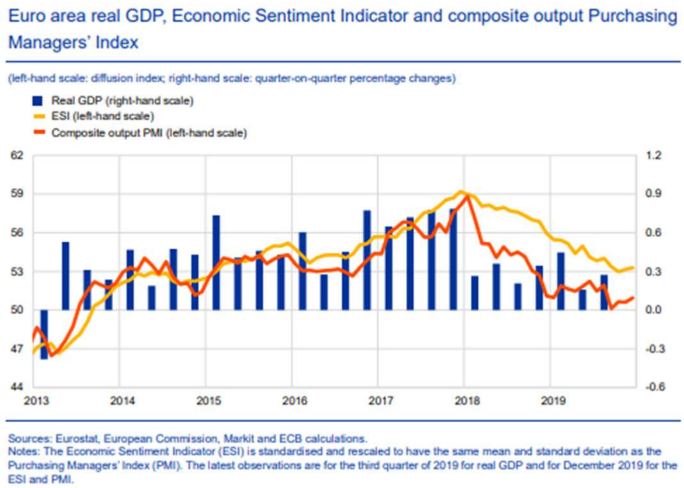
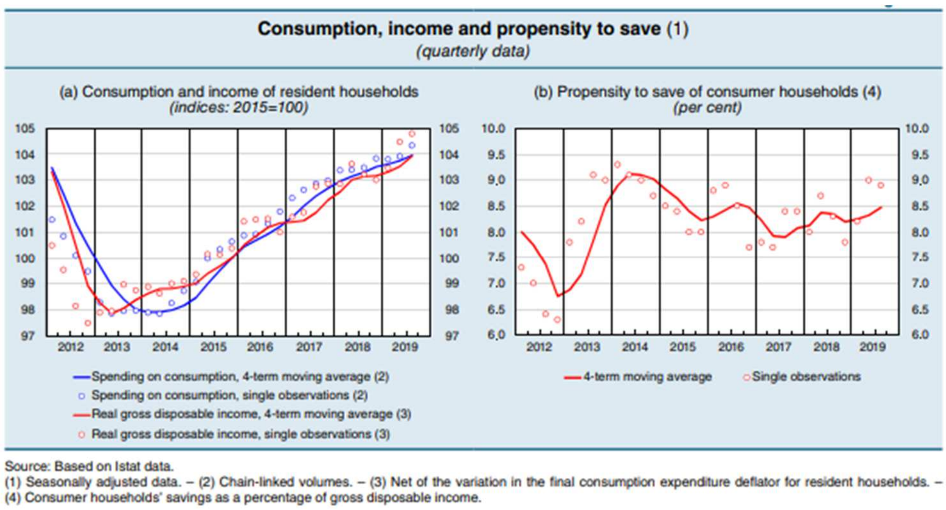


Figure 1

The Italian economy

In the third quarter, GDP increased by 0.1%, driven by domestic demand and household spending. The most recent information indicates that Italian GDP remained essentially unchanged. If the weakness in manufacturing and other sectors of the economy were to persist, the assessment could be lower. Industrial activity is stationary as the attitude remains cautious and an unfavourable view continues to be taken of the general economic situation, above all by service companies. Total corporate debt remained stable as a percentage of GDP, yet well below the Euro Area average. Activity in the construction sector is believed to have expanded, albeit to a moderate degree. Home purchases also rose.



Source: Based on Istat data.
(1) Seasonally adjusted data. – (2) Chain-linked volumes. – (3) Net of the variation in the final consumption expenditure deflator for resident households. – (4) Consumer households' savings as a percentage of gross disposable income.

Figure 2

Household consumption, and in particular purchases of durable and semi-durable goods, increased. Purchasing power rose by 0.3% and the savings rate

[3]Sources: The Bank of Italy's Bollettino Economico.
ECB's *Economic Bulletin.*

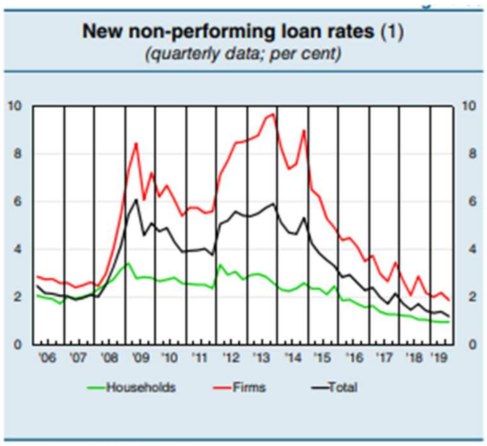
remained around 9% (Figure 2). On the job market, employment increased (59.2%), as did the number of hours worked per employee, above all in construction. There was a decline in the growth rate of contractual remuneration.
In Italy, inflation remained very low due to energy product prices. Inflation expectations decreased slightly, indicating a price increase of 0.6% in the following 12 months.

Banking

According to the most recent survey of bank credit in the Euro Area (the Bank Lending Survey), the terms offered by lenders for new loans were loosened slightly; Banks have a greater tolerance for risk. The negative rate on deposits with the ECB facilitates a lower cost of bank credit and supports loan volumes.

In the third quarter, the flow of new non-performing loans as a percentage of total loans declined (1.2%) (Figure 3), while the loan loss rate remained essentially unchanged. Non-performing loans continued to decline as a percentage of total loans granted by significant banking groups, in line with the plans presented by banks to the ECB and the Bank of Italy.

Yields on bonds issued by Italian non-financial companies and banks remained essentially unchanged. The yield spread with respect to the corresponding German bonds expanded to a lesser degree.



Source: Central Credit Register.
(1) Annualized quarterly flows of adjusted NPLs in relation to the stock of loans at the end of the previous quarter net of adjusted NPLs. Data seasonally adjusted where necessary.

Figure 3

The cooperative banking system[4]

For cooperative banks, 2019 was an important year: the picture is overwhelmingly positive, with the prospect of further growth in the future. 60 member banks, 186 service companies and 256 correspondent banks; approximately 4,000 branches with 500,000 shareholders and over 6 million customers. Assopopolari reports funding and asset inflows of €260 billion and the €230 billion of loans to customers disbursed. The activities carried out, designed to reduce problem positions, resulted in a 50% reduction in such loans and an increase in deposits (+4%). The latest figures indicate a 1.6% rise in loans, a 4.8% increase in deposits and new mortgage loans of €18 billion for SMEs and of €10 billion for households. Cooperative banking activity focused on developing and supporting the real economy, and in particular on smaller companies, resulting in the reinforcement of personal loans and home purchase financing for households. It should be noted that the cooperative banks boast capital requirements in excess of the minimum levels set by the European Central Bank.
In order to meet efficiency and functionality goals, two years ago member banks chose to form a company, Luigi Luzzati, which allowed them to consolidate their performances through three securitisation transactions of approximately €3.5 billion and loan sales of €400 million. Cooperative banking is a phenomenon that extends well beyond the borders of Italy: it is a growing, increasingly broad global trend that is supporting the real economy and economic recovery.

The Banca di Cividale branch network

The Bank's branch network consisted of 64 operational branches at 31 December 2019.

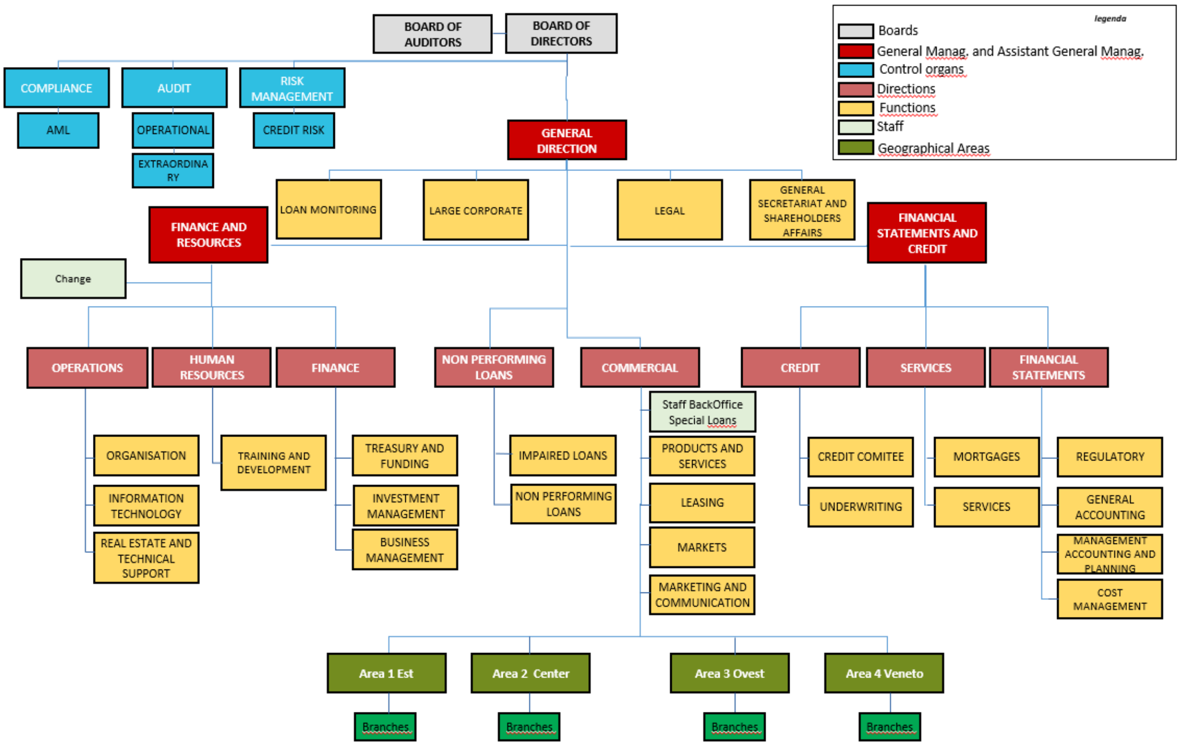
4 Source: Italian National Association of Cooperative Banks: *La Rivista Credito Popolare* 3/2019

The Bank has a presence in seven provinces in the regions of Friuli Venezia Giulia and Veneto, distributed as follows:

- 34 in the province of Udine;
- 9 in the province of Pordenone;
- six in the province of Gorizia;
- five in the province of Treviso;
- five in the province of Venice;
- three in the province of Trieste;
- one in the province of Belluno; and
- one in the province of Vicenza.

Organisational structure

The following chart shows the basic organisational structure of Banca di Cividale S.c.p.A.:



Human resources

At 31 December 2019 the human resources of Banca di Cividale S.c.p.A. numbered 609, compared to 593 at 31 December 2018.

During the year, 37 employees were hired and 21 left service. The sales network (branches) employs a staff of 423, representing 69.5% of the total headcount.

Human resources statistics

Classification of staff by professional category:

	31.12.2019			31.12.2018		
	Men	Women	Total	Men	Women	Total
Senior managers	8	2	**10**	9	1	**10**
Middle managers	190	52	**242**	186	47	**233**
Middle managers – part time	-	8	**8**	-	9	**9**
3rd professional area	155	138	**293**	150	134	**284**
3rd professional area – part time	3	44	**47**	3	47	**50**
2nd professional area	3	6	**9**	1	6	**7**
Total	**359**	**250**	**609**	**349**	**244**	**593**

Incoming and outgoing personnel:

	Staff 31.12.2019			Staff 31.12.2018		
	Men	Women	Total	Men	Women	Total
Hirings	24	13	**37**	13	13	**26**
Seconded employees	2	-	**2**	2	-	**2**
Terminations	14	7	**21**	9	9	**18**

Breakdown of workforce by age, gender and education:

	31.12.2019			31.12.2018		
	Men	Women	Total	Men	Women	Total
No. of employees by gender	359	250	**609**	349	244	**593**
Percentage of employees by gender	58.9%	41.1%	**100.0%**	58.9%	41.1%	**100.0%**
Average age (years)	47.54	44.10	**45.82**	47.72	43.64	**45.68**
Level of education						
University degree	170	125	**295**	162	118	**280**
Secondary school diploma	182	123	**305**	180	124	**304**
Other	7	2	**9**	7	2	**9**

Breakdown of workforce between headquarters and branch network:

	Number of employees			
	31/12/2019	%	31/12/2018	%
Headquarters	186	30.5%	187	31.5%
Branch network	423	69.5%	406	68.5%
Total	**609**	**100.0%**	**593**	**100.0%**

Training

The 2019 Training Plan was drafted based on the guidelines set out in the three-year Strategic Plan. In further detail, training programmes were implemented with the aim of: bringing current skills into line with the strategic skills identified in the plan and requested by the market; disseminating the knowledge present within the company to achieve uniform behaviour; and disseminating company values and objectives.

Training activity for sales network personnel was focused above all on refreshing knowledge in the area of investment and insurance services, in accordance with the reference regulations issued by IVASS and CONSOB. In 2019 the Bank's structured training process resulted in the provision of 27,995 hours of training, with an average training commitment per person of 45.59 hours. For statistical purposes, it should be noted that the figures cited have been calculated on the basis of the headcount as at 31/12/2019.

Document on compensation policies

The general principles of the governance provisions issued by the Bank of Italy place especial emphasis on the mechanisms for providing compensation and incentives to bank strategic supervision and control body members, management, employees and contractors, and state that those mechanisms are among the key factors to fostering the competitiveness and governance of banks, in addition to being a means of attracting and retaining employees with professional skills and expertise suited to the company's needs.

Such compensation mechanisms are to be inspired by the principles of sound, prudent risk management policies and are to be consistent with long-term company strategies and objectives. Supervisory regulations

thus envisage that personnel compensation policies, including any plans based on financial instruments (e.g., stock options), be subject to approval by the shareholders' meeting.
The shareholders' meeting is thus called upon to approve the Compensation Policies for 2019. This document provides a detailed account of the compensation and incentive policies of Banca di Cividale and the principles of propriety, fairness and transparency upon which those polices are founded, in accordance with the Bank's business philosophy, which aims to create sustainable economic, but also social, value in the medium term.
In response to the supervisory provisions, this document envisages that a part of the variable compensation of key staff is to be paid in financial instruments, specifically the Bank's shares. Detailed information about compensation policies will be provided during the shareholders' meeting.

Bonus and incentive system
Within the framework of human resource management policies, bonuses (of a fixed and variable nature) were awarded during the year as recognition for the professionalism and the qualitative and quantitative performance of personnel.

Non-financial reporting (NFR)

In accordance with Article 5 (3) (b) of Legislative Decree No. 254/2016, the Bank has prepared a separate non-financial report, to which the reader is referred. The 2019 non-financial report, drafted in accordance with the GRI reporting standard (Sustainability Reporting Guidelines), 'in accordance - core' option, is available from the "Sustainability" section of the Bank's website.

Corporate management and the pursuit of a common objective

The shareholders
There were 14,551 shareholders in total as at 31 December 2019.

Annual report on the mutual nature of the cooperative and corporate social responsibility

The above report, in addition to discharging the obligation imposed by the reformed text of Article 2545 of the Italian Civil Code, represents an important opportunity to provide shareholders with objective, measurable data that certify that the Bank's operations are consistent with the mutual spirit of the Company as envisaged in Article 3 of the Articles of Association. In other words, the report allows the Bank to provide further evidence that the cooperative model is well suited, even in the current competitive scenario, to meeting the needs of economic, moral and cultural promotion expressed by the society and communities in which the Bank operates.
Banca di Cividale combines an entrepreneurial approach with a socially responsible way of doing business, as outlined in its Articles of Association, which establish the spirit of mutual aid that inspires the Bank in responding to the need for economic, moral and commercial promotion expressed by the community and social context in which the Bank operates. In its endeavours, the Bank is inspired by the principles of lawfulness, loyalty, propriety and transparency as it pursues its primary goal of creating value for its shareholders, customers, employees and local communities at large.
In 2019 the Board of Directors continued to steer the institution's operations towards a primary focus on shareholders. Shareholders are of central importance since they are also customers of the Bank. The twofold role of shareholder and customer is an advantage that emphasises the bond of trust and strengthens the mutual orientation of commercial initiatives.
Article 3, paragraph 3, of the Articles of Association expressly states that "in accordance with its institutional goals, the Company shall provide its shareholder-customers with access to specific services under privileged conditions, just as it shall give preference to its shareholders in issuing loans, all other conditions being equal."
Putting the concept of the mutual nature of a cooperative bank into practice is just one of the goals of the initiatives designed to benefit shareholders. The other aims pursued by these initiatives are:

- ✓ putting a more concrete value on being a shareholder as well as a customer of Banca di Cividale, through tangible benefits;
- ✓ improving the sense of being a part of the shareholder structure;
- ✓ expanding the social foundation in the Bank's local community, in view of increased loyalty.

During 2019, the Bank continued to pursue the principles and objectives enunciated above by offering shareholders financial and banking products at economic conditions more favourable than the standard terms. The advantages offered to shareholders include:

- ✓ special conditions for fees for registration in the shareholder register;
- ✓ special conditions for the custody and administration of the Bank's shares;
- ✓ special conditions for loans to consumer shareholders;

- ✓ special conditions for the CiviPrestito Scuola & Sport children's educational programmes;
- ✓ special conditions for home mortgage loans for consumer shareholders.

In 2019, three additional initiatives were added to these benefits, updated annually:

- ✓ ECOprestito Bike: the consumer credit programme in which Banca di Cividale contributes the implementation of initiatives aimed at energy-savings and overall improvement in the quality of the environment and local community by promoting bicycle purchase and use among its customers. ECOprestito Bike 2019 provided the Bank's shareholders with access to more favourable economic conditions than offered to ordinary customers.
- ✓ Pension Fund Scholarships: in 2019 the Bank set aside a maximum of €30,000 for the award of 40 scholarships to particularly meritorious student shareholders and children of shareholders, to be allocated to the creation of a position with the Arca Previdenza Pension Fund with the aim of promoting investment education and contributing to the development of a culture of retirement saving among young people and their families, in addition to rewarding deserving students.
- ✓ Healthy shareholders: an agreement with the "Città di Udine" Clinic offering discounts on private healthcare services.

In addition to existing initiatives and offers tied to the Bank's products and services, shareholders are able to obtain a large number of products and services offered by members of the local community under special conditions: shopping, dining, travel, well-being, health, cars, leisure time and much more. In order to qualify for such discounts, shareholders merely need to display their personal BPC Club cards to participating merchants (a full list of participating merchants is available from the dedicated website, soci.civibank.it.).
Yet it is not only initiatives aimed at shareholders that bear witness to the Bank's pursuit of the mutual objectives envisaged in its Articles of Association. The focus on the local community's needs is borne out by a number of initiatives aimed at providing social, cultural, athletic, solidarity and environmental support. Most such initiatives contribute to the lives of hundreds of entities and associations spread throughout the territory, giving rise to intense activity with an important effect on local communities.

Main aspects of commercial activity

Commercial and marketing policy

In 2019 the Bank continued to implement its commercial policy, involving initiatives aimed at helping bank branches reach their targets within the framework of direct, transparent relations with their customers.
The Bank also restyled its products and services portfolio effectively, while also launching new products, frequently updating their terms over the year in line with market developments.
The initiatives carried to completion during the year allowed the Bank to strengthen its customer relations, through intense cross-selling and customer loyalty programmes.

Products and services for individuals and families

The Bank's line of products and services for individuals and families can be divided into four general areas: payment and services, credit, personal and wealth protection and savings and investment.

Payment and service products

The Bank's diversified range of current account solutions, aimed at satisfying customers' specific needs, continued to contribute to increasing the number of new customers who decided to choose our Bank. The number of active bank accounts rose by over 1,000, giving rise to a 1% increase in the Bank's customers.
Customers also continued to make increasing use of the Bank's online information and transaction services, securely, 24 hours a day, from home or various mobile devices (PCs, tablets and smartphones). At the end of the year, there were over 45,000 active users of the various services (single-bank Internet banking and multi-bank CBI active and passive services), an increase of 6% on the previous year. The security safeguards in place remained effective, as witnessed by the very modest level of fraudulent activity, due to non-compliance with basic security measures by certain users. The payment card segment continued to perform well in 2019. There are over 40,000 Bancomat® Maestro debit cards in issue, around one-third of which are already equipped with contactless technology, now also available on the PagoBancomat® circuit.
Total active Nexi credit and prepaid cards reached 32,000 (up by 4%), with growth driven by the CiviPay prepaid cards, up by 10%.
In 2019 the Easy Shopping service was rolled out, allowing deferral of purchases of over €250 by credit card, along with Apple Pay for iOS devices, rounding out the range of mobile payment services. CiviBank is now fully operational, covering the entire market range of personal devices (smartphones and smartwatches), allowing customers to make payments without physical card use, via both physical commercial merchant

terminals and online channels. The apps may also be used to maintain full control of payment card transactions and receive payment notifications. In the fourth quarter of 2019, the new Nexi Debit card also began to be distributed, allowing fully secure operation in all possible modes, including physical card use, remote operation and personal devices. The number of POS terminals installed on merchants' premises reached 3,800, up by 4% on the previous year, with transaction volumes rising to €184.7 million (+12.1%).

Consumer credit

In 2019 the Bank continued to focus on maintaining credit offerings appropriate to the needs of households, primarily in order to ensure access to home ownership.

To support and facilitate access to home mortgage credit, customers meeting the requirements continued to make use of the Primary Residence Mortgage Guarantee Fund (Law No. 147/2013), which provides families with free government guarantees for home mortgage loans.

This programme, which is available nationwide, is in addition to the aid available in Friuli Venezia Giulia: subsidies for first home purchases, applications for which may also be submitted directly to the Bank's branches, and the Regional Residential Construction Guarantee Fund, which offers a guarantee for a portion of first home mortgage loans, also at no cost to the families benefiting from the measure.

Thanks to these guarantee schemes, the Bank continued to grant loans, frequently increasing the eligible credit limit up to 100% of the price of purchase or value of the property, thereby considerably facilitating access to homes for many families.

In order to aid families struggling to make their mortgage payments, the Bank also continued active implementation of policies aimed at facilitating mortgage renegotiation, including through the suspension of repayment of the principal portion of instalments for up to twelve months, and/or extension of loan terms, with reduction of the repayment commitment.

This policy is implemented both within the framework of nationwide banking industry initiatives and through measures designed in response to specific, justified individual situations.

In the personal loan segment, commercial offerings were characterised by the launch of a new line of products, Civiprestito, and a revamping of credit products intended for energy saving initiatives and improving the energy efficiency of buildings, under the name Ecoprestito.

In 2019 the volume of mortgage loans issued for home purchases or renovations to consumer households stood at €155 million. The total personal loans issued in 2019 amounted to approximately €18.5 million, in addition to the volumes of new loans to households disbursed in collaboration with Deutsche Bank and Agos of €14.6 million, bringing the total consumer credit granted to local families to €33.1 million.

Individual and wealth protection products

In 2019 a productive collaborative relationship continued with the Swiss insurance group Helvetia in the non-life bancassurance business, alongside the distribution of the products of the Trento-based ITAS Group. The products strengthened the focus on individual and wealth protection, primarily involving protection for borrowers against serious external events (death, disability or loss of employment) that could jeopardise their ability to meet their obligations to repay mortgage and other loans. The total premiums collected in 2019 amounted to €4.7 million.

Loans to businesses

During the year, initiatives to facilitate access to credit by small and medium enterprises continued. The Department’s offices continued to provide technical advice and support to the distribution network in order to facilitate and encourage the completion of the various lending procedures.

Mention should be made of the commencement of direct operations with the SME Guarantee Fund (Law No. 662/1996), which facilitates access to credit for SMEs through public guarantees, with costs borne by the Bank, resulting in the granting of new loans to businesses of €24 million. Further support for credit was provided by collaboration with the guarantee consortia system. New loans disbursed thanks to guarantees provided by the guarantee consortia for Friuli Venezia Giulia and Veneto came to approximately €64 million.

The agreement with the European Investment Bank (EIB) allowed additional resources a total of €23 million to be obtained, used to provide financing to SMEs at competitive interest rates, thanks to the financial advantage conferred by the EIB.

The Bank's enhanced efforts to promote the various subsidised credit instruments made available by the region of Friuli Venezia Giulia yielded significant results, bringing additional public resources directly into various sectors of the economy.

The primary sector benefited from a total of €12.7 million disbursed drawing on the revolving funds for agriculture pursuant to Regional Law No. 80/1982. The new agreement that also allows subsidised loans to be

granted drawing on FEASR Community funds became operational during the year, thereby expanding the resources available to businesses to undertake new investments.
Subsidised lending to industry, artisans, commerce and services showed a significant rise in the flow of new loans. In management of the resources of the Revolving Fund for Economic Initiatives (FRIE) and the Fund for the Development of SMEs and Services, the Bank submitted total applications for new loans of €114.5 million, representing a significant share of the total of the Friuli Venezia Giulia region as a whole.

Savings and investment products
In 2019 investment products met with increasing interest among investors in sync with the increasingly robust performance of financial markets, which more than recovered from the bear market that had characterised the previous year.
In fact, in spite of the uncertainty surrounding the tariff dispute between the United States and China and the development of the Brexit issue, financial markets all benefited from the accommodating stance taken by the main central banks on both interest rates and the quantitative easing measures restored during the year.
In continuity with 2018, the Bank's commercial and consulting efforts were particularly focused on asset management solutions, which saw an increase in assets under management of more than €94 million, of which €62 million attributable to net inflows.
In particular, in 2019 the Civibank range of asset management solutions was revised and expanded, with important partnership agreements reached with major managers and external advisors. The expansion of the range of solutions available to the Bank's customers and financial advisors also provided a new impetus to the aforementioned asset management service.
There was also strong growth in the bancassurance segment in 2019 due in part to the expansion of the range of insurance products available to customers.
In customer liquidity solutions, mention should be made of the positive performance of deposit accounts, which continue to meet with strong approval from customers, confirming their conservative approach in pursuit of liquidity and security.
Also noteworthy was the development of inflows through the Internet channel, both on the Italian domestic market through ContoGreen, which exceeded €100 million of total funding, and through international funding from German customers, via the fintech company Raisin, whose contribution in terms of additional volumes in 2019 was €56 million, for total volume of €142 million.
The CiviBanker and CiviPrivate financial advisors network was further expanded by the opening of new branches in the cities of Oderzo, Vicenza and Castelfranco Veneto.

Changes in the organisational structure and procedures

In 2019 technological and user support solutions continued to be revamped, involving the preparation of a long-term plan for installing advanced ATMs and TCRs (teller cash recyclers), which will progressively expand customer services, enabling self-service cash transactions outside of normal branch business hours at an increasingly large number of branches throughout the territory.
During the year IT security safeguards were audited and enhanced both internally and by the outsourcer, in order to take account of, among other considerations, strategic decisions made to increase the presence on the market by offering products and services not only through traditional channels, but also via the digital channel, with a particular focus on IT security.
In the payment systems area (PSD2), projects were completed for the implementation of new strong customer authentication (SCA) solutions for accessing home banking service and additions to the third-party interface platform to open up new channels for showcasing banking services (Open Banking by SIA S.p.A.).
Project initiatives for managing fraud reporting in accordance with the timeframes established by reporting obligations are nearing completion and anti-fraud mitigation measures are being reinforced with specific solutions to combat increasingly frequent and sophisticated threats in the arena of cyber-attacks on online transactions.
In order to raise sensitivity and awareness in the specific area of IT security, specific training and awareness-raising initiatives were also launched for both head office management personnel, more involved in oversight and control activities, and the network, in its customer relations management role.

Significant events during the year

The following is an account of the most important events that shaped the Bank's operations in 2019, in chronological and logical sequence.

2019-2022 Strategic Plan

The new 2019-2022 business plan was approved in March. The Strategic Plan's mission will be to remain independent and serve as a key partner to the households and businesses in the Triveneto region in order to promote social, economic and cultural growth in the local community.
In order to achieve its ambitious growth objectives, the new Strategic Plan also calls for a recapitalisation of up to €60 million, in addition to the assignment of bonus warrants to current shareholders, which will be more completely implemented once the current health emergency phase has come to an end.

Sale of Nexi

In 2019 Banca di Cividale sold its interest in Nexi within the framework of the transaction that led to the company's IPO. The sale generated a net capital gain with a positive impact on equity of €7.8 million.

Securitisation

During the year an additional performing residential mortgage loan sale was completed within the framework of the Civitas Spv S.r.l. - RMBS - 2017 securitisation, with the resulting increase in the residual value of the ABSs.
In addition, a new securitisation, designated Civitas Spv S.r.l. - SME - 2019, was also completed through a sale of loans granted to small and medium enterprises.

Sale of non-performing loans

In December a sale of non-performing loans (NPLs) was completed within the framework of the multi-originator securitisation designated POP NPLs 2019, backed by a guarantee issued by the Ministry of Economy and Finance ("GACS"), which entailed the transfer to third parties of all risks and benefits relating to the loan portfolio sold (derecognition).

Subsequent events

Health emergency tied to the spread of the Covid-19 (coronavirus) epidemic

On 30 January 2020 the World Health Organization declared the coronavirus epidemic a public health emergency of international concern. The epidemic broke out and China and then spread swiftly to other countries, including Italy, forcing the various governments to take measures designed to contain the risk of contagion.
From day one of the emergency, Civibank took strict preventive measures, adopting all the security protocols indicated in the various decrees and all the most appropriate additional precautionary measures designed to protect the health of its employees and customers, with an eye to also ensuring the Bank's smooth operational functioning. Important decisions were made quickly, such as shift scheduling for branch personnel and the widespread adoption of remote working.
At the same time, additional remote access methods were implemented for customers, expediting the introduction of new online features.
Measures were taken at the level of the credit system to support families and businesses at such a complex time, and the Bank adhered to these extraordinary initiatives.
Through these initiatives, the Bank sought to renew its pledge of close support for its customers and to pursue its mission as a local banking institution focused on supporting households and SMEs.
With regard to the accounting aspects of the aforementioned emergency, it should be noted that the Bank, in accordance with IAS 10 and the recent orientation from the ESMA, considers this phenomenon to be an event after the reporting date that does not result in a need for the adjustment of financial statement values (i.e., a "non-adjusting event"). In view of the uncertainties surrounding the impacts that the spread and duration of the epidemic will have on the international and Italian economy and the scope and efficacy of the measures implemented by governments and banking authorities to combat it and support the economy, businesses and households, it is not possible to provide a quantitative estimate of such impacts on the Bank's financial performance and financial position at this time.
These impacts will therefore be considered in the accounting estimates to be prepared in 2020 in light of the information that progressively becomes available.

With the exception of the foregoing, from the end of 2019 to the date of approval of this report there were no material events of a sort that would have a significant effect on either the financial performance and financial position of the Company or the representation thereof.

Operating performance in 2019

Analysis of main balance sheet aggregates and earnings results

In order to provide a more effective presentation of earnings results, in the reclassified balance sheet and income statement certain restatements have been applied with respect to the accounting schedules (the details of which are presented at the foot of each reclassified table).

Reclassified balance sheet

For the purposes of this financial report, amounts payable to institutional counterparties (Cassa Compensazione e Garanzia) have been reclassified from "Due to customers" to "Due to banks" (a total of €548,783 thousand at 31.12.2019 and €256,443 thousand in the comparative period).

ASSETS (thousands of euro)	31/12/2019	31/12/2018	Change %
Cash and cash equivalents	118,579	29,747	298.6%
Financial assets measured at fair value through profit or loss	35,660	29,710	20.0%
Loans to customers	*14,613*	*14,156*	*3.2%*
Securities and derivatives	*21,047*	*15,554*	*35.3%*
Financial assets measured at fair value through other comprehensive income	167,107	318,469	-47.5%
Securities	*167,107*	*318,469*	*-47.5%*
Financial assets measured at amortised cost	3,802,116	3,290,966	15.5%
Due from banks	*28,397*	*53,774*	*-47.2%*
Loans to customers	*2,818,263*	*2,658,871*	*6.0%*
Securities	*955,456*	*578,320*	*65.2%*
Investments in associates and companies subject to joint	3,190	3,769	-15.4%
Property, plant and equipment and intangible assets	89,561	76,612	16.9%
Owned	*74,211*	*76,612*	*-3.1%*
Rights of use acquired with leases - IFRS 16	*15,350*	*-*	*N.S.*
Tax assets	71,247	74,706	-4.6%
Other assets	50,380	55,416	-9.1%
Total assets	**4,337,840**	**3,879,397**	**11.8%**

LIABILITIES (thousands of euro)	31/12/2019	31/12/2018	Change %
Due to banks measured at amortised cost	1,266,666	928,844	*36.4%*
Due to customers measured at amortised cost	2,685,040	2,509,157	*7.0%*
Securities issued measured at amortised cost	12,348	69,782	*-82.3%*
Financial liabilities held for trading	125	168	-25.2%
Tax liabilities	2,379	3,544	-32.9%
Other liabilities	78,051	81,292	-4.0%
of which lieasing liabilities - IFRS 16	*15,580*	*-*	*N.S.*
Specific provisions (1)	8,310	12,591	-34.0%
Shareholders' equity (2)	284,920	274,018	4.0%
Total liabilities	**4,337,840**	**3,879,397**	**11.8%**

(1) The aggregates include items "90. Employee termination benefits" and "100. Provisions for risks and charges";
(2) The aggregate includes items "110. Valuation reserves," "130. Equity instruments," "140. Reserves," "150. Share premium," "160. Share capital", "170. Treasury shares," and "180. Net income (loss) for the year".

Loans to customers

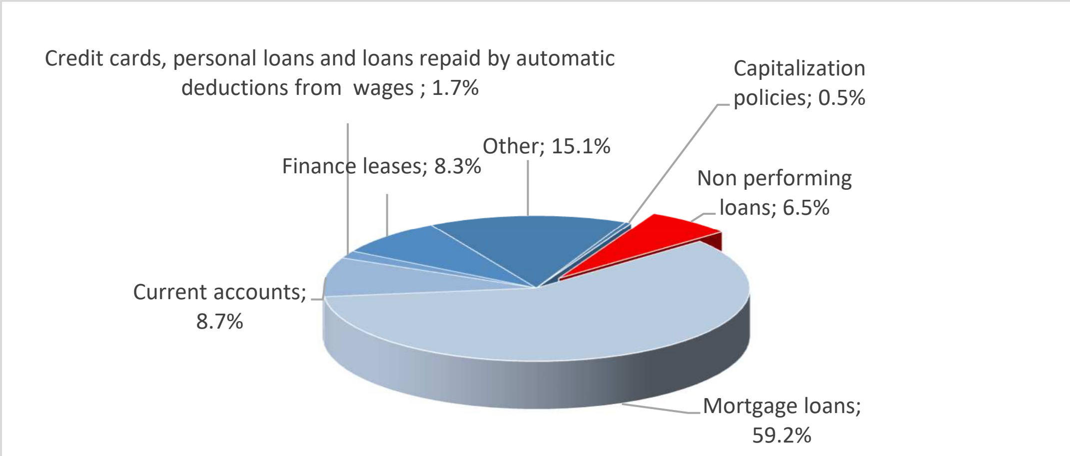
At 31 December 2019 **loans to customers** amounted to €2,832,876 thousand, up by 6.0% from €2,673,027 thousand as at 31 December 2018. Performing loans increased by 9.4%. During the year, total new disbursements exceeded €610 million. New loans to individuals and households for the year reached €205 million (+26.8% on the previous year), whereas new loans to businesses exceeded €405 million (+9.7% on 2018).

Breakdown of loans to customers - figures in thousands of euros

Errore. Il collegamento non è valido.

The table includes:
- ✓ item 40) Financial assets measured at amortised cost - letter b (excluding securities)
- ✓ Loans included in item 20) Financial assets designated at fair value through profit or loss mandatorily measured at fair value.

2019

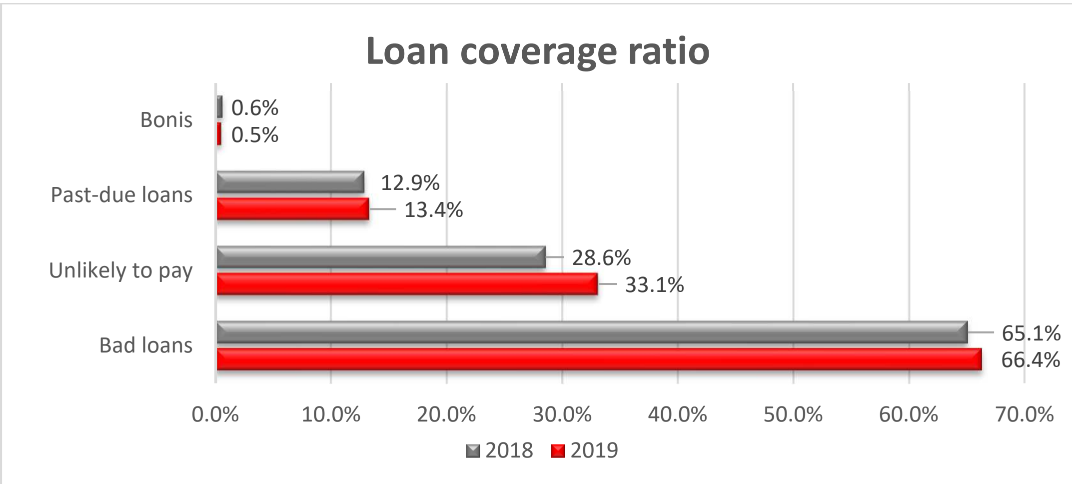


Quality of customer loans - breakdown

	Gross exposure	Specific writedowns	Portfolio writedowns	Net exposure	Hedging	Net exposure	Hedging
				31/12/19	*31/12/19*	*31/12/18*	*31/12/18*
A.1 Banca di Cividale Scpa							
Bad loans	206,341	136,937		69,404	**66.4%**	111,235	65.1%
Unlikely to pay	152,798	50,638		102,160	**33.1%**	127,646	28.6%
Past-due loans	15,977	2,133		13,844	**13.4%**	13,729	12.9%
Other assets	2,661,751	X	14,283	2,647,468	**0.54%**	2,420,417	0.6%
TOTAL A.1	**3,036,867**	**189,708**	**14,283**	**2,832,876**	**6.7%**	**2,673,027**	**9.3%**

The table includes:
- ✓ item 40) Financial assets measured at amortised cost - letter b (excluding Securities)
- ✓ Loans included in item 20) Financial assets designated at fair value through profit or loss mandatorily measured at fair value (including investment certificates of €13.6 million)

At the end of the period, non-performing exposures (NPEs), net of adjustments, amounted to €185,408 thousand, **down by 26.6%** on December 2018, with a coverage ratio of 50.6%. In detail, net non-performing exposures were €69,404 thousand, a **decrease of 37.6%** compared to December 2018, with a coverage ratio of 66.4% (65.1% in December 2018). Unlikely to pay exposures stood at €102,160 thousand, a **reduction of 20.0%** with respect to the end of the previous year, resulting in a coverage ratio of 33.1% (28.6% in December 2018), whereas past due exposures were €13,844 million (**up by 0.8%** compared to December 2018), with a coverage ratio of 13.4% (12.9% in December 2018).



Customer funding

Direct and indirect funding reached €3,824,366 thousand at the end of 2019, up by 6.0% on the previous year.

	31/12/2019	31/12/2018	Change	Change %
Direct funding	**2,697,388**	**2,578,939**	**118,448**	**4.6%**
Due to customers	2,685,040	2,509,157	175,882	7.0%
Debt securities issued	12,348	69,782	(57,434)	-82.3%
Indirect funding:	**1,126,978**	**1,029,095**	**97,883**	**9.5%**
Assets under administration	220,613	216,817	**3,796**	1.8%
Assets under management	906,365	812,278	**94,087**	11.6%
Total funding	**3,824,366**	**3,608,035**	**216,332**	**6.0%**

Direct funding

Direct funding from the Bank's customers comprises item 10.b “Due to customers” and item 10.c “Debt securities issued” on the liabilities side. At year-end, the aggregate amounted to €2,697,388 thousand, up by 4.6% compared to 31 December 2018.

Direct funding from customers – figures at 31 December 2019 in thousands of euros

	31/12/2019	31/12/2018	Change	Change %
Direct funding	**2,697,388**	**2,578,939**	**118,448**	**4.6%**
Due to customers	2,685,040	2,509,157	175,882	7.0%
Debt securities issued	12,348	69,782	(57,434)	-82.3%

The aggregate may be broken down into “Debt securities issued” (0.5%) and “Due to customers” (the remaining 99.5%). The reduction in the bond component was more than offset by the increase in term deposits, as shown by the following table, which indicates an increase of 31.9%.

Breakdown of “Due to customers” in thousands of euros

Breakdown	31/12/2019	31/12/2018	%
Current accounts and demand deposits	1,871,719	1,817,469	3.0%
Time deposits	514,426	390,126	31.9%
Other payables	298,895	301,561	-0.9%
Total	**2,685,040**	**2,509,157**	7.0%

Breakdown of “Debt securities issued” in thousands of euros

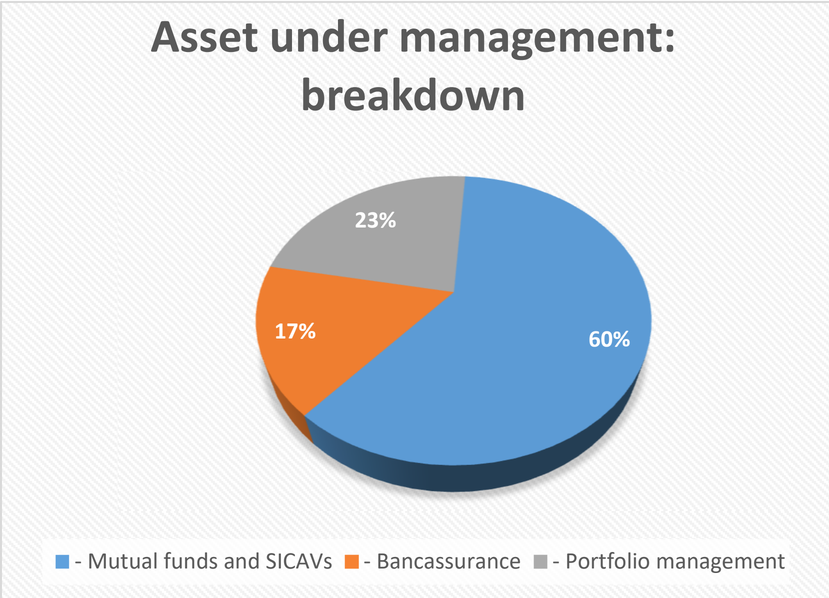
Breakdown	31/12/2019	31/12/2018	%
Bonds	12,348	69,654	-82.3%
Other	-	128	-100.0%
Total	**12,348**	**69,782**	-82.3%

Indirect funding and asset management

Indirect funding, which comprises assets under management and administration, came to €1,126,978 thousand at the end of 2019, an increase of 9.5%.

Indirect funding from customers – figures at 31 December 2019 in thousands of euros

	31/12/2019	31/12/2018	Change	Change %
Indirect funding:	**1,126,978**	**1,029,095**	**97,883**	**9.5%**
Assets under administration	220,613	216,817	**3,796**	1.8%
Assets under management	906,365	812,278	**94,087**	11.6%



An analysis of the components of indirect funding shows that assets under management came to €906,365 thousand at 31 December 2019, up by 11.6% compared to the previous year. This aggregate, which consists of mutual funds and SICAVs (open-end investment companies), bancassurance products and the securities- and funds-based portfolio management schemes operated by the Bank, accounted for 80.4% of total indirect funding at the end of 2019.

The largest percent increase may be attributed to the bancassurance products component, which rose by 15.0%, reaching €151,327 thousand, whereas investment funds and SICAVs increased by 11% or €53,931 thousand. The portfolio management component increased by 10.9%, or €20,469 thousand, compared to the previous year.

Interbank market activities

At 31 December 2019, the Bank's funding and lending activity on the interbank market had resulted in a net debt position of €1,119,690 thousand (compared to a net debt position of €845,322 thousand at 31 December 2018).

Interbank position	31/12/2019	31/12/2018	Assolute	Change %
Cash and cash equivalents	118,579	29,747	88,832	298.6%
Loans to banks	28,397	53,774	(25,377)	-47.2%
Due to banks	(1,266,666)	(928,844)	(337,822)	36.4%
NET INTERBANK POSITION	**(1,119,690)**	**(845,322)**	**(274,367)**	**32.5%**

TLTRO II – Targeted Longer Term Refinancing Operations

At 31 December 2019 ECB funding operations amounted to €593 million. TLTRO II operations, amounting to €556 million, have a fixed maturity of four years from disbursement (on the basis of four quarterly auctions starting in June 2016), with a benchmark rate of -0.4%.

In March 2019 the ECB's Governing Council announced a third series of targeted longer-term refinancing operations (TLTRO-III), which will be conducted with quarterly frequency from September 2019 until March 2021. For this series of transactions, €37 million has been requested, with maturity in December 2022. The award rate is equal to the rate of the main refinancing operations prevailing in the transaction (currently

0.0%). At the end of the observation period (March 2021), the application of a more favourable rate may be decided on the basis of net eligible loan performance.
In the 2019 financial statements, the interest accrued on the above liabilities totalled €2.2 million. Despite referring to financial liabilities, this interest has been recognised in the income statement among "Interest income".

Finance

Management of the Bank's liquidity and proprietary securities portfolio is entrusted to the Finance Service, which follows guidelines laid down by the Assets and Liabilities Committee (ALCO). According to the ALCO's directives, the Bank's proprietary securities portfolios are managed in close coordination with local funding and lending trends. The ALCO's periodic reports on the securities portfolio and liquidity, which are normally provided on a monthly basis, or whenever circumstances arise that may have a significant impact on the strategies in place, ensure that the performance, risk profile, risks and development guidelines for financial asset and liability management are constantly monitored.

Held-to-collect (HTC) portfolio
At year-end, the HTC portfolio amounted to €956,289 thousand and consisted primarily of government bonds, with a residual share of corporate bonds and ABSs measured at amortised cost and at fair value.

Held-to-collect-and-sell (HTCS) portfolio
At year-end, the HTCS portfolio amounted to €146,947 thousand and consisted of government bonds and corporate bonds measured at fair value.

Held-to-sell (HTS) portfolio
At year-end, the HTS portfolio amounted to €943 thousand measured at fair value and consisted of government bonds and corporate bonds.

Other comprehensive income (OCI) portfolio
At year-end, the OCI portfolio amounted to €18,485 thousand measured at fair value and consisted primarily of shares of CIUs. This portfolio is in addition to the portfolio of equity interests that do not constitute control, joint control or significant interests of €20,160 thousand.

Exposure to sovereign credit risk

Following the growing interest by the market in exposures held by companies in sovereign debt securities, and as recommended by the European Securities and Markets Authority (ESMA) in document no. 2011/226, below is a breakdown of exposures of this nature held by Banca di Cividale as at 31 December 2019. As indicated in the ESMA document, "sovereign debt" is understood to mean bonds issued by central and local governments and governmental entities, as well as loans disbursed to such entities.
The following tables present the Bank's exposure to sovereign credit risk by carrying amount, broken down by type of instrument.

Exposure to sovereign debt - book value (€/thousands)	Italy
Financial assets measured at fair value through profit or loss	**878**
a) financial assets held for trading	878
Financial assets measured at fair value through other comprehensive income	**133,000**
Financial assets measured at amortised cost	**909,419**
b) loans to customers	909,419
Total	**1,043,297**

Liquidity and the proprietary securities portfolio
The main macroeconomic forecasts for 2019 contemplated a scenario of slowdown with considerable downside risks for the main global economies, such as those of the U.S. and China. Within this scenario, the role of central banks has proved decisive and has been characterised by accommodating monetary policies and extremely low rates. For Italian government bonds, this scenario, combined with a lesser perception of political risk, has proved favourable in terms of absolute returns and narrower spreads.
The proprietary portfolio reached the targets planned for the year, providing an important contribution to both net interest income and operating revenues. The exposure to interest rate risk remains extremely modest; the portfolio had an average duration of 2.78 years.
In securitised funding, in April a new increase transaction was completed for the securitisation designated CIVITAS 3 - RMBS, through the sale to the vehicle of an additional portfolio of performing loans for RMBSs.

In October a new securitisation transaction designated CIVITAS 4 was completed through the sale to the vehicle of a portfolio of performing loans to SMEs. The increase in liquidity reserves obtained was €287 million; the two sales enabled an increase in the pool of ECB-eligible senior bonds and thus a reinforcement of the Bank's liquidity profile.
At 31 December 2019 liquidity reserves eligible for refinancing operations with the European Central Bank amounted to €1,606 million, with a net balance of one-month total liquidity reserves of €501 million and a liquidity coverage ratio significantly above the regulatory limits. Refinancing with the European Central Bank is represented solely by participation in the TLTRO II and TLTRO III auctions.

Property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets amounted to €89,561 thousand and include €119 thousand of intangible assets and €15,350 thousand resulting from the application of the new accounting standard IFRS 16. The details of property, plant and equipment are provided below:

Used in operations	31/12/2019	31/12/2018	Change %
Land	4,932	4,933	0.0%
Buildings	55,219	56,753	-2.7%
Movables	3,142	3,661	-14.2%
Electrical plant	468	538	-13.1%
Other	-	-	-
Total Property and equipment used in operations	**63,761**	**65,885**	**-3.2%**
Investment property			
Land	3,247	2,770	17.2%
Buildings	7,083	7,804	-9.2%
Total Investment Property	**10,330**	**10,574**	**-2.3%**
Property and equipment acquired under finance lease			
Buildings	13,737	-	-
Electrical plant	-	-	-
Other	1,613	-	-
Total Property and equipment acquired under finance lease	**15,350**	-	-
Total	**89,441**	**76,459**	**17.0%**

Provisions for risks

Other provisions for risks and charges are accrued to account for current obligations resulting from past events that are considered likely to require an outlay of economic resources in order to discharge the obligation. For a detailed examination of the changes during the year, refer to the specific paragraph of the notes.

Shareholders' equity

At year-end, shareholders' equity, including the net income for the year, amounted to €284,920 thousand.

Own funds and capital adequacy

Own funds stood at €298,496 thousand at 31 December 2019.

Own Funds and Solvency Ratios	31/12/2019	31/12/2018
OWN FUNDS	-	-
Common Equity Tier 1 (CET1) net of regulatory adjustments	298,496	287,730
Additional Tier 1 (AT1) capital net of regulatory adjustments	-	-
TIER 1 CAPITAL (tier 1)	**298,496**	**287,730**
Tier 2 capital (T2) net of regulatory adjustments	-	4,321
Total Own Funds	**298,496**	**292,051**
RISK-WEIGHTED ASSETS	0	0
Credit and Counterparty Risk	2,146,245	2,130,849
Settlement and Market Risk	54	308
Operational Risk	14,699	14,024
Other specific Risks *	27,701	7,086
RISK-WEIGHTED ASSETS	**2,188,699**	**2,152,267**
SOLVENCY RATIOS %		
Common Equity Tier 1 ratio	13.64%	13.37%
Tier 1 ratio	13.64%	13.37%
Total Capital Ratio	13.64%	13.57%

* The item includes all the elements not considered in the previous items that are included in the calculation of complex capital requirements

Own funds, risk weighted assets and solvency ratios at 31 December 2019 have been determined on the basis of the harmonised rules for banks and investment firms set out in Directive 2013/36/EU (CRD IV) and Regulation (EU) No 575/2013 (CRR) of 26 June 2013, which transpose into the European Union the standards set by the Basel Committee on Banking Supervision ("Basel 3 Framework"), and on the basis of the related Bank of Italy circulars.
CiviBank opted for the "static approach" to the introduction of IFRS 9 provided for in Regulation (EU) No 2017/2395. This approach enables the re-introduction into common equity of a progressively decreasing percentage ending in 2022 (95% in 2018, 85% in 2019, 70% in 2020, 50% in 2021 and 25% in 2022) of the impact of IFRS 9, calculated net of the tax effect, resulting from the comparison between IAS 39 value adjustments at 31 December 2017 and IFRS 9 value adjustments at 1 January 2018.
Regulation (EU) No 2017/2395 also governs the disclosure obligations that entities are required to publish, while referring the issue of specific guidelines on the subject to the EBA. In accordance with the Regulation, the EBA has issued specific guidelines according to which banks that adopt a transitional approach to the impact of IFRS 9 (such as the above static approach) are required to publish "fully loaded" values (as if the transitional approach had not been applied) and transitional values for Common Equity Tier 1 (CET1) capital, Tier 1 capital, Total Capital, total risk-weighted assets, capital ratios and the leverage ratio.
At 31 December 2019, considering the transitional treatment adopted to mitigate the impact of IFRS 9, own funds amounted to €298,496 thousand, compared to risk-weighted assets of €2,188,699 thousand, primarily deriving from credit and counterparty risks, and, to a lesser extent, from operational and market risks. At that same date, considering the full inclusion of the impact of IFRS 9, own funds amounted to €276,576 thousand, compared to risk-weighted assets of €2,158,995 million.
Own funds, calculated considering the full inclusion of the impact of IFRS 9 (i.e., fully loaded), take account of the provisions of the 2019 Budget Act, which calls for the conversion to instalments, for tax purposes, of value adjustments applied upon first-time adoption of the accounting standard, with the resulting recognition of DTAs. These DTAs have been considered at 15% of their carrying amounts when calculating transitional own funds, in line with the provisions of Article 473-*bis* CRR with regard to the application of the static approach, whereas they have been entirely included among deductible elements in fully loaded own funds. In any event, the impact of such DTAs on fully loaded own funds is temporary since they will be recovered by 2028.
The net income for the year has not been taken into account when determining Common Equity Tier 1 capital.
The increase in risk-weighted assets during the period with regard to credit risks includes the impact of the first-time adoption of IFRS 16, the standard on leasing, which entailed an increase in on-balance sheet assets due to the recognition of rights of use relating to the leased assets.
On the basis of the foregoing, solvency ratios at 31 December 2019, calculated according to the transitional treatment for the impact of IFRS 9 ("IFRS 9 Transitional") had the following values: a Common Equity Tier 1 ratio of 13.6%, Tier 1 ratio of 13.6% and Total capital ratio of 13.6%. Considering the full inclusion of the impact of IFRS 9 (IFRS 9 fully loaded), solvency ratios at 31 December 2019 were as follows: a Common Equity ratio of 12.8%, Tier 1 ratio of 12.8% and Total capital ratio of 12.8%.
Finally, it should be noted that on 6 February 2020 Civibank received a notice of "commencement of procedure" relating to the capital requirement to be satisfied with effect from the next report after the notice of the decision following the results of the Supervisory Review and Evaluation Process (SREP).
The capital requirement to be met overall in terms of the Total Capital Ratio is 12.35%, composed of a minimum requirement of 9.85% (8.00% attributable to regulatory minimum requirements and 1.85% attributable to additional requirements determined on the basis of the SREP), with the remainder referring to the capital conservation buffer component. To ensure compliance with minimum requirements even in the event of a deterioration in the economic and financial scenario, the supervisory authority also indicated an expectation regarding the holding of additional resources of 0.50%.

Reconciliation between book shareholders' equity and Common Equity Tier 1 capital

Reconciliation between book shareholders' equity and Common Equity	31/12/2019	31/12/2018
Shareholders' equity	284,920	274,018
Shareholders' equity	**284,920**	**274,018**
Regulatory adjustments (including adjustments of the transitional perio	**13,576**	**13,711**
- Non eligible net income	(2,733)	(2,043)
- Deductions for CET1 instruments on which the institution has a real or purch	(636)	(1,531)
- Deductions relating to intangible assets	(119)	(153)
- Deductions relating to deferred tax assets that are based on future profitabilit	(4,649)	(4,735)
- Deductions relating to investments not significant beyond the threshold	-	-
- Regulatory value adjustments	(206)	(352)
- Regulatory adjustments relating to deferred tax assets	-	-
- Regulatory adjustments: other prudential filters	-	-
- Transitional provisions	21,920	22,525
Common Equity Tier 1 (CET 1) net of regulatory adjustments	**298,496**	**287,730**

Tier 1 capital increased moderately due to the effect of the decrease in deductions relating to deferred tax assets, offsetting a decrease in positive valuation reserves from OCI securities. It should be noted that the maturity of the subordinated bonds issued drove the Tier 2 component down to zero; accordingly, the amount of Tier 1 and Tier Total is the same. Net income for the year (€2.7 million) has not been included among the positive elements.

Performance of risk-weighted assets

Performance of risk-weighted assets	
Risk weighted assets as at 31/12/2018	**2,152,267**
Credit risk	15,396
Market and Regolamentory risks	(254)
Operational risk	675
Other specific risks	20,614
Risk weighted assets as at 31/12/2019	**2,188,699**

Assets weighted for credit risks increased by approximately €15,396 thousand in 2019. The increase, due largely to various other regulatory and methodological adjustments and increased lending operations, was only partially offset by measures to mitigate risks and reduce defaulted loans, including as a result of new securitisation transactions.

Assets weighted for market risks were characterised by a reduction of approximately €254 thousand, facilitated by easing and greater stability on financial markets, which benefited from both exposures to the financial sector and to the sovereign sector present in the portfolio.

Financial performance

The results for the period are illustrated below in condensed, reclassified form, according to the presentation criteria deemed best suited to representing the Bank's operating performance. The aggregations and reclassifications applied with respect to the items of the tables envisaged in Bank of Italy Circular No. 262/06 are detailed in the notes to the tables.

RECLASSIFIED INCOME STATEMENT (thousands of euro)	31/12/2019	31/12/2018	Change %
Net interest income	60,472	60,430	0.1%
Net commissions	32,551	30,022	8.4%
Dividends	160	10,538	-98.5%
Net trading income	2,008	(739)	*N.S.*
Other operating income (expenses) [(3)]	584	657	-11.1%
Operating income	**95,774**	**100,907**	**-5.1%**
Personnel expenses	(41,994)	(41,157)	2.0%
Other administrative expenses [(1)]	(18,330)	(20,060)	-8.6%
Net impairment/write backs on property, plant and equipment and intangible assets [(2)]	(4,878)	(2,705)	80.4%
of which right of use depreciation - IFRS 16	*(2,074)*		N.S.
Operating cost	**(65,202)**	**(63,922)**	**2.0%**
Income (loss) from operating	**30,572**	**36,985**	**-17.3%**
Charges/write-backs on impairment of loans	(25,847)	(25,055)	3.2%
Charges/write-backs on impairment of other financial assets	697	(11)	N.S.
Charges/write-backs on impairment of equity investments	(79)	-	-
Goodwill impairment	-	(2,190)	-100.0%
Profit (loss) on disposal of investments	(70)	67	-205.3%
Net provisions for risks and charges	1,926	(5,653)	N.S.
Income (loss) before tax from continuing operations	**7,199**	**4,144**	**73.7%**
Tax on income from continuing operations	(2,123)	367	N.S.
Levies and other charges concerning the banking industry after tax	(2,342)	(2,468)	-5.1%
Net income	**2,733**	**2,043**	**33.8%**

(1) Other administrative expenses include recoveries of taxes and duties and other recoveries recognised under "200. Other operating income/expenses" (€7,644 thousand in 2019 and €7,383 thousand in 2018);
(2) Net adjustments to property, plant and equipment and intangible assets include items "180. Charges/write-backs on impairment of property, plant and equipment" and "190. Charges/write-backs on impairment of intangible assets."
(3) Other income and expenses correspond to operating income/expenses net of the reclassifications presented above.

Net interest income amounted to €60,472 thousand, essentially unchanged compared to the year ended 31 December 2018; there was an increase in the components attributable to both business with customers (+4.8% YoY) and financial assets (+8.1% YoY). There was a decrease in the "reversal" effect relating to impaired financial assets, down by 74% on the previous year. Net of these components, and net of interest from the first-time adoption of the accounting standard IFRS 16, net interest income would amount to €60,229 thousand, compared to €57,845 thousand in 2018, an increase of 4.1%.

Net commission income amounted to €32,551 thousand, up by 8.4% compared to December 2018. The increase is primarily to be attributed to the component relating to the distribution of insurance products (+51.5% YoY), the credit intermediation segment (+8.7% YoY) and traditional banking activity.

Dividends and similar income came to €160 thousand, compared to €10,538 thousand in 2018, when they were affected by an extraordinary dividend (Nexi) of €10,062 thousand.

Net trading income was €2,008 thousand. In particular, net realised gains on assets designated at fair value through other comprehensive income and at amortised cost (securities) amounted to €12,724 thousand, whereas trading performance amounted to a positive €276 thousand. The net loss on the disposal of assets measured at amortised cost (NPLs) was €11,054 thousand.

Operating expenses totalled €65,202 thousand. Personnel expenses amounted to €41,994 thousand, up by 2% on 31 December 2018, whereas other administrative expenses amounted to €18,330 thousand, down by 8.6% on December. The figure is not fully comparable to 2018 due to the first-time adoption of IFRS 16. Net of this change, administrative expenses would be down by 1.0%. Net adjustments to property, plant and equipment and intangible assets came to €4,878 thousand, compared to €2,705 thousand in 2018. The item is affected by the FTA of IFRS 16 in the amount of €2,074 thousand.

Net impairment losses due to credit risk amounted to €25,847 thousand, with a loan loss rate of 91 basis points at year-end and an overall level of coverage of non-performing loans of 50.6%. **Net impairment losses on financial assets** amounted to €697 thousand and referred to the measurement of HTC and HTCS securities.

Net provisions for risks and charges presented net recoveries of €1,926 thousand, due in part to the failure by several employees to agree to voluntary departures, following the pension reform, which began in January 2020.

Income before tax from continuing operations thus amounted to €7,199 thousand. Income taxes for the period totalled €2,123 thousand.

Net taxes and levies relating to the banking system (SRF-NRF) amounted to €2,342 thousand (€3,452 thousand gross of taxes).

The net income for the period thus amounted to €2,733 million.

Statement of cash flows

Performance of main items of the statement of cash flows

a) Financial assets mandatorily measured at fair value (-€5,227 thousand); the change was mainly due to the purchase of a new CIU;
b) Financial assets designated at fair value through other comprehensive income (+€160,926 thousand); the change was primarily due to the sale of government bonds and equity securities;
c) Financial assets measured at amortised cost (-€545,119 thousand); the change was primarily due to the purchase of government bonds;
d) Other assets (-€9,960 thousand); the change was largely due to the first-time adoption of IFRS 16 in Property, plant and equipment;
e) Financial liabilities measured at amortised cost (+€471,851 thousand); the change was due to the increase in term deposits and repurchase agreements, in addition to the redemption of government bonds issued;

Strategic management of the Bank's equity investments

Help Line S.p.A.

Help Line S.p.A. is the NEXI Group's contact centre and was created in 2010 as part of the larger project of integrating the members of the NEXI Group, from the merger of Società Help Phone S.r.l. and Si Call S.p.A. and the subsequent absorption of the Help Desk unit of CartaSi S.p.A. The company provides third parties with services based on the use of telephone and remote channels in the fields of customer support, debt recovery and telemarketing. Help Line S.p.A. manages inbound services (incoming telephone calls), outbound services (outgoing telephone calls), Web interactions (help via the Internet) and high value-added services (datawarehousing, back office, and fraud prevention).

The company's shareholders are NEXI, with a 70% interest, and Banca di Cividale, with a 29.68% interest.

ACIRENT S.p.A.

The company operates in the short-term rental sector and holds the Herz L.t.d. licence for Friuli Venezia Giulia and part of eastern Veneto. Airport rental stations (Treviso and Ronchi dei Legionari) were both operated under an agency scheme, whereas city offices are operated under franchise arrangements (Udine, Trieste, Pordenone and Feltre). The company has 20 years of experience in managing fleets of vehicles intended for rental without drivers and also operates in the long-term lease sector for companies and individuals, in synergy with the operations of the ACU Group, from which it receives the technical and organisational support of the latter's facilities for managing fleets of vehicles intended for operational lease (garages, roadside assistance, logistical support, etc.).

CiviESCO SRL

CiviEsco is a non-capital intensive partnership launched in 2016 to support energy efficiency in the private and regional public sector through the formation of business networks. The company is wholly owned by Banca di Cividale.

Risk management and monitoring

Risk management

Banca di Cividale takes a particularly conservative approach to risk management, implemented within a specific organisational framework consisting of internal rules, operating procedures and control units, structured according to a model that integrates monitoring methods at various levels, all converging with the goals of ensuring the efficiency and effectiveness of operating processes, preserving the company's assets, protecting it from losses, ensuring the reliability and integrity of information and verifying the proper conduct of operations in accordance with internal and external regulations.

In accordance with supervisory regulations, the Bank has developed and standardised specific risk management processes broken down into various logical phases: determination of the risk appetite, assumption of risk, drafting of risk management and control policies, definition of limits, measurement of risk, monitoring and reporting, stress tests and critical situation management.

Risks are primarily identified and their significance assessed within the framework of the Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP), which in accordance with prudential regulations relate to what are known as "first and second pillar obligations". The significance of the risks to be assessed is determined by considering both supervisory regulations and specific company considerations such as the products and services offered to customers, the scope and characteristics of business with associated parties in respect of company operations, the volumes of financial aggregates and the corresponding capital requirements, the markets of reference and vulnerability to the economic situation.

The risk appetite, an important parameter to be referred to in drawing up the strategic plan and a logical foundation for planning, is determined for the Bank's significant risks when defining the Risk Appetite Framework (RAF), in a manner that takes account of existing prudential rules, the business model adopted, the Bank's core funding and lending methods and the ability of control units to monitor and measure risks.

With regard to the Risk Appetite Framework (RAF), an outline has been prepared and introduced, including a definition, in keeping with the risk appetite, of the business model, strategic plan and turnaround plan, risk appetite, tolerance thresholds, risk limits, risk governance policies and the processes of reference for setting and implementing such policies. The process of defining and periodically revising the RAF is carried out in conjunction with the Risk Management Function and the Management Planning and Control Function, which supports the general management during the phases of application review and preparation of proposals to be submitted for the approval of the Board of Directors. The process requires a high level of consistency and

thorough reconciliation of the RAF, business model, strategic plan, ICAAP, ILAAP, recovery plan, budgets, company organisation and internal control system. The Board of Directors reviews the system of risk targets at least annually and then updates it, when the requirements for so doing have been met.
In accordance with supervisory regulations, the Bank also drafts a condensed recovery plan, normally to be prepared every other year, according to the template provided by the supervisory authorities. A Recovery Plan (governed by the Bank Recovery and Resolution Directive, transposed into Italian law by Legislative Decree No. 180 of 16 November 2015) must be drafted by each intermediary. The Plan provides a detailed description of the procedures to be followed and tools created by the bank to prevent and resolve a possible crisis situation, whether systemic or idiosyncratic in nature, i.e. whether the crisis has internal origins and it is presumed its effects may remain limited to the bank and its most direct counterparties.
A clear identification of the risks to which Banca di Cividale is potentially exposed (the "risk map") represents the essential foundation for an informed assumption and effective management of such risks.
Considering the Bank's mission and operations, together with the market scenario in which it operates, the risks assessed as part of the ICAAP (Annex A, Part One, Title III, of Circular 285, "Supervisory Provisions for Banks") have been identified as material, with the exception of several specific types deemed immaterial (country risk, transfer risk, basis risk and securitisation risk), in addition to compliance, real estate and money-laundering risks and the risk associated with the share of restricted assets, which is included in the assessment of liquidity risk. Following the introduction in 2018 of Regulation (EU) No 679/2016 ("GDPR"), it was decided to explicitly state privacy risk, to be regarded as a subset of operational risk, like legal risk and IT risk – with both of which it is closely connected.

Credit risk

In accordance with its mission and business model, the Bank is primarily exposed to credit risk. In 2019 the Bank continued to pursue its goal of reducing non-performing loans, as set in the 2019-2022 long-term plan sent in March to the supervisory authority, prepared in continuity with the strategy also adopted in 2018, focused to a large extent on recovery activity through internal management and, where advisable, on one-off disposal transactions. All goals set for 2019 were reached and considerably exceeded, in keeping with the strategy formulated, resulting in a decline in the gross NPL ratio of an additional five percentage points compared with the end of 2018, together with an increase in the coverage ratio for all classes of non-performing loans (past due by more than 90 days, unlikely to pay and bad debts).

Concentration risk

The exposure to concentration risk, for both individual counterparties and groups of associated customers and economic sectors, remains within the operational limits set by the specific internal regulations on internal capital, calculated according to the simplified approach (the "granularity adjustment" formula), indicated in prudential regulations (Annex B to Title III, Chapter 1, of Bank of Italy Circular 285/2013, "Supervisory provisions for banks") and the measurement of geographical and sector concentration risk, according to the application of the method proposed within the Italian Banking Association framework.

Market risk (including sovereign risk)

The portfolios relating to the regulatory trading book and the associated market risk profile are modest in extent. The current composition of assets entails an exposure to sovereign risk related to the scope of the portfolio invested in Italian government securities and, to a lesser extent, in securities issued by banks, with approximately 83.5% of the proprietary portfolio's total exposure classified as hold-to-collect. The exposure to the Italian Republic at the annual level changed as a function of the size of the portfolio, increasing compared with the previous year. Italian government securities remain exposed to the elements of volatility typical of the market. With respect to the interest rate risk and price risk associated with the securities in portfolio, the greatest risk is represented by a possible increase in short-term rates, which would entail a decline in net interest income. By contrast, a rise in medium-to-long term interest rates would result in a depreciation of the values of the portfolios and a decline in the unrealised component, which according to supervisory regulations is deducted from Common Equity Tier 1 capital and own funds only to the extent relating to securities classified as HTCS (held-to-collect-and-sell) pursuant to the accounting standard IFRS 9. The average duration of the Bank's proprietary securities portfolio increased from 2 years at the end of 2018 to 2.77 years at 31 December 2019.

Operational risks (including IT risk, legal risk and privacy risk)

Operational risk is inherent in banking business and is associated with all organisational and production processes. Consequently, all processes carried out by the Bank generate such risk. Operational risk may be defined as the risk of sustaining losses due to the inadequacy or improper functioning of procedures, human

resources, internal systems, or to external events. Within the risk map adopted by the Bank, operational risk also includes legal operational risk, IT risk and privacy risk.
Exposure to operational risks remained essentially constant over the course of the year, in terms of both the number and type of events and the amount of the operating losses sustained. Exposure to IT risk is consistent with the Bank's strategic orientation.

Interest rate risk
This is the risk associated with assets not held for trading, deriving from the possibility that a change in the rates on which the bank's assets and liabilities are indexed may result in an adverse effect on net interest income or the present value of assets and liabilities, and thus a decrease in the Bank's economic value.
Considering the level of interest rates observed during the year and the continuation of the European Central Bank's monetary policy, the Bank's exposure to instantaneous rate curve shocks remained at a medium level during the year, although there was an increase on the end of the previous year in terms of the decrease in economic value, calculated on the basis of the simplified method defined in supervisory regulations for banks.

Liquidity risk
The pursuit of a structural balance between loans to customers and direct funding (known as the “funding gap”) through the diversification of funding sources by maturity, form, counterparty and market remained a strategic objective of the Bank's funding policies in 2019. The Bank's liquidity remains at adequate levels and all annual goals set in the funding plan were achieved: as at 31 December 2019, the Basel 3 regulatory ratios (LCR and NSFR), adopted as internal metrics for measuring liquidity risk, exceeded the supervisory requirements.
The process of assessing the adequacy of the Bank's liquidity profile also includes the risk associated with the level of encumbered assets ("asset encumbrance"), i.e. the risk that such assets may increase due to situations of significant tension, such as plausible, while improbable, shocks, including as regards the downgrading of the Bank's credit rating (where present), the write-down of collateral and increased margin requirements. The main transactions outstanding as at 31 December 2019 that entail the encumbrance of proprietary assets are funding operations with the ECB, in which the Bank also makes use of securities created through self-retained securitisation operations, repurchase agreements and funding transactions with the European Investment Bank (EIB).

Residual risk
Residual risk is the risk that the recognised techniques for mitigating credit risk used by the bank may prove less effective than expected and is primarily generated by the credit process. Exposure to such risk in terms of "unexpected loss" stands at medium-low levels.

Reputational risk
During the year there were not found to be any elements that modified – or that might significantly modify in the near term – the positive perception of the Bank by the various groups of its stakeholders (customers, counterparties, shareholders, investors and supervisory authorities). The overall assessment of this type of risk is tied to the specific activity performed by the banking industry at large and the many potential processes capable of generating reputational risks, in the complex current general scenario, considering, inter alia, factors of uncertainty tied to the system and supervisory regulation.

Strategic risk
The degree of exposure to strategic risk remained at a medium-high level in 2019, a view based on assessments focused in particular on factors external to the Bank, including the increasingly stringent requirements set by European supervisory regulations. The profitability of Euro Area banks continues to be affected by the pressures exerted by the economic scenario, low interest rates, problems rooted in the past (NPL levels) and competition from the banking and non-banking sector. In addition, digitalisation poses significant challenges for banks, while also offering advantages in terms of heightened efficiency and new commercial opportunities. Accordingly, in light also of increasing digitalisation, as well as other factors, there continues to be a focus, including on the part of the supervisory authorities, on the sustainability of business models and the profitability levels achieved by credit institutions.

Associated party risk
Exposure to associated parties remained constant during the year and is fully consistent with the limits established by prudential regulations and company policies.

Securitisation risk

The risk associated with securitisation is linked to the recognition of the significant transfer of credit risk in the framework of traditional securitisation transactions involving non-performing loans. In fact, a transaction involving the sale of non-performing loan (NPL) portfolios by Civibank within the framework of the multi-originator securitisation transaction designated POP NPLs 2019, backed by a guarantee issued by the Ministry of Economy and Finance ("GACS"), was completed on 23 December 2019. The transaction structure entails the transfer to third parties of all risks and benefits associated with the loan portfolio sold (derecognition).

Property risk

The current or prospective risk of potential losses due to fluctuations in the value of the Bank's proprietary real estate portfolio, or to the reduction of the income generated by that portfolio, remains at stable levels compared with the previous year.

Excessive leverage risk

The leverage indicator falls within the range of values deemed normal at the company level and far exceeds the minimum level according to supervisory regulations.

Compliance risk

Compliance risk is the risk of incurring legal or administrative penalties, significant financial losses or damages to reputation due to breaches of compulsory provisions (of laws or regulations) or self-imposed rules (e.g., bylaws, codes of conduct, governance codes).

According to the supervisory provisions concerning the internal control system, supervision of compliance has been extended to all rules and procedures concerning company activity, albeit variously adapted to the traditional, directly applicable areas and other specialistic areas, such as taxation, for which there are already other forms of supervision. The exposure to compliance risk is primarily assessed in reference to regulations governing the core business of the banking industry proper.

The risks associated with some regulatory areas (banking transparency, usury, conflicts of interest, related parties, market abuse and ICT compliance) are monitored by assigning various phases of the oversight process to personnel assigned to other organisational units, through the appointment of a liaison officer, who is coordinated by the head of the Compliance function.

These areas are in addition to other regulatory areas that are already expressly subject to forms of specialised oversight (protection and safety in the workplace and tax legislation). In contrast, following the entry into force of GDPR (25 May 2018), privacy is now managed by the Data Protection Officer, appointed within the Compliance function.

Privacy risk

Although privacy risk has not been expressly defined by either the Bank of Italy provisions or Regulation (EU) No 679/2016 (GDPR), Banca di Cividale views it in general terms as the failure by the Bank to adopt technical and organisational measures adequate to ensuring that it is able to demonstrate that personal data regarding natural persons is processed in accordance with the regulations. However, with reference to the specific data protection impact assessment process, privacy risk is considered the likelihood of occurrence of a threat that may compromise the confidentiality, integrity or availability of personal information that may give rise to a breach of the rights and freedoms of natural persons.

Privacy risk is to be regarded as a subset of operational risk, with some overlap with both legal risk and IT risk; it is essentially made up of the following components:

- ✓ a regulatory component, which represents the direct consequence of the failure to define or comply with, or of the inadequate definition or compliance with, standards, rules, processes, procedures, controls and security measures "in compliance" with Regulation No 679/206, the instructions from the European Data Protection Board, Legislative Decree No. 196/2003 (Privacy Code), as amended by Legislative Decree No. 101/2018, and the instructions from the Data Protection Authority;
- ✓ a reputational component, which represents the direct consequence of the personal data breach and entails a negative external perception of the company associated with the inefficacy or insufficiency of the security measures adopted;
- ✓ an economic component, consisting in the application to the Bank of administrative fines by the supervisory authority, in the event of non-compliance with the provisions of Regulation (EU) No 679/2016, and in compensation for material or non-material damages suffered by the data subject due to a breach of Regulation (EU) No 679/2016.

The company has adopted various measures to protect against this type of risk, including the appointment of an internal Data Protection Officer (DPO) assigned to the Compliance Function, in the belief that it is more effective and efficient to entrust this role to an internal staff member of the Compliance Function, which takes a risk-based approach to conducting its activity. In addition to ensuring ongoing advice regarding the protection of the data of all company units, the DPO ensures prompt planning and reporting of his activities to company bodies, preparing an annual report containing a summary of the audits conducted, the results obtained, any weaknesses identified and the measures proposed to remedy them.

Money-laundering risk

Money-laundering risk is the risk of being involved in a set of transactions designed to give a lawful appearance to capital that is in fact illicit in origin, thus making it more difficult to identify and recover, where applicable. To protect against this type of risk, the law provides for a thorough system of safeguards that include, among other elements, a due diligence procedure and a specific company function tasked with ensuring that the Bank's operations are compliant with laws and supervisory regulations on an ongoing basis. This task is assigned to the Anti-Money Laundering Function, which also conducts preliminary reviews in cases of suspicious transactions reports, in support of the specific company officer.

Appropriate internal rules and risk policies have been adopted for the governance of the risks described above. The methods of supervision and organisational oversight of risks are established in the context of these policies through the definition of operating limits and/or management and control processes.

For a complete description of the organisational structure and operating procedures covering the various areas of risk and methods used to measure and prevent those risks, refer to Chapter E of the notes, Risks and hedging policies.

With regard to the third pillar public disclosure, the prudential supervisory provisions applicable to banks have been consolidated into Bank of Italy Circular 285 of 17 December 2013, as amended, the issuance of which is functional to application of Community regulations (the CRR, Regulation EU 575/2013, and the CRD IV, Directive 2013/36/EU) containing the reforms of the Basel Accord ("Basel 3"). The subject matter, as specifically mentioned in Part II, Chapter 13 of the above Circular, is governed directly by the CRR (Part Eight, Disclosure by Institutions, and Part Ten, Title I, Chapter 3) and by the regulations of the European Commission containing regulatory or implementing technical standards. In particular, as established in the CRR, banks must publish the required disclosures on at least an annual basis. The public disclosure documents, which essentially reflect the contents of the annual ICAAP (Internal Capital Adequacy Assessment Process) and ILAAP (Internal Liquidity Adequacy Assessment Process) are available from the Bank's website, www.civibank.it.

The internal control system

According to supervisory regulations, the internal control system is "the fundamental element of a bank's overall governance system. It ensures that company activity is in line with company strategies and policies and is guided by principles of sound and prudent management."
The Bank's Board of Directors plays a fundamental role in risk management, establishing strategic guidelines, approving risk management policies and assessing the degree of efficiency and adequacy of the internal control system, with particular regard to risk control.
For the preliminary and advisory phases of internal control and monitoring of company risk management, the Board of Directors relies on the internal Risk Committee, composed of a majority of independent directors. The Committee interfaces with the Bank's three control functions, whose work it analyses and whose adequacy it assesses.
The Board of Statutory Auditors also plays a central role, attending meetings of the Risk Committee and performing supervisory duties relating to the efficacy and adequacy of the risk management and control system, in addition to internal auditing of the functioning and adequacy of the overall internal control system.
In accordance with the supervisory regulations, the Bank has instituted the following permanent, independent company control functions: i) Compliance; ii) Risk Management; and iii) Auditing. The former two functions are responsible for level-two controls, whereas Auditing is responsible for level-three controls. The Anti-Money Laundering Function is also a part of the company control functions. These functions are assured functional independence, since they possess the authority, resources and competencies necessary to discharge their duties and are situated in an adequate hierarchical and functional position. In particular, the heads of the risk management, compliance and internal auditing functions report directly to the Board of Directors, the body with the strategic supervision function.
In short, the Bank's internal control system includes the following three levels of control:

- ✓ line controls (level one): these are intended to ensure that transactions are properly conducted; they are performed directly by production units, are incorporated into IT procedures and systems or are executed as part of back-office activities;
- ✓ level-two controls: these include, as stated above, risk management, compliance and anti-money laundering activity. They are intended to ensure, among other objectives: the proper implementation of the risk management process; the observance of the operating limits assigned to the various functions; and the compliance of company operations with laws and regulations, including self-imposed regulations. Level-two control functions are independent of assumption and management functions (production and management units). They contribute to defining risk governance policies and the risk management process.
- ✓ level-three controls: this is the internal auditing activity conducted by the Auditing Function aimed at identifying anomalous performances and breaches of rules and procedures, as well as at periodically assessing the completeness, adequacy, functionality (in terms of efficiency and efficacy) and reliability of the organisational structure of the other components of the overall internal control system; it is conducted on an ongoing basis, with periodic frequency, or in exceptional cases, by units independent of production units, including through onsite inspections.

Disclosure required by joint Bank of Italy, ISVAP and CONSOB documents

The Bank of Italy, Consob and ISVAP Document No. 2 of 6 February 2009 and the subsequent Document No. 4 of 3 March 2010 require that financial reports contain information on the business outlook, with particular regard to the going-concern assumption, financial risks, impairment testing of assets and uncertainty in the use of estimates.
In light of the main financial performance and position indicators, the directors of Banca di Cividale believe that they may be reasonably certain that the Bank will carry on its operations for the foreseeable future. The financial statements at 31 December 2019 have therefore been prepared on a going-concern basis. In this connection, it bears emphasising that the Bank's activity is focused on implementing the guidelines established in the 2019-2022 Business Plan.
With regard to the requirements relating to the disclosure of financial risks, impairment testing of assets and uncertainties in the use of estimates, refer to the information provided in the directors' report on operations and the notes, within the framework of the specific subjects discussed. In further detail, the risks associated with economic and financial market performance have been described in the chapter on the macroeconomic scenario of reference. Specific analyses have been devoted to the outlook for Italy's economy and finances. Finally, additional information is provided in the chapter on operating performance and the subsequent chapters commenting on results. Information on financial and operational risks is provided in the section of

the notes dedicated to risk management. In addition, information on the classification of several types of financial instruments to the various fair value levels is provided in the notes. At year-end, the impairment testing required by IAS 36 was performed and specific tests were conducted to assess possible impairment losses on equity investments, on basis of an analysis of the presence of impairment indicators. Specific tests were performed with regard to the recognition of deferred tax assets. For detailed information, refer to Part B of the notes.

Legal risks

Money-laundering (Legislative Decree No. 231/2007)

Responsibility for overseeing compliance with anti-money laundering legislation, in accordance with Bank of Italy rules governing the anti-money laundering organisation, procedures and internal controls, falls to the Anti-Money Laundering Office within the Compliance Service, the head of which has been placed in charge of the function in accordance with those rules.

The Anti-Money Laundering Function has the mission of preventing and combating transactions involving the laundering of money and financing for terrorism. To this end, it ensures that IT and organisational procedures are consistent with the objective of preventing and combating the breach of applicable laws and internal rules governing money-laundering. It also performs specific monitoring activity aimed at identifying any potentially suspect transactions.

The Anti-Money Laundering office sends Italy's Ministry of the Economy and Finance notices of breaches of rules governing the use of cash and bearer securities. It also responds to requests from the authorities concerning the reporting of suspect transactions to the Financial Information Office.

The head of the function, as the party delegated to report suspect transactions, conducts analysis, carries out preliminary investigation and sends reports of suspect transactions pursuant to Art. 35 of Legislative Decree No. 231/07.

Information concerning disputes

For detailed information concerning disputes, including disputes of a tax nature, and the main pending judicial actions, refer to Chapter E of the notes, Risks and hedging policies (Section 5 - Operational risks).

Administrative liability (Legislative Decree No. 231/2001)

In consideration of the provisions of Legislative Decree 231/01, the Bank has adopted a specific Organisational Model. That Model pursues the primary goal of setting up a well-organised, organic system of organisational and control principles and procedures suited to preventing or reducing the risk of the commission of the offences set forth in the Decree.

The Founding and Operational Rules govern the Supervisory Board's activity.

The Supervisory Board is entrusted with the task of supervising:

- ✓ the efficacy and adequacy of the Model in relation to the company's structure and its effective ability to prevent the commission of the Offences;
- ✓ compliance with the Model's prescriptions by corporate bodies, employees and other addressees, in the latter case also through the competent company units;
- ✓ the appropriateness of updating the Model, where it is found necessary to adjust it in connection with changes in company conditions and/or legislation; and
- ✓ the company's fulfilment of its obligations under applicable anti-money laundering legislation.

The supervision and control function identified in Legislative Decree No. 231/2001 has been assigned to the Board of Statutory Auditors, as indicated by the Bank of Italy.

Related-party transactions

The subject is governed by Article 2391-bis of the Italian Civil Code, according to which the administrative bodies of companies that have recourse to the risk capital market are required, in accordance with the general principles indicated by Consob, to adopt rules that ensure the "transparency and substantive and procedural propriety of related-party transactions" undertaken directly or through subsidiaries. The control body is required to supervise compliance with the rules adopted and review the matter in its report to the shareholders' meeting.

By resolution 17221 of 12 March 2010, exercising the authority delegated to it under Article 2391-bis of the Italian Civil Code, Consob approved the Regulations for Transactions with Related Parties (also referred to hereinafter as the "Consob Regulations"), subsequently amended by resolution 17389 of 23 June 2010, which lays down the general principles to be observed by companies that obtain funding from the risk-capital market

when setting rules aimed at ensuring the transparency and substantive and procedural propriety of transactions with related parties.
In relation to its specific activity, the Bank is also subject to the provisions of Article 136 of the Consolidated Banking Act, as recently amended by Law 221/2012, governing the obligations of bank officers.
On 12 December 2011, the Bank of Italy published new supervisory rules governing risk assets and conflicts of interests within banks and banking groups in regard to "Associated Parties" (ninth update of Circular 263 of 27 December 2006, hereinafter the "Bank of Italy Rules"), in supplementation of the provisions of the Consob Regulation. The definition of Associated Parties includes not only related parties, as defined in the Consob Regulation, but also parties associated with such related parties, as identified in supervisory provisions. The new rules aim to prevent the risk that the proximity of certain parties to the Bank's decision-making centres may compromise the objectivity and impartiality of decisions relating to the granting of loans and other transactions with such parties, with possible distortions of the resource-allocation process, and are in addition to, and only partly overlap with, the other applicable provisions on the subject (Article 2391 of the Italian Civil Code, Article 136 of the Italian Consolidated Banking Act, the Consob Regulation and IAS 24).
In 2019 Banca di Cividale, in accordance with the combined provisions of the regulations cited above, adopted its Procedures for Transactions with Related Parties and Associated Parties (the "BPC RPT Procedures").
On 3 December 2014 the Board of Directors approved the document Dealings with Related Parties and Parties Identified Pursuant to Article 136 of the Consolidated Banking Act and Article 2391 of the Italian Civil Code with the aim of grouping together internal conflict of interest rules into a single document. This document brings together the pre-existing rules and procedures issued in application of the supervisory provisions concerning activities at risk with associated parties (ninth update to Circular 263/06), the Consob Regulation on Transactions with Related Parties (Resolution 17221 of 12 March 2010), Article 136 of the Consolidated Banking Act, Obligations of Bank Officers and the related supervisory instructions and, finally, Article 2391 of the Italian Civil Code, Interests of Directors. In accordance with applicable regulations, the document has been published on the website at the address http://www.civibank.it/investor-relations/corporate-governance/procedura-parti-correlate.

Major transactions
No transactions with related parties considered major transactions pursuant to the Procedures for Related-Party Transactions cited above were undertaken during the reporting period. In 2019 there were no additional atypical and/or unusual transactions to be disclosed pursuant to Consob bulletin no. DEM/6064293 of 28 July 2006.

Transactions of an ordinary or recurring nature
The transactions of an ordinary or recurring nature undertaken in 2019 with related parties are part of the Bank's ordinary operations, are normally subject to market conditions and meet the requirement of mutual economic expedience in accordance with the internal procedures cited above.
Detailed information regarding related-party transactions, including information on the impact of outstanding transactions and positions with related parties on the Bank's financial performance and financial position, accompanied by tables summarising those effects, are set forth in Chapter H of the Notes.

Business outlook
The global and national growth prospects for the current year are strongly conditioned by the impacts of the ongoing health emergency and the measures taken to contain the contagion in the various countries affected. The main repercussions are not only on public health, but also on national and international services, production, consumption and trade, on both the supply and demand side.
It is currently difficult to quantify these impacts, which will reflect the persistence of the health emergency over time.
Italy was the first and most severely affected country in Europe in terms of contagion and mortality. The limitations imposed on the circulation of individuals and the severe restrictions on services and production designed to stem the spread of the epidemic implemented at the national level will result in non-negligible impacts on the Italian economy. To limit these consequences, the Italian government is preparing various tax, financial and social measures to support the economy and labour force during the current emergency period and to permit a rapid recovery as soon as conditions have returned to normal.
In monetary policy, central banks are also taking action to contain the recessionary effects of the epidemic on national economies. Within this particularly uncertain scenario, the Bank will continue to implement the actions envisaged in the 2019-2022 Business Plan, while adopting all safeguards and measures necessary to

minimise the impacts of the coronavirus emergency on the business, from the standpoint of both operations and earnings.
The adverse consequences of the spread of this form of viral pneumonia on international economic activity are still highly uncertain and will also have consequences for the Bank's performance. Revisions of global growth estimates to account for the effects of the coronavirus are still not available. The ECB is ready to intervene in the markets through new measures designed to calm the shock to the spread caused by the coronavirus emergency. The Eurotower will assess all approaches “to safeguarding the liquidity of the banking system and ensuring the smooth transmission of monetary policy.”
Although the effects of the epidemic currently cannot be quantified, it is believed that they will have an impact on the Bank's prospective profitability, resulting in a decline in revenues, due to the economic slowdown and severe bear market, and to a likely increase in the cost of money. However, it should be emphasised that the Bank is taking a variety of measures in response to the situation that, in concert with the efforts made by governments and central banks, are designed to reduce the effects of the pandemic to the greatest possible extent.
Despite this scenario, the Bank will focus on the key initiatives set out in the new Strategic Plan, which revolves around the development of the Bank in new areas. It is expected that operating expenses will be contained, chiefly through greater efficiency.

Proposed allocation of the net income for the year

Shareholders,

The financial statements submitted for your review have been drafted in accordance with IASs/IFRSs as required by Legislative Decree No. 38 of 28 February 2005 and order of the Bank of Italy no. 262 of 22 December 2005, as amended, and have been audited by the independent auditors KPMG S.p.A., a copy of whose report is included in the financial statement package. The financial statements we ask you to approve show the following results, in concise form:

Balance sheet

Total Assets	**4,337,839,823**	
Liabilities		4,052,919,964
Share capital		50,913,255
Share premiums		167,021,562
Reserves		65,534,154
Valuation reserves		842,469
Treasury stock		(2,124,581)
Total liabilities and shareholders' equity (excluding Income for the period)		**4,335,106,823**
Net income (loss) for the period		**2,733,000**

It should be noted that during its deliberations on the allocation of net income, the Board of Directors, in light of the European Central Bank's recommendation of 17 January 2020 on dividend distribution policies, in which the supervisory authority asks that intermediaries, inter alia, "*establish dividend policies using conservative and prudent assumptions in order, after any distribution, to satisfy the applicable capital requirements and the outcomes of the supervisory review and evaluation process (SREP)*", decided to allocate the 2019 net income fully to reserves.

We therefore propose the following allocation of net income for the year to the shareholders' meeting:

Allocation of net income	31/12/2019	31/12/2018
To Legal reserve	273,300	204,300
To Statutory reserve	2,459,700	1,838,700
Net income for the period	**2,733,000**	**2,043,000**

If you approve the foregoing proposal for allocation of the net income, share capital and reserves will be as follows:

	Amounts to 31/12/2019	Allocation of net income	Amounts after allocation of net income
Share capital	50,913,255		50,913,255
Share premiums	167,021,562		167,021,562
Reserves	65,534,154	2,733,000	68,267,154
Valuation reserves	842,469		842,469
Treasury shares	(2,124,581)		(2,124,581)

Cividale del Friuli, 11 March 2020
The Board of Directors

Board of Statutory Auditors' report on the financial statements of Banca di Cividale S.c.p.A. at and for the year ended 31 December 2019

Shareholders,

The Board of Statutory Auditors presents to you its report on its activity during the year ended 31 December 2019, the financial statements for which have been submitted for your approval, and which the Board of Directors has made available, along with the report on operations and the other prescribed documents, within the terms established in applicable legislation.

The Board of Statutory Auditors in office at the date of this report is composed of its chairman, Pompeo Boscolo and standing auditors Gianluca Pico and Gianni Solinas.

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The Bank's performance has been appropriately illustrated in the documents submitted to the Shareholders' Meeting, with an account of financial performance and financial position and the operating result achieved in 2019. The key events for the year have also been reported.

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In performing its supervisory and control activity, the Board of Statutory Auditors complied with the law, supervisory regulations for banks, the circulars and communiques from the Bank of Italy, applicable legislation and the principles of conduct recommended by Italy's National Council of Accountants and Accounting Experts.

The Board of Statutory Auditors would like to emphasise that the frequency and methods with which the meetings of the Board of Directors were held permitted thorough fulfilment of the disclosure obligations imposed by the law and Articles of Association. By participating in all meetings of the Board of Directors, the Board of Statutory Auditors was able to monitor the course of decisions and the ongoing evolution of the Bank, while also consistently reporting on its own activity.

Meetings with heads and/or liaisons at the Bank's various functions allowed the information necessary to the performance of the supervisory and control duties performed by the Board of Statutory Auditors to be obtained. There was significant interaction with the heads of control functions (Internal Auditing, Risk Management, Compliance and Anti-Money Laundering), who provided the Board with access to the results of their activities and the reports prepared by their functions.

The Board of Statutory Auditors' participation in the Risk Committee allowed for the exchange, in accordance with supervisory regulations, of all information of mutual interest and the ensuing coordination for the performance of their respective duties.

During meetings with the external auditors, the statutory auditors also reviewed proper application of accounting and administrative principles and the best allocation and representation in the financial statements of elements with a material impact at the level of financial performance and financial position. The external auditors did not report any aspects deserving of mention and/or facts to be censured.

The Board of Statutory Auditors supervised the financial reporting process, the efficacy of the internal control systems, the statutory auditing of the annual accounts and the independence of the independent auditors.

With respect to the pursuit of the common objective, as established in art. 2545 of the Italian Civil Code and art. 3 of the Articles of Association, please refer to the description and details provided in the report on operations.

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Significant events during the year

For further information about the significant events during the year cited below, refer to the Directors' report on operations:

- sale of the interest in Nexi, with a capital gain of €7.8 million;
- approval of the 2019-2022 strategic plan.

In addition to what is indicated in the Board of Directors' report, the Board of Statutory Auditors examined the document on the Bank's compensation policies, approved by the Board of Directors on 8 April 2020. In this regard, on the basis of available information, the Board of Statutory Auditors believes that the principles set out in the document are not in conflict with the company's objectives, strategies and policies for prudent risk management.

Subsequent events

For information on significant events after the balance sheet date, please also refer to the contents of the directors' report on operations, which indicates the initial actions taken by Civibank to protect its employees and customers from the Covid-19 pandemic and in adopting the banking industry's suggestions to support liquidity for households.

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Related-party transactions
The Board of Statutory Auditors notes that, in respect of related-party transactions, the Board of Directors has adopted rules, pursuant to Art. 2391-*bis* of the Italian Civil Code and applicable legislation, that ensure "*the transparency and substantive and procedural propriety of transactions*."
The transactions in question are part of normal banking business and generally are subject to arm's length conditions and concluded in accordance with Art. 136 of the Consolidated Banking Act and supervisory regulations. Information about the transactions concluded is provided in the notes.

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Information about the activity performed
Compliance with the law and Articles of Association
We supervised compliance with the law, Articles of Association and principles of sound management, and we determined that the Directors' actions were consistent with the law and Articles of Association, compliant with the principles of sound and prudent management and in accordance with the need to achieve the Bank's interests. Having obtained adequate information about the business conducted and the most significant transactions from the standpoint of financial performance, cash flow and financial position undertaken by the Bank, we may reasonably affirm, on the basis of the information obtained, that such transactions were undertaken in accordance with the law and Articles of Association, were in the Bank's interest and did not appear manifestly imprudent or excessively risky, were not in conflict of interest, did not conflict with the resolutions passed by the shareholders' meeting and were not otherwise such as to compromise the integrity of the Bank's assets.

Atypical or unusual transactions
There were no atypical and/or unusual transactions in 2019.

Complaint pursuant to art. 2408 of the Italian Civil Code
The Board of Statutory Auditors did not receive any complaints.

Principles of sound management
We investigated and supervised compliance with the principles of proper administration, sound and prudent management, transparency of information and operating performance, obtaining information from function heads, and we do not have any observations on this subject.

Adequacy of the organisational structure
To the extent of our competence, we supervised the organisational structure, acknowledging the changes made and planned and, on the basis of the information obtained from the various company functions, considering the Bank's size and complexity, it is our opinion that the organisational structure is essentially adequate. We invite the Bank to continue with the constant process of updating its organisational structure to the new technological and market scenarios.

Adequacy of the administrative and accounting system
We supervised the suitability of the administrative and accounting system and its ability to identify and properly represent operating events in the financial statements, and we may reasonable state, to the extent of our competence and on the basis of the information obtained from the independent auditors, that the administrative and accounting system is adequate and reliable.

Risk management and monitoring
The Bank takes a particularly conservative approach. Its organisational system consists of a set of internal rules, operating procedures and control units, which is organised by integrating control methods at various levels. The organisational structure is intended to ensure that operating processes are efficient and effective, so as to safeguard the integrity of the company's assets, guard against losses, guarantee that information is reliable and complete and verify that business is conducted properly, in accordance with internal and external rules.
In compliance with supervisory regulations, the Bank has developed and codified specific risk management

processes and launched a series of reporting measures to manage any critical issues.
It bears recalling that risk appetite – an important parameter for defining the strategic plan and for planning – is set by the Board of Directors when defining the Risk Appetite Framework (RAF).
With regard to the significance of risks, in accordance with prudential regulations, the Board of Statutory Auditors also supervised compliance with the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP).

Adequacy of the internal control system
The Board of Statutory Auditors assessed and supervised the adequacy of the internal control system. Refer to the corporate governance report prepared by the Board of Directors, which shows that the internal control and risk management system is adequate to the Bank's characteristics.
The supervisory activity performed by the Board of Statutory Auditors involved constant interaction with control functions (Internal Auditing, Risk Management, Compliance and Anti-Money Laundering) to supervise compliance with company rules and procedures and the adequacy and efficacy of the overall control system.
Control functions continue with the process of implementing a homogeneous vision of risk management, adopting uniform criteria of analysis and supplementing processes, based on uniform, schematic methods. Attention should be drawn to the autonomy and independence of control functions, which in accordance with the company's organisational structure, report directly to the Board of Directors, thus ensuring that they enjoy the necessary autonomy from the other company units.
The Risk Committee plays a significant role within the control system, permitting the exchange with the Board of Statutory Auditors of all information of mutual interest and the necessary coordination for the performance of their respective duties.
In accordance with the proportionality principle, the Board of Statutory Auditors believes that there is room for further improvement, but that the internal control system is effective on the whole, while emphasising the importance of uniform, adequate and timely internal information flows.

Evaluation of independence requirements
The Board of Statutory Auditors does not have any observations with regard to the application of the evaluative criteria adopted by the Board of Directors to assess the independence of its members.
The statutory auditors confirm that they remain independent.

Organisation, Supervision and Control Model pursuant to Legislative Decree 231/2001
The supervision and control function identified in Art. 6 of Legislative Decree No. 231/2001 has been assigned to the Board of Statutory Auditors, as indicated by the Bank of Italy.
The supervisory activity performed did not bring to light any critical issues relating to the operating and internal control activities carried out. The organisational model is being updated to the new process structure and the expansion of the administrative liability of entities to new offences.

Independent auditors
The independent auditors, KPMG S.p.A., issued their report on the financial statements at and for the year ended on 31 December 2019 on today's date.
In their report, they give an unqualified positive opinion.
To the extent of their competence, the auditors expressed a positive judgment of the consistency of the report on operations.
During meetings with the independent auditors, the Board of Statutory Auditors was not informed of any aspects requiring mention and/or circumstances deserving censure. The Internal Control and Audit Committee's Report (the "Additional Report") was forwarded to the Board of Statutory Auditors pursuant to Article 11 of Regulation (EU) No 537/2014. This Report does not identify any significant deficiencies in the internal control system with respect to the financial reporting process and/or in the accounting system.

Specific observations
Pursuant to Art. 2426 (1) (5) of the Italian Civil Code, the Board of Statutory Auditors reports that the assets recognised in the balance sheet do not include any start-up and expansion costs, research and development costs or capitalised advertising costs.

Tax dispute

On 20 December 2018 (see Chapter E), Section 5) of the notes, “Qualitative disclosures” “Tax disputes”), the Bank was served an assessment notice based on the audit conducted by the Italian Revenue Agency – Regional Department for Friuli Venezia Giulia concerning 2013. The charges concern a series of decreases in taxable expenses, with the most serious alleged irregularity by far being that regarding the purported breach of the pertinence principle (Art. 109 of the Consolidated Income Tax Act) in connection with impairment losses on defaulted loans, which the Bank regarded as deductible when figuring its corporate taxable income in accordance with the application of the principle of "derivation" of the income statement, but which the revenue authorities conversely regard as non-tax deductible. With the support of opinions from the qualified professionals it has retained, the Bank believes that it will be able to prove that the various charges are baseless and therefore has lodged a petition with the competent tax commission. The Directors believe that the risk of an unfavourable outcome to the dispute commenced with the Italian Revenue Agency may be designated "possible". Accordingly, in application of IAS 37, no provision for risks and charges has been recognised in the 2019 annual financial statements in respect of the amount sought by the revenue authorities, since only the accrual for the estimated legal fees was available.

Non-financial report

As part of its duties, the Board of Statutory Auditors supervised compliance with Legislative Decree No. 254 of 30 December 2016, particularly as regards the preparation process and contents of the Non-Financial Report drafted by Banca di Cividale S.c.p.A. In this regard, having examined both the certification by the independent auditors pursuant to Article 3 (10) of Legislative Decree No. 254/2016 and the declaration rendered by the same independent auditors within the framework of their report on the financial statements pursuant to Article 4 of the Consob Regulation implementing the above Decree, the Board did not present any observations.

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Shareholders,

On the basis of the information provided in this report, the Board of Statutory Auditors may reasonably assure you that the activity performed and the information obtained have not brought to light any circumstances requiring censure and/or irregularities or omissions to be reported or cited in this report.

The Board of Statutory Auditors confirms that the annual financial statements have been prepared in accordance with the IASs/IFRSs issued by the International Accounting Standards Board (IASB) and have been also drafted in compliance with the instructions issued by the Bank of Italy.

In their report, the independent auditors express an unqualified positive opinion, without objections and/or requests for information. To the extent of their competence, the independent auditors also express a positive opinion concerning the consistency of the report on operations with the financial statements.

To the extent of our competence, on the basis of the information obtained, we have determined that the annual financial statements have been prepared in accordance with general preparation principles and measurement criteria consistent with accounting standards. The notes complete the financial statements with the necessary figures and information and provide extensive, detailed information.

In consideration of the foregoing, in light of the unqualified positive opinion, without objections and/or requests for additional information, expressed by the independent auditors, we hereby grant our consent to the approval of the annual financial statements at and for the year ended on 31 December 2019, and further acknowledge that the proposed allocation of net income for the year put forth by the Board of Directors is not in contrast with the law, regulations or the Articles of Association.

Cividale del Friuli, 24 April 2020

The Board of Statutory Auditors
(Pompeo Boscolo)
(Gianluca Pico)
(Gianni Solinas)

Independent auditors' report pursuant to Article 14 of Legislative Decree No. 39 of 27 January 2010 and Regulation (EU) No 537/2014

KPMG

KPMG S.p.A.
Revisione e organizzazione contabile
Via Pierluigi da Palestrina, 12
34133 TRIESTE TS
Telefono +39 040 3480285
Email it-fmauditaly@kpmg.it
PEC kpmgspa@pec.kpmg.it

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

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

To the shareholders of
Banca di Cividale S.C.p.A.

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Banca di Cividale S.C.p.A. (the "bank"), which comprise the statement of financial position as at 31 December 2019, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of Banca di Cividale S.C.p.A. as at 31 December 2019 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and article 43 of Legislative decree no. 136/15.

Basis for opinion

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

Key audit matters

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

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

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

Notes to the financial statements "Part B - Information on the statement of financial position - Assets": section 4 "Financial assets at amortised cost - caption 40"

Notes to the financial statements "Part C - Notes to the income statement": section 8 "Net impairment losses/gains - caption 130"

Notes to the financial statements "Part E - Risks and related hedging policies": section 1 "Credit risk"

Key audit matter	Audit procedures addressing the key audit matter
Lending to customers is one of the bank's core activities. Loans and receivables with customers recognised under financial assets at amortised cost totalled €3,755.2 million at 31 December 2019, accounting for 86.6% of total assets. Net impairment losses on loans and receivables with customers recognised in profit or loss during the year totalled €25.5 million. For classification purposes, the directors make analyses that are sometimes complex in order to identify those positions that show evidence of impairment after disbursement. To this end, they consider both internal information about the performance of exposures and external information about the reference sector or the borrowers' overall exposure to banks. Measuring loans and receivables with customers is a complex activity, with a high degree of uncertainty and subjectivity, with respect to which the directors apply internal valuation models that consider many quantitative and qualitative factors, including historical collection flows, expected cash flows and related estimated collection dates, the existence of any indicators of impairment, the borrower's estimated repayment ability, an assessment of any guarantees, the impact of macroeconomic	Our audit procedures included: — gaining an understanding of the banks' processes and IT environment in relation to the disbursement, monitoring, classification and measurement of loans and receivables with customers; — assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls, especially in relation to the identification of exposures with indicators of impairment and the calculation of impairment losses; — analysing the classification criteria used for allocating loans and receivables with customers to the IFRS 9 categories (staging); — analysing the individual and collective impairment assessment policies and models used and checking the reasonableness of the main assumptions and variables included therein; we carried out these procedures with the assistance of experts of the KPMG network; — selecting a sample of exposures tested collectively, checking the application of the measurement models applied and

variables, future scenarios and risks of the sectors in which the bank's customers operate. For the above reasons, we believe that the classification and measurement of loans and receivables with customers recognised under financial assets at amortised cost are a key audit matter.	checking that the impairment rates applied complied with those provided for in such models; — selecting a sample of exposures tested individually and checking the reasonableness of the indicators of impairment identified and of the assumptions about their recoverability, including considering the guarantees received; — analysing the significant changes in the financial asset categories and in the related impairment rates compared to the previous years' figures and discussing the results with the relevant internal departments; — assessing the appropriateness of the disclosures about loans and receivables with customers recognised under financial assets measured at amortised cost.

Other matters - Comparative figures

The bank's 2018 financial statements were audited by other auditors, who expressed their unqualified opinion thereon on 28 March 2019.

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

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and article 43 of Legislative decree no. 136/15 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

— identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

— obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the bank's internal control;

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

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

— evaluate the overall presentation, structure and content of the 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 the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

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

On 13 April 2019, the bank's shareholders appointed us to perform the statutory audit of its financial statements as at and for the years ending from 31 December 2019 to 31 December 2027.

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

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

Report on other legal and regulatory requirements

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

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

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

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

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

Statement pursuant to article 4 of the Consob regulation implementing Legislative decree no. 254/16

The directors of Banca di Cividale S.C.p.A. are responsible for the preparation of a non-financial statement pursuant to Legislative decree no. 254/16. We have checked that the directors had approved such non-financial statement. In accordance with article 3.10 of Legislative decree no. 254/16, we attested the compliance of the non-financial statement separately.

Trieste, 24 April 2020

KPMG S.p.A.

(signed on the original)

Pietro Dalle Vedove
Director of Audit

ANNUAL FINANCIAL STATEMENTS
Balance sheet

Balance sheet - Assets		31/12/2019		31/12/2018	
10	Cash and cash equivalents		118,578,707		29,746,990
20	Financial assets measured at fair value through profit or loss		35,660,316		29,710,420
	a) financial assets held for trading	1,023,090		300,475	
	c) other financial assets mandatorily measured at fair value	34,637,226		29,409,945	
30	Financial assets measured at fair value through other comprehensive income		167,106,952		318,469,161
40	Financial assets measured at amortised cost		3,802,116,099		3,290,965,901
	a) due from banks	46,915,906		75,226,289	
	b) loans to customers	3,755,200,193		3,215,739,612	
70	Equity investments		3,190,063		3,769,491
80	Property and equipment		89,441,346		76,459,003
90	Intangible assets		119,461		153,220
100	Tax assets		71,246,730		74,706,430
	a) current	4,680,007		5,279,181	
	b) deferred	66,566,723		69,427,249	
120	Other assets		50,380,149		55,415,994
	Total assets		**4,337,839,823**		**3,879,396,610**

Balance sheet - liabilities and shareholders' equity		31/12/2019		31/12/2018	
10	Financial liabilities measured at amortised cost		3,979,634,273		3,507,783,377
	a) due to banks	717,882,636		672,401,161	
	b) due to customers	3,249,403,511		2,765,600,075	
	c) securities issued	12,348,126		69,782,141	
20	Financial liabilities held for trading		125,375		167,610
60	Tax liabilities		2,379,131		3,544,494
	a) current	1,764,818		2,285,599	
	b) deferred	614,313		1,258,895	
80	Other liabilities		62,471,014		81,291,925
90	Employee termination benefits		4,989,810		4,794,229
100	Provisions for risk and charges:		3,320,360		7,796,617
	a) commitments and guarantees given	556,296		1,381,106	
	c) other provisions for risks and charges	2,764,064		6,415,511	
110	Valuation reserves		842,469		9,495,588
140	Reserves		65,534,154		45,805,310
150	Share premiums		167,021,562		167,021,562
160	Share capital		50,913,255		50,913,255
170	Treasury shares (-)		(2,124,581)		(1,260,357)
180	Net income (loss) (+/-)		2,733,000		2,043,000
	Total liabilities and shareholders' equity		**4,337,839,823**		**3,879,396,610**

Income statement

Income Statement		31/12/2019		31/12/2018	
10	Interest income and similar revenues		78,318,419		78,224,311
	of which: interest income calculated using the effective interest rate method	77,834,441		77,694,621	
20	Interest expense and similar charges		(17,846,125)		(17,794,444)
30	**Net interest income**		**60,472,294**		**60,429,867**
40	Commission income		38,039,032		34,710,927
50	Commission expense		(5,488,483)		(4,689,236)
60	**Net commission income**		**32,550,549**		**30,021,691**
70	Dividends and similar income		159,666		10,548,805
80	Net trading income		275,501		563,931
100	Profit (loss) on disposal or repurchase of:		1,669,939		(143,261)
	a) financial assets measured at amortised cost	361,692		(822,918)	
	b) financial assets measured at fair value through other comprehensive income	1,295,989		569,152	
	c) financial liabilities	12,258		110,505	
110	Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss		62,374		(1,159,731)
	b) other financial assets mandatorily measured at fair value	62,374		(1,159,731)	
120	**Total income**		**95,190,323**		**100,261,302**
130	Charges/write-backs on impairment of:		(25,089,348)		(25,065,315)
	a) financial assets measured at amortised cost	(25,459,794)		(25,054,714)	
	b) financial assets measured at fair value through other comprehensive income	370,446		(10,601)	
140	Profits (Losses) on changes in contracts without derecognition		(60,797)		-
150	**Net Financial income**		**70,040,178**		**75,195,987**
160	G&A expenses:		(71,420,215)		(72,237,547)
	a) personnel expenses	(41,993,643)		(41,156,995)	
	b) other administrative expenses	(29,426,572)		(31,080,552)	
170	Net provisions for risks and charges		1,926,478		(5,653,209)
	a) commitments and guarantees given	824,810		(21,096)	
	b) other net provisions	1,101,668		(5,632,113)	
180	Net impairment/write-backs on property, plant and equipment		(4,815,410)		(2,646,301)
190	Net impairment/write-backs on intangible assets		(62,901)		(58,488)
200	Other operating income (expenses)		8,227,882		8,039,872
210	**Operating cost**		**(66,144,166)**		**(72,555,673)**
220	Profit (loss) on equity investments		(79,427)		(10,796)
250	Profit (loss) on disposal of investments		(70,465)		66,927
260	**Income (loss) before tax from continuing operations**		**3,746,120**		**506,445**
270	Tax on income from continuing operations		(1,013,120)		1,536,555
280	**Income (loss) after tax from continuing operations**		**2,733,000**		**2,043,000**
300	**Net income**		**2,733,000**		**2,043,000**

The Bank opted not to restate the comparative figures on a like-for-like basis in the year of first-time adoption of IFRS 16; accordingly, the figures for 2018 are not fully comparable.

Statement of other comprehensive income

	Items	31/12/2019	31/12/2018
10	**Net profit (loss) for the year**	**2,733,000**	**2,043,000**
	Other comprehensive income after tax not reclassified to profit or loss		
20	Equity instruments designated at fair value through other comprehensive income	8,725,743	(684,864)
70	Defined benefit plans	(169,662)	151,364
140	Financial assets (other than equities) measured at fair value through other comprehensive income	476,643	(928,070)
170	**Total other comprehensive income after tax**	**9,032,725**	**(1,461,570)**
180	**Other comprehensive income (Item 10+170)**	**11,765,725**	**581,430**

Statement of changes in shareholders' equity (2019)

Year 2019	Balance at 31/12/2018	Change in opening balance	Balance at 01/01/2019	Allocation of result for previous period		Changes during the year							Total comprehensive income for the period	Shareholders' equity at 31/12/2019
							Equity transactions							
				Reserves	Dividends and other uses	Changes in reserves	New share issues	Purchase of treasury stock	Extraordinary dividend distribution	Change in equity instruments	Derivatives on own shares	Stock options		
Share capital	**50,913,255**		**50,913,255**	-	-	-	-	-	-	-	-	-	-	**50,913,255**
a) ordinary shares	50,913,255		50,913,255	-	-	-	-	-	-	-	-	-	-	50,913,255
b) other shares	-		-	-	-	-	-	-	-	-	-	-	-	-
Share premium reserve	**167,021,562**		**167,021,562**		-	-	-		-	-	-	-	-	**167,021,562**
Reserves	**45,805,310**	-	**45,805,310**	**2,043,000**	-	**17,685,844**	-	-	-	-	-	-	-	**65,534,154**
a) income	45,805,310		45,805,310	2,043,000	-	17,685,844	-	-	-	-	-	-	-	65,534,154
b) other	-		-	-	-	-	-	-	-	-	-	-	-	-
Valuation reserves:	**9,495,588**		**9,495,588**			**(17,685,844)**							**9,032,725**	**842,469**
Equity instruments	-		-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	**(1,260,357)**		**(1,260,357)**					**(864,224)**						**(2,124,581)**
Net income (loss) for the period	**2,043,000**		**2,043,000**	**(2,043,000)**		-	-	-	-	-	-	-	**2,733,000**	**2,733,000**
Shareholders' equity	**274,018,358**	-	**274,018,358**	-	-	-	-	**(864,224)**	-	-	-	-	**11,765,725**	**284,919,859**

Statement of changes in shareholders' equity (2018)

Year 2018	Balance at 31/12/2017	Change in opening balance	Balance at 01/01/2018	Allocation of result for previous period		Changes during the year							Total comprehensive income for the period	Shareholders' equity at 31/12/2018
							Equity transactions							
				Reserves	Dividends and other uses	Changes in reserves	New share issues	Purchase of treasury stock	Extraordinary dividend distribution	Change in equity instruments	Derivatives on own shares	Stock options		
Share capital	**50,913,255**		**50,913,255**	-	-	-	-	-	-	-	-	-	-	**50,913,255**
a) ordinary shares	50,913,255		50,913,255	-	-	-	-	-	-	-	-	-	-	50,913,255
b) other shares	-		-	-	-	-	-	-	-	-	-	-	-	-
Share premium reserve	**167,021,739**		**167,021,739**		-	-	-	**(177)**	-	-	-	-	-	**167,021,562**
Reserves	**68,218,633**	**(23,170,822)**	**45,047,812**	**753,000**	-	**4,498**	-	-	-	-	-	-	-	**45,805,310**
a) income	68,218,633	(23,170,822)	45,047,812	753,000	-	4,498	-	-	-	-	-	-	-	45,805,310
b) other	-		-	-	-	-	-	-	-	-	-	-	-	-
Valuation reserves:	**15,438,011**	**(4,480,853)**	**10,957,158**										**(1,461,570)**	**9,495,588**
Equity instruments	-		-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	**(791,592)**		**(791,592)**					**(468,765)**						**(1,260,357)**
Net income (loss) for the period	**753,000**		**753,000**	**(753,000)**		-	-	-	-	-	-	-	**2,043,000**	**2,043,000**
Shareholders' equity	**301,553,046**	**(27,651,675)**	**273,901,371**	-	-	**4,498**	-	**(468,942)**	-	-	-	-	**581,431**	**274,018,358**

Statement of cash flows - direct method

OPERATING ACTIVITY	31/12/19		31/12/18	
1. Operations		**33,090,770**		**41,477,986**
- interest income received (+)	80,602,368		78,004,228	
- interest expense paid (-)	(17,846,125)		(17,794,444)	
- dividends and similar revenues	159,666		10,548,805	
- net commissions (+/-)	33,989,072		30,021,691	
- staff costs	(41,986,191)		(39,382,831)	
- other expenses (-)	(30,118,430)		(30,086,454)	
- other revenues (+)	8,134,328		8,630,436	
- taxes and duties (-)	156,081		1,536,555	
2. Liquidity generated/absorbed by financial assets: (+/-)		**(400,102,908)**		**(20,696,201)**
- financial assets held for trading	(722,615)		4,679,917	
- financial assets available for sale	(5,227,281)		2,767,951	
- loans to custumers	160,926,381		35,069,524	
- due from banks: repayable on demand	(545,119,293)		(45,403,657)	
- other assets	(9,960,100)		(17,809,936)	
3. Liquidity generated/absorbed by financial liabilities: (+/-)		**456,128,651**		**(14,521,034)**
- due to banks: repayable on demand	471,850,896		(20,333,427)	
- due to banks: other	(167,610)		(597,692)	
- other liabilities	(15,554,635)		6,410,085	
Net liquidity generated/absorbed by operating activity A (+/-)		**89,116,513**		**6,260,751**
INVESTING ACTIVITY				
1. Liquidity generated by: (+)		**579,428**		**10,796**
- disposal of equity investments	579,428		10,796	
Net liquidity generated/absorbed by investing activity B (+/-)		**579,428**		**10,796**
FUNDING ACTIVITY				
- issue/purchase of own shares	(864,224)		(468,765)	
Net liquidity generated/absorbed by funding activity C (+/-)		**(864,224)**		**(468,765)**
NET LIQUIDITY GENERATED/ABSORBED DURING THE PERIOD D = A +/- B +/- C		**88,831,717**		**5,802,782**

RECONCILIATION		
Cash and cash equivalents at the start of the period E	29,746,990	23,944,208
Total net liquidity generated/absorbed during the period D	88,831,717	5,802,782
Cash and cash equivalents: effect of exchange rate changes F	0	0
Cash and cash equivalents at the end of the period G = E +/-D+/-F	**118,578,707**	**29,746,990**

NOTES TO THE FINANCIAL STATEMENTS

Chapter A – ACCOUNTING POLICIES

A.1 – GENERAL INFORMATION

Section 1 Statement of compliance with international accounting standards

In application of Legislative Decree No. 38 of 28 February 2005, the financial statements of Banca di Cividale are prepared in accordance with the international accounting standards (IASs/IFRSs) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union, the adoption of which was compulsory at 31 December 2019, including the relative Interpretations of the International Financial Reporting Interpretation Committee (IFRIC), as established by Regulation (EC) No. 1606 of 19 July 2002.
International accounting standards have been interpreted and applied in reference to the Conceptual Framework for Preparation and Presentation of Financial Statements ("Framework"), although not endorsed by the European Commission, Implementation Guidance, Basis for Conclusions and any other documents prepared by the IASB or by the IFRIC in completion of the accounting standards issued.
Account has also been taken of the notices from the supervisory authorities (Bank of Italy, Consob and ESMA) providing recommendations on the disclosures to be presented in the financial statements with regard to the most material aspects or the accounting treatment of particular transactions.
The financial statements at 31 December 2019 have also been prepared on the basis of the "Instructions for the Preparation of the Separate and Consolidated Financial Statements of Banks and Financial Institutions that are the Parent Companies of Banking Groups" issued by the Bank of Italy exercising the powers established by Art. 43 of Legislative Decree No. 136/2015, by Order of 22 December 2005, issuing Circular No. 262/05, with the subsequent updates of 18 November 2009, 21 January 2014, 22 December 2014, 15 December 2015, 22 December 2017 and 30 November 2018.
Those Instructions set out a compulsory presentation for the financial statements and the basis for the preparation thereof, as well as the contents of the notes to the financial statements.
The financial statements have been prepared using the international accounting standards in force at 31 December 2019 (including the SIC and IFRIC interpretation documents).
The following table shows the new international accounting standards or amendments to the accounting standards already in effect, with the relevant endorsing regulations enacted by the European Commission, which entered into force in financial year 2019.

Regulation endorsement	Title	Effective date
1986/2017	IFRS 16 Leasing	01/01/2019 First financial year starting on or after 01/01/2019
498/2018	IFRS 9 Financial instruments	01/01/2019 First financial year starting on or after 01/01/2019
1595/2018	IFRIC 23 Uncertainty over income tax treatments	01/01/2019 First financial year starting on or after 01/01/2019
237/2019	Amendments to IAS 28 Investments in associates and Joint ventures	01/01/2019 First financial year starting on or after 01/01/2019
402/2019	Amendments to IAS 19 Employee Benefits	01/01/2019 First financial year starting on or after 01/01/2019
412/2019	Amendments to IAS 12 Income Taxes	01/01/2019 First financial year starting on or after 01/01/2019
	Amendments to IAS 23 Borrowing Costs	01/01/2019 First financial year starting on or after 01/01/2019
	Amendments to IFRS 3 Business Combinations	01/01/2019 First financial year starting on or after 01/01/2019
	Amendments to IFRS 11 Joint Arrangements	01/01/2019 First financial year starting on or after 01/01/2019
34/2020	Amendments to IFRS 9 Financial Instruments	01/01/2020 First financial year starting on or after 01/01/2020
	Amendments to IAS 39 Financial Instruments: Recognition and Measurement	01/01/2020 First financial year starting on or after 01/01/2020
	Amendments to IFRS 7 Financial Instruments: Disclosures	01/01/2020 First financial year starting on or after 01/01/2020

The accounting standards applicable on a mandatory basis for the first time with effect from 2019 include, first and foremost, IFRS 16 *Leases*. In fact, IFRS 16 *Leases*, the new accounting standard on lease contracts that replaced IAS 17 and IFRIC 4, entered into force on 1 January 2019. IFRS 16 affects the accounting treatment of lease contracts, as well as of rental and free loan for use contracts, introducing a new definition of "lease" based on the transfer of the "right of use" to the leased asset.
For a detailed description of IFRS 16 and the impacts of the first-time adoption of the Standard, see the paragraph below "The transition to international accounting standard IFRS 16."
In addition to the above, as shown in the foregoing table, the accounting standards applicable on a mandatory basis for the first time with effect from 2019 include the interpretation IFRIC 23 *Uncertainty over Income Tax Treatments* and several amendments – none of which is particularly relevant to Banca di Cividale – to the accounting standards already in force, endorsed by the European Commission in 2018 and 2019.

The following is a summary of the endorsing regulations:

- ✓ Regulation No 498/2018: the Regulation endorsed on 22 March 2018 adopted several amendments to IFRS 9 *Prepayment Features with Negative Compensation* relating to the classification of financial instruments that present particular prepayment (early repayment clauses). The amendment in question allows, for the purposes of passing the SPPI test, prepayment clauses to provide for a reasonable compensation for early repayment may be both paid and received (and not only, as previously received by the lessor/investor).
- ✓ Regulation No 1595/2018: the Regulation endorsed on 23 October 2018 adopts the interpretation IFRIC 23 *Uncertainty over Income Tax Treatments*, which clarifies how to apply the recognition and measurement requirements set out in IAS 12 *Income Taxes* (for current and deferred tax assets and liabilities), when there is uncertainty regarding income tax treatments. According to the Interpretation, an entity must assess whether it is probable that the tax authority will accept an uncertain tax treatment; if so, it must determine the related value; if not, it must apply either the most probable amount method or expected value method to determine the taxable profit (tax loss) and other values for tax purposes. It bears emphasising that the Interpretation in question better qualifies the issue of the treatment of uncertainty but did not entail any substantial changes to the approach adopted by Banca di Cividale.
- ✓ Regulation No 237/2019: the Regulation dated 8 February 2019 adopted several amendments to IAS 28 *Investments in Associates and Joint Ventures*. The update, *Long-term Interests in Associates and Joint Ventures*, part of the ordinary process of rationalising and clarifying international accounting standards, clarifies that an entity is also to apply IFRS 9, including the provisions on impairment, to long-term instruments representative of financial instruments in associates or joint ventures to which the equity method does not apply. The amendments in question do not introduce new concepts; rather, they seek to guide the interaction between IFRS 9 and IAS 28.
- ✓ Regulation No 402/2019: the regulation dated 13 March 2019 applies several amendments to IAS 19 *Employee Benefits* to clarify that, following the amendment, curtailment or settlement of defined-benefit plans, an entity must apply updated assumptions reflecting the restatement of its net defined-benefit liability (asset) for the rest of the reference period. Given the various practices adopted by companies, it is specified that a company is called on to update actuarial assumptions following the amendment/curtailment of a plan by using the most recent information available.
- ✓ Regulation No 412/2019: in the Regulation dated 14 March 2019, the Commission, as part of its ordinary process of rationalising and clarifying international accounting standards, endorsed the changes adopted by the IASB within the framework of the Annual Improvements to International Reporting Standards 2015-2017 Cycle, published on 12 December 2017. These changes include amendments to IAS 12 *Income Taxes*, IAS 23 *Borrowing Costs*, IFRS 3 *Business Combinations* and IFRS 11 *Joint Arrangements*.

Section 2 General basis of preparation

The financial statements consist of the balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders' equity, statement of cash flows (hereinafter, the "financial statements") and the notes to the financial statements. A report on operations, earnings results and financial position has also been included. The figures presented in the financial statements are expressed in euro, whereas the tables in the notes, as well in the report on operations, are expressed in thousands of euro, unless otherwise indicated.
The financial statements have been prepared in application of the general preparation principles set forth in IAS 1, the accounting standards illustrated in Chapter A.2 of the notes (international accounting standards endorsed by the European Union the adoption of which was compulsory at 31 December 2019) and the general requirements laid down in the Framework for the Preparation and Presentation of Financial Statements drafted by the International Accounting Standards Board (IASB).
The instructions provided by the Bank of Italy in Circular No. 262 of 22 December 2005, sixth update, were followed when preparing the financial statements. Those Instructions set out a compulsory presentation for the financial statements and the basis for the preparation thereof, as well as the contents of the notes to the financial statements.
The financial statements for the year ended 31 December 2019 have been prepared in a clear manner and provide a fair and true representation of the Bank's financial position and earnings results for the year. No exceptions to the application of IASs/IFRSs were made in these financial statements. The directors' report on operations and notes contain the disclosures required by international accounting standards, Italian law, the Bank of Italy and Consob, in addition to voluntary disclosures deemed necessary to a truthful, accurate account of the Bank's situation.
The publication of the financial statements for the year ended 31 December 2019 was authorised by the Board of Directors on 11 March 2020. Banca di Cividale is a cooperative company limited by shares, registered and domiciled in Italy.
The policies governing the recognition, measurement and derecognition of assets and liabilities and the approach to the recognition of revenues and costs adopted by the Bank in the financial statements at and for the year ended 31 December 2019 have been updated with respect to those adopted in preparing the financial statements at and for the year ended 31 December 2018 following the entry into force of the new accounting standard IFRS 16 *Leases* with effect from 1 January 2019.

Contents of the financial statements

Balance sheet and income statement

The balance sheet and income statement consist of items, sub-items and further information (the "of which" within items and sub-items). In the interest of completeness in adopting the layouts established by the Bank of Italy, items with nil balances in both the reporting year and previous year have also been presented. In the income statement, revenues are indicated without sign, whereas costs are presented in parentheses.

Statement of other comprehensive income

The statement of other comprehensive income begins with net income (loss) for the year and presents income components taken to valuation reserves, net of the related tax effect, in accordance with international accounting standards. Other comprehensive income is presented by separately stating income components that will not be recycled to the income statement in the future and those that instead may subsequently be reclassified to net income (loss) for the year if certain conditions are met. As for the balance sheet and income statement, items of the Bank of Italy layouts with nil balances in both the reporting and previous years have also been presented. Negative amounts are presented in parentheses.

Statement of changes in shareholders' equity

The statement of changes in shareholders' equity presents the composition of and changes in shareholders' equity accounts during the reporting year and the previous year, broken down into share capital, equity reserves, reserves from retained earnings, reserves from the valuation of assets or liabilities and net income or loss. Treasury shares are deducted from shareholders' equity.

Statement of cash flows

The statement of cash flows has been prepared according to the direct method, which shows the main categories of gross receipts and payments, i.e. without offsetting. Cash flows during the year are presented by classifying them as operating, investing and financing activity. In particular, operating activity includes economic components and all financial assets and liabilities other than investing activity that generated or absorbed cash.

Investing activity includes cash inflows and outflows due to the sale/purchase of property, plant and equipment, intangible assets and equity investments. Financing activity includes cash flows relating to the issue or purchase of equity instruments, the distribution of dividends or other purposes undertaken during the year. In the statement, cash flows relating to cash generated during the year are indicated without sign, whereas those relating to cash used are preceded by the minus sign.

Content of the notes

The notes to the financial statements include the information provided for by International Financial Reporting Standards and Circular No. 262 of the Bank of Italy issued on 22 December 2005 and subsequent updates applicable to the preparation of these financial statements.

Business outlook and the going-concern assumption

For information on the going-concern assumption, refer to the report on operations, which forms an integral part of this document. For information on the impairment testing of assets and uncertainty in the use of estimates, refer to the pertinent sections of the notes (Chapter A - Accounting policies and Chapter B - Notes to the balance sheet).

Section 3 Subsequent events

Please refer to the corresponding section of the report on operations.

The report on operations contains information on the actions taken by the Bank to ensure business continuity, with the utmost focus on best protecting the health and safety of employees and customers with regard to the aforementioned spread of the coronavirus epidemic. With regard to the accounting aspects resulting from this scenario, with respect to the provisions of IAS 10, it may be emphasised that the Bank considers this phenomenon an event after the reporting date that does not entail any need to adjust the financial statement values (i.e., a “non-adjusting event”).

In view of the uncertainties regarding the impacts that the spread and duration of the epidemic will have on the international and Italian economy and the scope and efficacy of the measures implemented by governments and banking authorities to combat it and support the economy, businesses and households, it is not currently possible to provide a quantitative estimate of these impacts on the Bank's financial performance and financial position, although it is believed probable that there will be an impact on the Bank’s profitability relating to a decline in operating revenues and an increase in the cost of credit. Accordingly, the impacts will be considered in the accounting estimates that will be prepared in 2020 in light of the information that becomes available from time to time.

Section 4 Other aspects

Risks and uncertainties relating to the use of estimates

The application of accounting standards entails the use of estimates and assumptions affecting the values of line items and disclosures provided regarding contingent assets and liabilities. For the purposes of the assumptions underlying the estimates adopted, all information available at the date of the accounting statements and all other factors considered reasonable to this end are taken into account.

In particular, estimation processes were adopted in support of the carrying amounts of certain items of the financial statements at 31 December 2019, as provided for in the accounting standards. Such processes are essentially based on estimates of the future recoverability of the amounts recognised and have been carried out on a going-concern basis. These processes underlie the carrying amounts as at 31 December 2019.

Estimates are revised at least annually, when preparing the financial statements.

The risk of uncertainty in estimation, from the standpoint of the significance of the items of the financial statements and the aspect of measurement requested by the management, is essentially present in determining:

- ✓ the fair value of financial instruments not quoted in active markets;
- ✓ adjustments due to credit risk;
- ✓ provisions for risks and charges;
- ✓ employee termination benefits;

- ✓ goodwill and other intangible assets.

Government grants
Article 35 of Decree-Law No. 34/2019 (the "Growth Decree"), converted into Law No. 58/2019, introduces a reformulation of the rules on the transparency of government grants set out in Article 1, paragraphs 125-129, of Law No. 124/2017. The reformulation indicates that transparency obligations apply to information regarding subventions, subsidies, advantages, grants or aid, in monetary form or in kind, "not of a general character and not of the nature of consideration, remuneration or compensation" actually disbursed by public administrations and the entities set out in Article 2-*bis* of Legislative Decree No. 33/2013.
In light of this reformulation, the additional interpretative clarification provided with Assonime Circular No. 32 of 23 December 2019 confirms that transparency obligations apply to the award of economic advantages arising from a bilateral relationship between a public entity and a specific beneficiary. They expressly exclude sums received by a company as consideration for a service rendered, remuneration for an assignment received or due as compensation. They also exclude economic advantages received in application of a general system, such as tax relief or grants accessible to all parties that meet certain conditions. In consideration of the above, CiviBank does not have any cases to report in financial year 2019.
In the interest of completeness of information, see also the National Register of State Aid, available for public consultation from the relevant website, which publishes aid measures and the related individual aid granted and recorded in the system by the managing authorities. For CiviBank, the cases indicated therein for the year 2019 are not, in light of the foregoing, subject to the financial statement transparency obligations set out in paragraphs 125 and 125-*bis*.

Transition to the international accounting standard IFRS 16

IFRS 16, the new accounting standard replacing IAS 17 that affects the accounting treatment of lease, rental and free loan for use contracts, introducing a new definition based on the transfer of the "right of use" of the leased asset, entered into effect on 1 January 2019. In fact, the new Standard requires that all lease contracts be recognised by the lessee as an asset and a liability.
The accounting model involves recognising the right to use the leased asset as an asset and the amounts of lease payments still to be made to the lessor as a liability, in contrast to the treatment required by the standards in effect until 31 December 2018. The approach to recognition of the income statement components has also been changed: whereas under IAS 17 lease payments were represented in the administrative expenses item of the income statement, according to IFRS 16 they are presented among charges relating to the amortisation of the right of use and interest expense on debt.
It should be briefly noted here that when interpreting operating results and financial position figures the reclassified presentations have been subject to marginal changes with effect from the first nine months of 2019 to reflect the application of the new Standard. In particular, in the balance sheet, specific sub-items have been added to property, plant and equipment and intangible assets in order to provide a separate presentation of rights of use acquired with leases and to other liabilities in order to provide a separate presentation of lease liabilities.

The Standard

The new accounting standard IFRS 16, which was issued by the IASB in January 2016 and endorsed by the European Commission through Regulation No 1986/2017, replaced, with effect from 1 January 2019, IAS 17 *Leases*, IFRIC 4 *Determining Whether an Arrangement Contains a Lease*, SIC 15 *Operating Leases - Incentives* and SIC 27 *Evaluating the Substance of Transactions in the Legal Form of a Lease*, and governs the requirements for accounting for lease contracts.
The new Standard requires identifying whether a contract is (or contains) a lease, based on the concept of control of the use of an identified asset for a certain period of time. It follows that rental and free loan for use contracts also fall within the scope of application of the new rules. In light of the foregoing, significant changes have been made to the accounting treatment of lease transactions in lessee/user financial statements by introducing a single model for accounting for lease contracts by lessee on the basis of the right of use model. In detail, the main change consists in the elimination of the distinction applied under IAS 17 between operating and finance leases: all lease contracts must therefore be accounted for in the same way, by recognising an asset and a liability.

By contrast, there are no substantial changes, except for some additional disclosure requirements, in the accounting treatment of leases by lessors, where the distinction between operating and finance leases continues to apply.
It should also be noted that under IFRS 16 and the clarifications provided by IFRIC (in the document *Cloud Computing Arrangements* of September 2018), software is excluded from the scope of application of IFRS 16; it is therefore accounted for according to IAS 38 and the relevant requirements.
With effect from 1 January 2019, the effects on the financial statements of the application of IFRS 16 may be identified, for lessees, with profitability and final cash flows being equal, as an increase in the assets recognised (the leased assets), an increase in liabilities (the amount due for the leased assets), a reduction of administrative expenses (the lease payments) and a concurrent increase in financial costs (the remuneration on the debt recognised) and amortisation (relating to the rights of use). At the level of the income statement, considering the entire term of the contracts, the economic impact does not change over the term of the lease when applying either the previous IAS 17 or the new IFRS 16; rather, it manifests differently over time.

The scope of the contracts – lessee side

<u>Classification and analysis of leasing transactions in light of the applicable provisions</u>
As mentioned above, the Standard applies to all types of contracts containing a lease, i.e. to contracts that grant the lessee the right to control the use of an identified asset for a certain period of time (period of use) in exchange for consideration.
The logic of the Standard is that "control" of an asset requires that the asset be identified, for example when it is explicitly specified in the contract, or if it is implicitly specified when it becomes available to be used by the customer. An asset is not specified if the supplier has the substantial right to replace it, or if the supplier is practically able to replace the asset with alternative assets throughout the period of use and derives economic benefits from exercising this right. Once it has been determined that the underlying of a contract is an identified asset, it must be assessed whether the entity has the right to control it because it simultaneously has the right to obtain substantially all the economic benefits of the use of the asset and the right to decide the use of the identified asset.
For Banca di Cividale, the analysis of the contracts falling within the scope of the application of the Standard extended in particular to those relating to the following cases: (i) real estate, (ii) motor vehicles and (iii) other.
Real estate lease contracts represent the most significant area of impact of implementation since such contracts account for 90% of the value of rights of use.
Real estate lease contracts include most properties intended for use as offices or bank branches. Such contracts normally have terms in excess of 12 months and typically present renewal and break options that may be exercised by the lessor and lessee according to legal rules or specific contractual provisions. Such contracts usually do not include a purchase option at the end of the lease or significant restoration costs for the Bank.
Contracts referring to other leases relate to motor vehicles and hardware. In the case of motor vehicles, these are long-term lease contracts referring to the company fleet made available to employees (business and personal use) or organisational units. Such leases have terms of multiple years, without renewal options, and generally do not include an option to purchase the asset.

The approach chosen by Banca di Cividale

It will be appropriate to explain some decisions of a "general" nature made by Banca di Cividale with reference to the methods of representing the effects of first-time adoption of the Standard and several rules to be applied when accounting for lease contracts once the Standard is fully in force.
The Bank has adopted the modified retrospective approach to first-time adoption (FTA) of IFRS 16. This approach, as permitted by the Standard, allows the cumulative effect of the application of the Standard to be recognised at the date of first-time adoption and the comparative figures not to be restated in the financial statements of first-time adoption of IFRS 16. Accordingly, the figures in the 2019 financial statements will not be comparable in reference to the measurement of rights of use and the corresponding lease liability. In addition, in the report on operations, in order to permit a uniform comparison, the financial performance and position figures impacted by the Standard have been restated as at 1 January 2019.
Upon first-time adoption, the Bank adopted several of the practical expedients provided for in paragraphs C10 and following; in particular, contracts with a residual lease term of 12 months or less ("short-term" contracts) were excluded. Even after the transition, the Bank has decided not to apply the new Standard to contracts with a total lease term of 12 months or less and to contracts with a value of the underlying asset, when new, of €5,000 or less ("low-value" assets). In such cases, the payments relating to the leases are recognised as a cost

– similarly to the approach taken in the past – on a straight-line basis over the lease term or according to another systematic criterion, where more representative of the manner in which the lessee receives the benefits.
The following is a summary of several decisions by the Bank in respect of the treatment of lease contracts from the perspective of the lessee, such as contractual term, discounting rate, lease components and non-lease components.

Contractual term

The term of a lease is determined by the non-cancellable period during which the Bank is entitled to use the underlying asset, also considering: (i) periods covered by an option to extend the lease, where the lessee is reasonably certain that it will exercise the option; and (ii) periods subject to the option to terminate the lease, where the lessee is reasonably certain that it will not exercise the option. At the transition date and the inception date of each contract entered into after 1 January 2019, the Bank has defined the lease term on the basis of the facts and circumstances existing on the date concerned and that have an impact on the reasonable certainty that it will exercise the options included in the lease contracts. With specific regard to real estate leases, the Bank has decided to consider only the first renewal period as reasonably certain for all new contracts (as well as at the date of FTA), unless there are particular contractual clauses, facts or circumstances that lead to the consideration of additional renewals or to determination of the end of the lease.
On the basis of the characteristics of the Italian lease contracts and the provisions of Law No. 392/1978, when a new lease contract with a term of six years and an option to renew the contract automatically from one six-year period to the next is entered into, the total term of the lease will be at least twelve years. This general indication is disregarded if there are new elements or specific situations in the contract.

Discounting rate

In accordance with IFRS 16, the Bank uses the implicit interest rate, where available, as the discounting rate for each lease contract. In some cases when accounting for lease contracts from the standpoint of the lessee, such as in cases of rental contracts, the implicit interest rate cannot always be promptly determined without making use of estimates and assumptions (the lessee does not have enough information on the unsecured residual value of the leased asset). In such cases, the Bank has developed a method for defining the incremental interest rate as an alternative to the implicit interest rate and has decided to adopt the internal transfer rate on funding. This is an unsecured, amortising rate curve, since lease contracts provide for payments, typically of constant amounts, over the contract term, and not for a single payment at the end of the term. This rate takes account of the creditworthiness of the lessee, the lease term, the nature and quality of the collateral provided and the economic environmental in which the transaction occurs and thus is in line with the requirements of the Standard.
The marginal financing rate for outstanding contracts applied to the financial liabilities at FTA is the IRS curve at 31 December 2018 (Euribor/IRS risk-free curve in the Liquidity Spread curve table), plus a bank spread commensurate to the residual term of the contract, ending on the due date of the final payment. For future contracts, the IRS curve figure at the contract inception date will be used, with the above correction.

Effects of first-time adoption (FTA) of IFRS 16

The restatement of the opening financial statements following the application of IFRS 16 according to the modified retrospective approach resulted in an increase in assets due to the recognition of new rights of use of €16.3 million and an increase in financial liabilities (amounts due to the lessor) of the same amount. The first-time adoption of the Standard therefore did not result in impacts on equity since, due to the choice to adopt the modified retrospective approach (option B), upon first-time adoption the values of the assets and liabilities coincide, net of the reclassification of accruals and deferrals and the presentation of leases previously classified as finance leases in application of IAS 17.
Lease liabilities have been discounted using the rate at 1 January 2019 referring to the end of the individual contract terms. The categories of rights of use to property, plant and equipment are identified below in detail. In particular, rights of use acquired under leases relating to real estate contracts are indicated in the sub-item "b) buildings", whereas those relating to contracts governing automobiles and other vehicles are presented in the sub-item "e) other".

Rights of use acquired through leasing (€/1.000)	01/01/2019
Property and equipment used in operations:	
a) Land	-
b) Buildings	14.724
c) Movables	-
d) Electrical plant	-
e) Other	1.567
Total	**16.291**

Assets, liabilities and equity at 1 January 2019

The following tables provide a detailed account of the values at 1 January 2019 with regard to the impacts on items of the balance sheet.

Balance sheet data - Assets (€/1.000)		31/12/2018 Published	Effect of transition to IFRS 16	01.01.2019 IFRS 16
10	Cash and cash equivalents	29.747	-	29.747
20	Financial assets measured at fair value through profit or loss	29.710	-	29.710
30	Financial assets measured at fair value through other comprehensive income	318.469	-	318.469
40	Financial assets measured at amortised cost	3.290.966	-	3.290.966
70	Equity investments	3.769	-	3.769
80	Property and equipment	76.459	16.291	92.750
90	Intangible assets	153	-	153
100	Tax assets	74.706	-	74.706
120	Other assets	55.416	-	55.416
	Total assets	**3.879.397**	**16.291**	**3.895.688**

Balance sheet data - Liabilities and Shareholders' equity (€/1.000)		31/12/2018 Published	Effect of transition to IFRS 16	01.01.2019 IFRS 16
10	Financial liabilities measured at amortised cost	3.507.783	-	3.507.783
20	Financial liabilities held for trading	168	-	168
60	Tax liabilities	3.544	-	3.544
80	Other liabilities	81.292	16.291	97.583
90	Employee termination benefits	4.794	-	4.794
100	Provisions for risk and charges:	7.797	-	7.797
110	Valuation reserves	9.496	-	9.496
140	Reserves	45.805	-	45.805
150	Share premiums	167.022	-	167.022
160	Share capital	50.913	-	50.913
170	Treasury shares (-)	(1.260)	-	(1.260)
180	Net income (loss) (+/-)	2.043	-	2.043
	Total liabilities and shareholders' equity	**3.879.397**	**16.291**	**3.895.688**

Impacts on own funds

The increase in RWAs due to the recognition of total rights of use, weighted at 100%, entails an impact on CET1 of approximately -10 bps.

A.2 – MAIN ITEMS OF THE FINANCIAL STATEMENTS

This section describes the accounting policies adopted in preparing the financial statements for the year ended 31 December 2019 and includes an illustration by item of the criteria for recognition, classification, measurement, derecognition and, where relevant, the criteria for the recognition of income components.

1 - Financial assets designated at fair value through profit or loss

This category includes financial assets other than those classified as financial assets designated at fair value through other comprehensive income and financial assets measured at amortised cost.
Item "20. Financial assets designated at fair value through profit or loss" includes:

- ✓ financial assets held for trading, essentially debt and equity securities, and the positive value of derivative contracts other than those designated as effective hedging instruments, held for trading purposes;
- ✓ financial assets designated at fair value refer to assets the designation of which at fair value through profit or loss eliminates or significantly reduces a measurement inconsistency (sometimes termed an "accounting asymmetry"). The Bank currently does not classify any financial assets as designated at fair value;
- ✓ other financial assets mandatorily measured at fair value, consisting of financial assets that do not meet the requirements for measurement at amortised cost or fair value through other comprehensive income. In particular, the item includes financial assets that: i) give rise to cash flows that are not solely payments of principal of interest (i.e., they do not pass the SPPI test); ii) are not held within a business model the purpose of which is to hold the financial assets in order to obtain their cash flows or collect cash flows through the sale of the asset; and iii) units in CIUs.

Debt securities, equity securities and units in CIUs are recognised on the settlement date, loans on the disbursement date and derivative financial instruments on the subscription date. Upon initial recognition they are recognised at fair value, normally represented by the consideration for the transaction, without including the transaction costs/revenue attributable to the instrument, taken directly to profit or loss.
Reclassifications of financial assets to other categories are only permitted where the entity changes the business model within which they are held. In such rare cases, a financial asset designated at fair value through profit or loss may be reclassified to financial assets measured at amortised cost or financial assets designated at fair value through other comprehensive income. The transfer value is the reclassification date fair value and the effects of the reclassification apply prospectively from the reclassification date. In this case, the effective interest rate on the reclassified financial asset is based on its reclassification date fair value, and the reclassification date is taken as the date of initial recognition for allocation to the various credit risk stages for the purposes of determining impairment on financial assets.
After initial recognition, financial assets at fair value through profit or loss are measured at fair value and the effects of the application of this approach are taken to profit or loss. Accordingly, all associated gains and losses, including trading gains and losses, interests and dividends collected and changes in fair value due to changes in market rates, share prices and other market variables, are taken to profit or loss.
The fair value of financial instruments quoted on active markets is determined on the basis of the official prices of the most advantageous market to which the Bank has access. If, for a given financial instrument, the conditions for identifying an active market have not been satisfied, it will be necessary to make use of a measurement technique, by which is meant a process that permits the identification of the price at which the instrument could be exchanged between independent parties in balanced bargaining conditions.
Financial assets, or portions thereof, are derecognised when the contractual rights to the cash flows have expired or been transferred without retaining essentially all the associated risks and benefits. Conversely, if a substantial share of the associated risks and benefits is retained following the transfer of legal title to financial assets, the assets concerned will continue to be carried.

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

This category includes financial assets for which both of the following conditions have been met:

- ✓ they are held within a business model the purpose of which is both to collect the associated contractual cash flows and to sell the instrument concerned;
- ✓ the contractual clauses meet the requirements of the SPPI test, i.e. the cash flows represent, on given dates, payments of principal and interest accrued on the amount of the principal to be repaid.

This item also includes equity instruments not held for trading which upon initial recognition the entity opted to designate at fair value through other comprehensive income. Debt and equity securities are recognised at the settlement date, whereas loans are recognised on the disbursement date. Upon initial recognition they are recognised at fair value, inclusive of the transaction costs and revenues attributable to the instrument concerned.

Reclassifications of financial assets to other categories are only permitted where the entity changes the business model within which they are held. In such rare cases, a financial asset designated at fair value through other comprehensive income may be reclassified to financial assets measured at amortised cost or financial assets designated at fair value through profit or loss. The transfer value is the reclassification date fair value and the effects of the reclassification apply prospectively from the reclassification date. In the event of reclassification to the amortised cost category, the cumulative gain (loss) taken to the valuation reserve is applied as an adjustment to the financial asset's reclassification date fair value. In the event of reclassification to fair value through profit or loss, the cumulative gain (loss) previously taken to the valuation reserve is reclassified from equity to net income (loss) for the year. After initial recognition, assets classified at fair value through other comprehensive income other than equity securities are measured at fair value, with changes in value taken to other comprehensive income and the impacts of the application of the amortised cost approach, the effects of impairment and any foreign exchange effects taken to profit or loss. Changes in value taken to other comprehensive income are recycled to profit or loss when the asset in question is derecognised.

Equity instruments which the entity has opted to designate at fair value through other comprehensive income are measured at fair value with changes taken to other comprehensive income. This effect may not be recycled to profit or loss, even in the event of sale. Dividends are taken to profit or loss.

The fair value of financial instruments quoted on active markets is determined on the basis of the official prices of the most advantageous market to which the Bank has access. If, for a given financial instrument, the conditions for identifying an active market have not been satisfied, it will be necessary to make use of a measurement technique, by which is meant a process that permits the identification of the price at which the instrument could be exchanged between independent parties in balanced bargaining conditions. Interest is calculated according to the effective interest rate method. The effective interest rate is the rate that results in the present value of the cash flows expected over the lifetime of the instrument being equal to the carrying amount of the asset concerned. Expected cash flows have been determined considering all contractual terms of the instrument and include all fees and basis points paid or received between the parties to the contract, transaction costs and all other premiums or discounts that can be measured and are considered an integral part of the transaction's effective interest rate. The use of the effective interest rate to calculate interest entails the distribution of interest over the life of the instrument. Dividends on equity instruments are taken to profit or loss when the right to receive payment of the dividends accrues. At each reporting date, financial assets designated at fair value through other comprehensive income other than equity instruments are tested for impairment according to the rules set out in the standard IFRS 9; adjustments applied are taken to profit or loss.

Financial assets, or portions thereof, are derecognised when the contractual rights to the cash flows have expired or been transferred without retaining essentially all the associated risks and benefits.

3 - Financial assets measured at amortised cost

This category includes financial assets for which both of the following conditions have been met:

- ✓ they are held within a business model the purpose of which is to collect the associated contractual cash flows;
- ✓ the contractual clauses meet the requirements of the SPPI test, i.e. the cash flows represent, on given dates, payments of principal and interest accrued on the amount of the principal to be repaid.

Specifically, without prejudice to satisfaction of the requirements set out in the foregoing paragraph, the following are entered to item "40. Financial assets measured at amortised cost":

- ✓ loans to banks;
- ✓ loans to customers;
- ✓ debt securities;

- ✓ other instruments relating to operating receivables associated with the provision of financial activities and services, in accordance with the Consolidated Banking Act and Consolidated Finance Act.

Loans are initially recognised when disbursed and debt securities on the settlement date. Upon initial recognition they are measured at fair value, which normally corresponds to the amount disbursed, inclusive of the costs and income directly attributable to the transaction and determinable at inception.

Reclassifications of financial assets to other categories are only permitted where the entity changes the business model within which they are held. In such rare cases, a financial asset measured at amortised cost may be reclassified to financial assets at fair value through other comprehensive income or financial assets at fair value through profit or loss. The transfer value is the reclassification date fair value and the effects of the reclassification apply prospectively from the reclassification date. The gains or losses resulting from the difference between the amortised cost of the financial asset and its fair value are taken to profit or loss in the event of reclassification to financial assets designated at fair value through profit or loss and comprehensive equity, and to other comprehensive income, through the specific valuation reserve, in the event of reclassification to financial assets designated at fair value through other comprehensive income. After initial recognition, the loans are measured at amortised cost using the effective interest rate method.

The effective interest rate is the rate that results in the present value of the cash flows expected over the lifetime of the instrument (until maturity or “expected” maturity or, where appropriate, over a lesser period) being equal to the carrying amount of the asset concerned. The use of this rate to calculate interest entails the distribution of interest over the life of the instrument. Expected cash flows have been determined considering all contractual terms of the instrument and include all fees and basis points paid or received between the parties to the contract, transaction costs and all other premiums or discounts that can be measured and are considered an integral part of the transaction's effective interest rate. Amortised cost is not calculated for short-term transactions, where the effect of calculation is deemed immaterial, and for loans with indefinite maturities or revocable loans. Such loans are measured at cost, and the associated costs/income are taken to profit and loss in a linear manner over the contractual term of the loan. At each reporting date, financial assets measured at amortised cost are tested for impairment according to the rules set out in the standard IFRS 9; adjustments applied are taken to profit or loss.

If the grounds for impairment cease to apply due to an event that occurs after such a loss has been recognised, a recovery is recognised through the income statement. The amount of the recovery cannot result in a carrying amount for the financial asset in excess of its amortised cost if no impairment losses had been recognised in previous periods. Recoveries on impairment associated with time-value effects are included in net interest income. The original contractual conditions could be modified over the life of the financial instrument by the will of the contractual parties. In such cases, it must be verified whether the original asset is to continue to be carried or the original instrument is to be derecognised and a new financial instrument recognised. Generally, modifications of a financial asset result in the derecognition of the asset and the recognition of a new asset when they are “substantial” and the assessment as to whether the modification is “substantial” must be based on qualitative and quantitative considerations. More specifically, the analyses set out in the foregoing paragraph must consider:

- ✓ the purposes of the modifications: the reference is to renegotiations due to financial difficulties (forbearance measures), rather than to negotiations for commercial reasons (generally aimed at bringing the cost of debt into line with market conditions);
- ✓ the existence of objective triggers that are believed to entail derecognition in view of their impact on the original contractual cash flows.

Financial assets, or portions thereof, are derecognised when the contractual rights to the cash flows have expired or been transferred without retaining essentially all the associated risks and benefits. If a significant share of the associated risks and benefits is retained following the transfer of legal title to financial assets, the assets concerned will continue to be carried.

Finance leases

Loans to customers in respect of leased assets are recognised upon the commencement of the contracts in question, i.e. when the assets are formally delivered. Loans to customers in respect of leased assets are recognised at amortised cost, i.e. the initial value of the investment, inclusive of the initial direct costs incurred and directly attributable commissions, less principal repayments and adjusted by the depreciation calculated according to the effective interest rate method, i.e. by discounting estimated future payment flows over the expected term of the financing by the effective interest rate. Criteria similar to those previously illustrated were adopted for impairment losses and recoveries. They are subject to impairment according to the rules set out in IFRS 9 for financial assets measured at amortised cost discussed above.

5 - Equity investments

Item “70. Equity investments” includes the value of equity interests in companies subject to joint control and significant influence. Equity investments in jointly controlled entities are investments in respect of which the power to make decisions regarding the relevant activities is shared between two or more parties. Equity investments in associated entities are investments in entities over which significant influence is exercised, i.e. the power to participate in decisions regarding financial and management policies, without this power translating into a situation of control.

If 20% or more of the votes that may be cast in the investee's general meeting are held, directly or indirectly, it is supposed that significant influence exists, unless the contrary can be proved. In particular, significant influence is not considered to exist, even when more than a 20% interest is held in the investee, if only financial rights are held to the investments, without access to management policies and without governance rights.

Conversely, if less than 20% of the votes that may be cast in the investee's general meeting are held, directly or indirectly, it is supposed that significant influence is not exercised, unless such influence may be clearly demonstrated. Equity investments are measured at cost upon initial recognition and then at cost, unless impairment losses occur.

In accordance with IAS 36, equity investments become impaired when their carrying amount exceeds their recoverable amount, defined as the greater of fair value less costs to sell and value in use. Fair value is determined on the basis of the best available information to reflect the amount that an entity could obtain, at the reporting date, by disposing of the asset in a free transaction between informed, willing parties, less costs to sell. The results of recent transactions involving similar assets undertaken within the same sector are considered when determining this amount. Value in use is calculated using models based on the discounting of expected cash flows.

The owner of the asset is only required to determine its recoverable amount if there are circumstances representing evidence of potential impairment. The following indicators have been taken into account in assessing whether equity investments have become impaired:

- ✓ significant changes in the environment in which the entity operates have occurred during the year or may occur in the near future, resulting in an adverse effect on the investee;
- ✓ market interest rates or other rates of return on investment capital have increased during the year and such increases are likely to affect the discounting rate used in calculating the value in use of the investment and significantly reduce its recoverable amount;
- ✓ significant changes adversely affecting the investee have occurred during the year or are expected to occur in the near future;
- ✓ there is evidence that the investee's financial performance is or will be worse than expected;
- ✓ the investee is expected to experience substantial financial difficulties;
- ✓ the investee becomes subject to insolvency proceedings;
- ✓ there are quantitative indicators of a significant, prolonged decrease in the financial asset's fair value, below its initial carrying amount. In particular, such indicators consist of market quotations or valuations that are more than 30% below the initial carrying amount or that remain below the carrying amount for a period of over 18 months;

When there are indicators of impairment, an impairment loss is recognised to the extent that the recoverable amount is less than the carrying amount, and the resulting adjustment is taken to profit or loss. If the grounds for impairment cease to apply due to a subsequent event, a recovery is recognised through profit or loss.

Equity investments are derecognised when the contractual rights to the cash flows from the assets expire or when the investment is transferred along with substantially all the associated risks and benefits.

6 - Property, plant and equipment

Items of property, plant and equipment purchased on the market are recognised to item “80. Property, plant and equipment” when the main risks and benefits relating to the asset are acquired. “Non-investment property” is property used to conduct company business, assuming that it is to be used for a period in excess of one year, whereas “investment property” is property held in order to collect rent or in view of appreciation of the property, or for both reasons. Both investment and non-investment property is initially recognised at cost, inclusive of all charges directly attributable to the purchase or placement in service of the asset. Extraordinary maintenance expenses that increase the future economic benefits are allocated to increase the value of the assets, while other ordinary maintenance costs are recognised in the income statement.

Property, plant and equipment is then measured at cost, less accumulated depreciation, adjusted for any impairment losses or recoveries, with the exception of non-investment property and fine art, which are measured according to the appraisal method.

Property, plant and equipment are systematically depreciated, adopting the straight-line method over their useful life. The depreciable amount consists of the cost of the assets less their estimated residual value at the end of the depreciation period. Buildings are amortised at a rate deemed appropriate to account for the deterioration of the assets over time due to use. Land is not depreciated, even when purchased separately, since it has an indefinite useful life, nor are valuable works of art or other decorative, historic assets, since their useful lives cannot be estimated and their value is normally destined to increase over time.
Each asset's residual amount, useful life and depreciation methods are revised at the end of each year and, where necessary, adjusted on a prospective basis.
If there is evidence that an asset may have become impaired, the carrying value and recoverable amount of the asset are compared. Any impairment losses are recognised in the income statement. If the grounds for impairment cease to apply, a recovery is recognised, in an amount that may not exceed the asset's value net of depreciation charges, in the absence of any previous impairment losses.
Items of property, plant and equipment are derecognised on disposal or when an asset is permanently withdrawn from use and no future economic benefits are expected to flow from its disposal.

7 - Intangible assets

Intangible assets are recognised as such if they may be identified and stem from legal or contractual rights. Goodwill, which represents the positive difference between the purchase cost and the fair value of an acquiree's assets and liabilities, is also recognised among intangible assets.
Intangible assets are recognised at cost, adjusted for any accessory charges only if it is probable that the future economic benefits attributable to the assets will be realised and if the cost of the asset may be reliably determined. Where this is not the case, the cost of an intangible asset is recognised in the income statement in the year in which it is incurred.
For assets with finite useful lives, cost is amortised on a straight-line basis or in decreasing portions determined on the basis of the economic benefits expected to flow from the asset.
Assets with indefinite useful lives are not subject to systematic amortisation, but rather periodically tested for impairment. If there is any evidence that an asset may have become impairment, that asset's recoverable amount is estimated. The impairment loss, which is recognised through the income statement, is equal to the difference between the carrying amount and recoverable amount of the asset.
In particular, intangible assets include:

- ✓ technology-related intangibles, such as software, which are amortised on the basis of their obsolescence and over a maximum period of five years;
- ✓ trademarks and licences.

An intangible asset is derecognised upon disposal or when no future economic benefits are expected to flow from the use of the asset.

9 - Current and deferred taxation

Income tax, calculated according to the national tax code, is accounted for as a cost on an accruals basis, in a manner consistent with the method applied to account for the costs and revenue that give rise to the tax. It thus represents the balance of current and deferred taxation relating to the net income or loss for the year. Current tax assets and liabilities include the tax positions of the Bank with respect to Italian tax authorities. More specifically, these items include the net balance of current tax liabilities for the year, calculated on the basis of a conservative estimate of the tax charges due for the year, assessed according to the tax code currently in force, and the current tax assets represented by advances paid and other tax credits for withholding taxes paid or tax credits from previous years that the Bank claimed against taxes payable in future years. Current tax assets also include tax credits in respect of which a tax refund claim has been filed by the Bank with the relevant tax authorities.
Deferred taxation is calculated according to the balance sheet liability method, taking into account the tax effect of the temporary differences between the book value of the assets and liabilities and their value for taxation purposes, which will determine taxable income or deductible amounts in the future. To this end, "taxable temporary differences" are differences which will give rise to taxable income in future years while "deductible temporary differences" are those which will give rise to deductible amounts in future years. Deferred tax liabilities are calculated by applying the tax rates currently in force to taxable temporary differences that are likely to generate a tax burden, and to the deductible temporary differences for which it is likely that there will be future taxable amounts at the time when the related tax deductibility occurs (so-called probability test). Deferred tax assets and liabilities related to the same tax and due in the same period are set off against one another.

If deferred tax assets and liabilities refer to items affecting the income statement, they are recognised through income taxes. Where the deferred tax assets and liabilities relate to transactions recognised directly in equity without passing through the income statement (such as adjustments due to the first-time adoption of IASs/IFRSs and the measurement of available-for-sale financial instruments), such assets and liabilities are recognised in equity, through specific reserves, where applicable (e.g., valuation reserves).

10 - Provisions

The item may be broken down as follows.

Commitments and guarantees given

This sub-item refers to provisions for credit risk adjustments recognised in respect of commitments to grant finance and financial guarantees given that fall within the scope of application of the IFRS 9 impairment rules ("Rules for determining the impairment of financial assets").

The same approaches to allocation to the three credit risk stages and calculation of expected credit losses set out with regard to financial assets measured at amortised cost or at fair value through other comprehensive income are generally applied to these items.

The item also includes provisions for risks and charges recognised in respect of other types of commitments and guarantees given, the characteristics of which mean that they fall outside the scope of application of the IFRS 9 impairment rules.

Other provisions for risks and charges

Provisions for risks and charges are recognised when an entity has a (legal or constructive) present obligation as the result of a past event, when it is probable that resources capable of generating economic benefits will need to be expended in order to discharge the obligation and the amount of the obligation may be estimated reliably. The amount recognised represents the present value of the amount that an entity would reasonably incur to extinguish the obligation at the reporting date. Discounting is not applied where the time value effect on the obligation is deemed immaterial. Once recognised, provisions are reviewed at each reporting date and adjusted to reflect the best current estimate. Where it is no longer likely that resources capable of generating economic benefits will need to be expended to discharge the obligation, the provision is released and the excess amount taken to profit or loss. In particular, the amount includes provisions relating to disputes that are determined taking into account, where available, the amount sought by the counterparty, the technical estimate prepared internally on the basis of accounting evidence and/or evidence brought to light during the trial and, in particular, the amounted estimated by the court-appointed technical expert, where appointed, in addition to legal interest, calculated on the principal from the date of service of the introductory document, and any expenses to be reimbursed in the event of an adverse judgment. The item also includes provisions relating to long-term employee benefits other than pension benefits, the amount of which is determined by projecting future outlays on the basis of historical and statistical analyses and the demographic curve, and then discounting the resulting cash flows at a market interest rate. The actuarial gains and losses resulting from changes in previously applied actuarial assumptions result in the recalculation of the liability and are taken to profit or loss.

11 – Financial liabilities at amortised cost

This item includes amounts due to banks, amounts due to customers and debt securities issued, and primarily refers to funding raised on the interbank market and from customers, including through the placement of bonds and certificates of deposit. A financial instrument issued is classified as a liability when, on the basis of the substance of the contract, there is a contractual obligation to deliver money or another financial asset to another party. Transactions are recognised when they are executed, except for transactions involving the remittance of bills and the placement of securities, which are recognised when they are settled. Financial liabilities are initially measured at fair value, which corresponds to the consideration received, net of directly attributable transaction costs, and thereafter at amortised cost, according to the effective interest rate method. Amortised cost has not been calculated for short-term transactions, where the effect of calculation is deemed immaterial. The items in question also include amounts due in respect of commitments to purchase own equity instruments, where the conditions for the recognition of such commitments have been met. Financial liabilities, or parts of such liabilities, are derecognised when they are extinguished, that is when the obligation is discharged or cancelled or expires. Such assets are also derecognised when they are repurchased on the market. Derecognition is based on the fair value of the component issued and the component repurchased at the purchase date. Any gains or losses deriving from the transaction, depending on whether the recognised amount of the repurchased component is greater or less than the purchase price, are recognised through the income statement. If a security is then placed again, this transaction is treated as a new issue and is recognised at the new placement price.

12 - Financial liabilities held for trading

Financial liabilities held for trading consist of derivative contracts held for trading that present a negative fair value. They are recognised at the subscription or issue date, at the fair value of the instrument, without considering any directly attributable transaction costs or income. Financial liabilities held for trading are measured at fair value through profit or loss. They are derecognised when the contractual rights to the related cash flows expire or when the liability is transferred, along with substantially all of the risks and benefits of ownership.

14 - Foreign currency transactions

Foreign currency transactions are initially recognised in the functional currency using the applicable exchange rate on the transaction date. At every subsequent balance-sheet date:

- ✓ monetary items are translated at the exchange rate prevailing at the balance-sheet date;
- ✓ non-monetary items measured at historic cost are translated at the exchange rate prevailing at the transaction date; and
- ✓ non-monetary items designated at fair value are translated using the exchange rate prevailing at the date the fair value was determined.

A monetary item is the right to receive, or the obligation to deliver, a fixed or determinable number of units of a currency. Conversely, the fundamental characteristic of non-monetary items is the absence of the right to receive, or the obligation to deliver, a fixed or determinable number of units of a currency. Translation differences relating to monetary items are recognised through the income statement when they arise, whereas those relating to non-monetary items are recognised through shareholders' equity or the income statement, depending on the manner in which the gains or losses that include this component are recognised. Costs and revenues in foreign currencies are measured at the exchange rate prevailing at the date of recognition or, if they have yet to accrue fully, at the exchange rate prevailing at the balance-sheet date.

15 - Other information

Rules for determining the impairment of financial assets

Pursuant to IFRS 9, at each reporting date, financial assets other than those designated at fair value through profit or loss are tested to determine whether there is evidence that their carrying amounts may not be fully recoverable. A similar analysis is also conducted for commitments to grant finance and guarantees granted, which fall within the scope of impairment testing pursuant to IFRS 9.

Where such evidence ("evidence of impairment") is found to exist, the financial assets concerned – in a manner consistent with all remaining assets attributable to that same counterparty – are considered impaired and reclassified to Stage 3. With regard to such assets, alignment of the accounting and regulatory definitions of default – already achieved – means that the current criteria for classifying exposures as "non-performing" / "impaired" may be considered identical to the criteria for classifying exposures to stage 3;

In cases of such exposures, represented by financial assets classified, pursuant to Bank of Italy Circular No. 262/2005, to the categories of non-performing positions, unlikely-to-pay positions and positions past due by more than 90 days, adjustments equal to the expected losses over their entire residual lives must be recognised.

For financial assets for which there is no evidence of impairment (performing financial instruments), it must be verified whether there are indicators that the credit risk of the individual transaction has increased significantly since initial recognition. The consequences of this verification, from the standpoint of classification (or, more properly, staging) and measurement, are as follows:

- where such indicators exist, the financial asset is classified to stage 2. In this case, in accordance with international accounting standards, despite the absence of a manifest impairment loss, measurement is based on recognising adjustments equal to the credit losses expected over the entire residual life of the financial instrument (known as the "lifetime expected credit loss"); Such adjustments are reviewed at each subsequent reporting date both to periodically determine whether they are consistent with the constantly updated loss estimates and to take account of the changed time horizon for calculating the expected credit loss where the indicators of "significantly increased" credit risk cease to apply.
- where such indicators do not exist, the financial asset is classified to stage 1. In this case, in accordance with international accounting standards, despite the absence of a manifest impairment loss, measurement is based on recognising the expected credit losses on the specific financial instrument over the following twelve months (the "12 month expected credit loss"). Such adjustments are reviewed at each subsequent reporting date both to periodically determine whether they are consistent with the constantly updated loss estimates and to take

account of the changed time horizon for calculating the expected credit loss where there are indicators of "significantly increased" credit risk.
Forward-looking information relating to, among other subjects, the development of the macroeconomic scenario is included when calculating expected credit losses ("ECLs").
The elements that according to the Standard, as implemented by Banca di Cividale, are the main drivers to be considered when measuring financial assets, and in particular when identifying a "significant increase" in credit risk (a necessary and sufficient condition for the asset being measured to be classified to stage 2) are as follows:

- ✓ the counterparty's rating, where available, quantifies credit risk; the difference in terms of 'notches' between the rating class when the relationship is formed and the rating class assigned on the reporting date is used as a proxy for measuring the change in credit risk (e.g., as the relative threshold for significant deterioration of credit risk);
- ✓ the presence of any, of amounts past due by at least 30 days; in other words, in such cases the exposure's credit risk is presumed to have "increased significantly", resulting in "transfer" to stage 2 (where the exposure was previously classified to stage 1);
- ✓ any forbearance measures, where applicable, which are also presumed to entail the classification of the exposures in question among those for which credit risk has "increased significantly" since initial recognition;
- ✓ the assignment to the individual relationship or counterparty, where applicable, of qualitative factors relating to non-performance as at the reporting date, defined by the Bank within the framework of the process of identifying particularly risky positions, as part of credit monitoring, the occurrence of which is presumed to indicate that there has been a significant increase in credit risk, unless there is evidence to the contrary.

Once the definitive allocation of the exposures to the various credit risk stages has been determined, expected credit losses (ECLs) are calculated at the level of each transaction or tranche of a security, based on the internal models developed at the consortium level by the IT provider (to which the Bank has fully outsourced ITO activities and services), through the parameters probability of default (PD), loss given default (LGD) and exposure at default (EAD), which are subject to appropriate calibration measures inclusive of each bank's historical series. Some special criteria apply to the staging of securities. In contrast to loans, purchase transactions involving this type of exposure after initial purchase may customarily fall within the scope of ordinary management of the positions (with the resulting need to select a method to be adopted to identify sales and redemptions in order to determine the residual quantities of the individual transactions with which to associate a credit quality/rating upon origination to be compared with that at the reporting date). Within this framework, it was decided that the use of the "first-in, first-out" or "FIFO" method (for the recycling to the income statement of the ECL recognised, in the event of sales or redemptions) contributes to more transparent management of the portfolio, including from the standpoint of front-office personnel, while also permitting assessments of creditworthiness to be constantly updated on the basis of new purchases. External providers have been consulted as part of the process of calculating expected credit losses on securities. It bears emphasising that the "first-in, first-out" or "FIFO" method has been used to calculate the recycling to the income statement of the expected credit loss recognised in the event of sales. It should be noted that Banca di Cividale does not apply the "Low Credit Risk Exemption", which would allow it not to perform the significant deterioration of credit risk test for transactions that as at the measurement date present low credit risk, with the exception of the portfolio of debt securities with an investment grade rating.
The financial instruments considered non-performing according to the Bank of Italy rules, in keeping with IASs/IFRSs and European supervisory regulations, have been classified to Stage 3, as summarised below:

- ✓ Bad debts: these are the on- and off-balance sheet exposures to a party in a state of insolvency (including where not established by the courts) or substantially equivalent situations, regardless of any loss projections formulated by the bank. Exposures the anomalous nature of which relates to country risk are excluded;
- ✓ Unlikely-to-pay positions: these are on- and off-balance sheet exposures to a single debtor which in the bank's view is unlikely to discharge its credit obligations (principal and interest) in full without recourse to actions such as enforcement of guarantees, regardless of the presence of any past-due amounts or instalments;
- ✓ Non-performing past-due positions: these are on-balance sheet positions other than those classified as bad debts or unlikely-to-pay positions that at the reporting date are past due by more than 90 days. In identifying past-due loans, only the individual debtor approach has been used for all positions in portfolio since 1 January 2014.

In conducting the analytical assessment of Stage 3 loans, the loss is measured as the difference between the carrying amount and the present value of the estimated future cash flows, discounted at the position's original effective interest rate. Cash flows are estimated by taking account of the guarantees securing the debt exposure. Where guarantees are not likely to be enforced, their present value must be considered; otherwise, their realisable value, net of recovery expenses, must be considered. Individual impairment losses are based on the presumed losses on the single non-performing loan positions. The expected credit loss on non-performing loans classified as low-value unlikely-to-pay positions or as non-performing past-due positions is calculated for uniform categories based on internal statistical models applied separately to each position. Forward-looking factors that temper the weighted probability of occurrence of the various future scenarios have also been included in the assessment of exposures classified to stage three. Accordingly, the expected losses on non-performing exposures that may potentially be sold are calculated on the basis not only of the cash flows expected to be recovered through internal management, but also the cash flows expected to be recovered through the possible sale of the positions concerned.

Treasury shares

Any treasury shares in portfolio are deducted from equity. Similarly, the original cost of such treasury shares and the gains and losses on their subsequent sale are recognised as changes in equity.

Leasehold improvements

The costs of renovating third-party properties are capitalised in view of the fact that over the term of the lease agreement the company using the property has control of the assets and may derive future economic benefits from them. Such costs, classified among other assets in accordance with the Bank of Italy's Instructions, are depreciated over a period not to exceed the term of the lease agreement.

Employee termination benefits

As a result of the entry into force of the 2007 Finance Act, which advanced to 1 January 2007 the effective date of the reform of supplementary pension schemes enacted in Legislative Decree No. 252 of 5 December 2005, employee termination benefits consist solely of sums accrued through 31 December 2006. In further detail, portions of employee termination benefits accrued from 1 January 2007 are considered “defined-contribution plans” for accounting purposes in accordance with IAS 19. The expense is limited to the contribution defined by the provisions of the Italian Civil Code, without the need to apply any actuarial approach.

Conversely, the provision for employee termination benefits accrued as at 31 December 2006 continues to be considered a defined-benefit plan for accounting purposes in accordance with IAS 19. However, the liability associated with employee termination benefits is subject to actuarial assessment without pro-rating service rendered inasmuch as the service to be assessed may be considered fully accrued.

All actuarial gains and losses on defined-benefit plans are recognised immediately through other comprehensive income. Such actuarial gains and losses arise as the result of adjustments to previous actuarial assumptions due to actual experience or the modification of those assumptions. They are allocated to a specific equity reserve.

Recognition of revenue and costs

Revenues arising from the use by third parties of an entity’s assets that generate interest, commissions or dividends are recognised when it is probable that the economic benefits from a given transaction will flow to the entity and the amount of revenue can be determined reliably. Interest and commissions are recognised through the income statement according to the classification of the financial instrument to which they refer, whereas dividends are recognised when shareholders become entitled to receive payment. Other commissions are recorded on an accrual basis.

Costs are recognised when they are incurred by following the principle of the correlation of costs and revenue that arise directly and jointly from the same transactions or events. If costs and revenue may only be correlated generically and indirectly, the costs are recognised over multiple periods according to a systematic allocation approach. When costs may not be associated with revenue, they are immediately recognised through the income statement.

Determining amortised cost

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the amount at maturity, less any reduction for impairment.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or until the repricing date. To calculate present value, the effective interest rate is applied to the future cash payments or receipts over the entire useful life of the financial asset or financial liability – or a shorter period if certain conditions have been met (for example, the revision of market rates).

After initial recognition, amortised cost allows the revenues and costs deducted from or added to the instrument to be allocated over that instrument's entire expected life through the amortisation process. Amortised cost is determined differently depending on whether the financial asset or financial liability to be measured is fixed-rate or floating-rate and, in the latter case, whether the range of rate fluctuation is known in advance. For instruments with fixed rates or fixed rates by time bands, future cash flows are quantified according to the known interest rate (single or floating) over the life of the loan. For floating-rate financial assets or financial liabilities, the range of fluctuation of which is not known in advance (for example, because it is linked to an index), cash flows are determined according to the most recent known rate. Whenever the rate is revised, the repayment schedule and effective interest rate are recalculated over the entire useful life of the instrument, i.e. through its maturity date. The adjustment is recognised as income or expense in the income statement.

The amortised cost method is applied to financial assets measured at amortised cost, financial assets at fair value through other comprehensive income and financial liabilities measured at amortised cost.

Financial assets and financial liabilities traded at arm's length conditions are initially recognised at fair value, which normally corresponds to the amount disbursed or paid, including directly attributable transaction costs and commissions in the case of instruments measured at amortised cost.

Transaction costs are internal or external marginal costs and income attributable to the issuance, acquisition or disposal of a financial instrument that may not be charged back to the customer. Such commissions, which must be directly attributable to the individual financial asset or financial liability concerned, affect the original effective return and result in a difference between the effective interest rate associated with the transaction and the contractual interest rate. Transaction costs do not include costs or income associated with several transactions without distinction and components associated with events that may occur during the life of the financial instrument, but are not uncertain upon initial definition, such as give-up commissions, commitment fees and prepayment fees. In addition, costs that the entity would be required to incur irrespective of the transaction (e.g., administrative costs, stationery costs and communications costs) and costs that despite being specifically attributable to the transaction fall within normal loan management practice (for example, disbursement activities) are not considered when determining amortised cost.

In the case of loans in particular, the costs considered include those attributable to the financial instrument, the fees paid to distribution channels, the fees paid for consulting/counsel regarding organising and/or participating in syndicated lending and, finally, the upfront fees relating to loans disbursed at above market rates, whereas the revenues considered when calculating amortised cost include the upfront fees related to loans disbursed at below-market rates, the fees for participating in syndicated transactions and the brokerage fees paid to brokerage firms.

In the case of securities issued, amortised cost is calculated by considering the fees for the placement of bonds paid to third parties, the fees paid to securities exchanges and the fees of auditors' services in respect of each issuance programme, whereas amortised cost does not include fees paid to rating agencies, legal fees and consulting/auditing fees for annual updates to securities prospectuses, the costs of using indices and fees that arise over the life of the bond in issue.

Use of estimates and assumptions in preparing the annual financial statements

In preparing the annual financial statements, use has been made of estimates and assumptions that could have an impact on the amounts recognised in the balance sheet and the income statement and disclosed in the notes. Specifically, the greatest use of subjective assessments by management is required in the following cases:

- ✓ determining the amount of impairment losses for financial assets, especially loans and receivables;
- ✓ determining the fair values of financial instruments to be used for disclosure purposes and using valuation models to determine the fair values of financial instruments not quoted in active markets;
- ✓ assessing the appropriateness of the value of goodwill;
- ✓ determining the amounts of staff provisions and provisions for other risks and charges; and
- ✓ preparing estimates and assumptions relating to the recoverability of deferred tax assets.

Reasonable estimates and assumptions to be used in accounting for management transactions are formulated through subjective assessments founded upon the use of all available information and past experience.

Chapter A.3 – TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

In 2019 the Bank did not undertake any transfers between the various fair value levels. There were no residual assets reclassified in previous years at 31 December 2019.

Chapter A.4 – INFORMATION ABOUT FAIR VALUE

QUALITATIVE DISCLOSURES

This section includes the disclosure regarding financial instruments subject to reclassification from one portfolio to another pursuant to the rules set forth in IFRS 9 and the disclosure regarding the fair-value hierarchy in accordance with the provisions of IFRS 13.
Fair value is the price at which an asset may be sold or a liability transferred in a transaction between market participants at the measurement date.
Consequently, it is an exit price and not an entry price.
The fair value of a financial liability with a demand feature (e.g., a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.
For financial instruments measured at fair value on a recurring basis, the bank attributes higher priority to the use of observable inputs and lower priority to measurement techniques that do not use market inputs. In particular, the bank establishes the order of priority, criteria and conditions that result in the choice of one of the following measurement techniques:

- ✓ mark-to-market: a measurement method coinciding with classification to level 1 of the fair value hierarchy;
- ✓ comparable approach: a measurement method based on the use of observable market inputs, the use of which entails classification to level 2 of the fair value hierarchy;
- ✓ mark-to-model: a measurement method involving the application of pricing models whose inputs result in classification to level 3 (use of at least one significant non-observable input) of the fair value hierarchy.

The fair value of financial instruments quoted on active markets is determined on the basis of the official prices of the market to which the Bank has access (mark to market).
A financial instrument is considered quoted in an active market where quoted prices are promptly and regularly available from sources such as securities exchanges, dealers, brokers, pricing agencies or regulatory authorities and such prices represent actual market transactions that take place regularly in normal trading. If an official quotation in an active market does not exist for a financial instrument as a whole, but there are active markets for its component parts, the fair value is determined on the basis of the relevant market prices for its component parts.
If, for a given financial instrument, the conditions for identifying an active market have not been satisfied and it thus is not possible to classify it to level 1 of the fair value hierarchy and apply the mark-to-market approach, it will be necessary to make use of a measurement technique, by which is meant a process that permits the identification of the price at which the instrument could be exchanged between independent parties in balanced bargaining conditions.
If this measurement technique is based on observable market inputs, the instrument is classified as level 2 and a comparable approach is applied. If the measurement techniques adopted also use non-observable inputs, and their contribution to the determination of fair value is to be regarded as significant, the measurement of the financial asset or liability is to be considered level 3 (mark to model).
The following is an account of the criteria used in measuring portfolios at fair value.

Bonds
Such securities are measured according to the liquidity conditions of their respective markets of reference. Liquid instruments quoted in active markets are measured at mark-to-market and the positions are therefore classified to level 1 of the fair value hierarchy. If there are no quotations that meet the criteria for an active market, the criterion of comparison to similar securities quoted on info providers is applied, an operating quotation in an inactive market is applied or a measurement based on inputs observable on active markets is used and the instrument is classified to level 2 of the fair value hierarchy. If a fair value quotation cannot be determined by applying the foregoing criteria, the instrument is classified as level 3 and its price is determined through a specific request to a market broker or the implementation of a specific pricing model.

Mutual funds and shares of CIUs
These are classified to level 1 when there is a bid/ask quotation representative of an active market and a possible transaction price. Alternatively, such instruments are measured according to their official net asset

value (NAV) at the end of the period. Such assets are classified to level 2 or level 3 of the fair value hierarchy depending on the availability of NAV, portfolio transparency and position liquidity.
In some cases, where the NAV does not represent the actual value of the underlying elements, the underlying investments are measured on the basis of the information available at the measurement date.

Amounts due from and to banks, loans to customers, amounts due to customers and debt securities issued
For financial instruments carried at amortised cost and classified among amounts due to and from banks, loans to customers, amounts due to customers and debt securities issued, fair value is determined as follows for the purposes of disclosure in the financial statements:
- ✓ the fair value of medium-/long-term performing loans to customers is determined by discounting projected cash flows on the basis of a risk-free curve, to which a spread representative of credit risk, determined on the basis of expected losses (PD and LGD), is applied. The fair value thus determined is classified to level 3 of the fair value hierarchy;
- ✓ the fair value of amounts due to and from banks with longer maturities is determined by discounting the projected cash flows according to a risk-free curve, to which a spread representative of credit risk is applied;
- ✓ the fair value of non-performing loans to customers (bad debts, unlikely-to-pay positions and past-due positions) is determined by discounting the positions according to a risk-free market rate, net of any adjusting provisions representative of the associated credit risk. For such exposures, the exit price would be significantly influenced by projected impairment losses, which are the result of a subjective assessment by the manager of the position, with regard to the recovery rate and timing. As a consequence, such positions are classified to level 3 of the fair value hierarchy;
- ✓ the carrying amount at initial recognition is regarded as a sound approximation of the fair value of sight or short-term assets and liabilities. The fair value thus determined is classified to level 3 of the fair value hierarchy by convention;
- ✓ the fair value of bonds carried at amortised cost is measured by reference to quotations on an active market, or on the basis of a valuation technique based on the discounting of the security's cash flows using the interest rate curve of reference, corrected as appropriate to take account of the change in creditworthiness on the basis of the method described above for the assessment of bonds. The same applies for considerations regarding the fair value hierarchy;
- ✓ the fair value of debt securities classified to the portfolio “Financial assets measured at amortised cost: a) loans to banks; b) loans to customers” and of repurchase agreements has been determined through the use of valuation models, as described above for financial assets and liabilities measured at fair value.

A.4.1 Fair value levels 2 and 3: measurement techniques and inputs used
If, for a given financial instrument, the conditions for identifying an active market have not been satisfied and it thus is not possible to classify it to level 1 of the fair value hierarchy and apply the mark-to-market approach, it will be necessary to make use of a measurement technique, by which is meant a process that permits the identification of the price at which the instrument could be exchanged between independent parties in balanced bargaining conditions.
If this measurement technique is based on observable market inputs, the instrument is classified as level 2 and a comparable approach is applied.
The measurement techniques applied in this case include:
- ✓ the use of recent market transactions between knowledgeable, independent parties;
- ✓ reference to the fair value of a financial instrument having the same characteristics;
- ✓ cash flow discounting techniques;
- ✓ option valuation techniques;
- ✓ the use of commonly used pricing techniques, provided that such techniques yield prices in line with those applied in actual exchanges.

The market inputs used in the comparable approach are:
- ✓ prices quoted on active markets for similar assets or liabilities;
- ✓ prices quoted for the instrument in question or similar instruments on inactive markets, i.e., markets on which there are few transactions. The prices are not current or vary substantially over time and amongst the various market markets, or little information is made public;
- ✓ observable market inputs (e.g., interest rates, observable yield curves, credit spreads, quoted volatilities);

- ✓ inputs that derive from observable market data, for which the relationship is supported by parameters such as correlation.

If the measurement techniques adopted also use non-observable inputs, and their contribution to the determination of fair value is to be regarded as significant, the measurement of the financial asset or liability is to be considered level 3.
The mark-to-model approach applies to all financial instruments for which there is no active market, where:

- ✓ significant adjustments to the observable inputs used based on non-observable inputs are necessary;
- ✓ the estimate of fair value is based on the bank's internal assumptions concerning future cash flows and the discount curve used;
- ✓ the measurement techniques used are of sufficient complexity to entail significant model risk.
- ✓ The main inputs used in this approach are:
- ✓ for real estate funds, a NAV adjustment model aimed at taking account of the issuer's default risk;
- ✓ for structured bonds, the discounted cash flow model, applied on the basis of estimates of future cash flows and/or the discount factor;
- ✓ for equity instruments, the market approach (a model based on market multiples and price matrices), the Black-Scholes-Merton model and the binomial model.

A.4.2 Valuation processes and sensitivity

The Bank conducted an assessment of the potential impacts of sensitivity to unobservable market parameters in the measurement of instruments classified to level 3 in the fair-value hierarchy and measured at fair value on a recurring basis. That assessment indicated that the impacts concerned were not material with respect to the situation represented. In further detail, the portfolio of instruments measured at fair value on a recurring basis and classified to level 3 of the fair-value hierarchy consists primarily of equity investments, subject to impairment testing when the requirements for so doing have been met, and investments in fund shares.

A.4.3 Fair-value hierarchy

IFRS 13 establishes that financial instruments measured at fair value are to be classified according to the degree of observability of the inputs analysed when pricing them.
Specifically, three levels of classification have been established:

- ✓ Level 1: the fair value of the instruments classified to this level is determined on the basis of quoted prices observable on active markets;
- ✓ Level 2: the fair value of the instruments classified to this level is determined on the basis of measurement models that use inputs observable on active markets;
- ✓ Level 3: the fair value of the instruments classified to this level is determined on the basis of measurement models that primarily use inputs not observable on active markets.

The levels indicated above are to be applied in hierarchical order, giving the highest priority to the use of observable market parameters that permit the assets or liabilities to be measured on the basis of the assumptions used by market participants and the lowest priorities to measurement techniques that do not contemplate market parameters and thus reflect a greater degree of discretion in measurement by the bank.

QUANTITATIVE DISCLOSURES

A.4.5 Fair-value hierarchy

The following tables show the breakdown of portfolios of assets and liabilities measured at fair value into the aforementioned levels and annual changes in assets and liabilities of this kind classified to level 3.

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

Financial assets / liabilities at fair value	31/12/2019			31/12/2018		
	L1	L2	L3	L1	L2	L3
1. Financial assets measured at fair value through profit or loss	942	2,641	32,077	156	2,501	27,054
a) financial assets held for trading	942	81	-	156	145	-
b) financial assets designated at fair value	-	-	-	-	-	-
c) other financial assets mandatorily measured at fair value	-	2,560	32,077	-	2,356	27,054
2. Financial assets measured at fair value through other comprehensive income	146,948	736	19,423	285,703	795	31,970
3. Hedging derivatives	-	-	-	-	-	-
4. Property and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	**147,890**	**3,377**	**51,500**	**285,859**	**3,296**	**61,794**
1. Financial liabilities held for trading	-	125	-	-	168	-
2. Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
Total	-	**125**	-	-	**168**	-

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

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

	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS				FINANCIAL ASSETS 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) FINANCIAL ASSETS MANDATORILY AT FAIR VALUE				
1. Opening balance	-	-	-	**27,054**	**31,970**	-	-	-
2. Increasese	-	-	-	**5,131**	**1,606**	-	-	-
2.1. Purchases	-	-	-	4,045	-	-	-	-
2.2. Gains recognised in:	-	-	-	-	-	-	-	-
2.2.1.Income statement	-	-	-	-	-	-	-	-
- of which unrealised gains	-	-	-	-	-	-	-	-
2.2.2. Shareholders' equity	-	X	X	X	-	-	-	-
2.3. Transfers from other levels	-	-	-	-	-	-	-	-
2.4. Other increases	-	-	-	1,086	1,606	-	-	-
3. Decreases	-	-	-	**108**	**14,153**	-	-	-
3.1. Sales	-	-	-	-	14,040	-	-	-
3.2. Redemptions	-	-	-	-	-	-	-	-
3.3 Losses recognized in:	-	-	-	-	-	-	-	-
3.3.1. Income statement	-	-	-	-	-	-	-	-
- of which unrealised losses	-	-	-	-	-	-	-	-
3.3.2. Shareholders' equity	-	X	X	X	-	-	-	-
3.4. Transfers to other levels	-	-	-	-	-	-	-	-
3.5. Other decreases	-	-	-	108	113	-	-	-
4. Closing balance	-	-	-	**32,077**	**19,423**	-	-	-

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

None of the items in the table, provided for by the Bank of Italy, A.4.5.3 "Annual changes in financial liabilities measured at fair value on a recurring basis (level 3)" presents values.

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 levels

Financial 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	3,802,116	930,611	27,552	3,201,333	3,290,966	569,507	6,162	2,985,804
2. Investment property	10,330	-	-	10,330	10,574	-	-	10,574
3. Non-current assets or groups of assets being divested	-	-	-	-	-	-	-	-
Total	**3,812,446**	**930,611**	**27,552**	**3,211,663**	**3,293,736**	**569,507**	**6,162**	**2,988,574**
1. Financial liabilities measured at amortised cost	3,979,634	8,301	3,947	3,964,490	3,507,783	45,645	23,465	3,433,506
2. Liabilities associated with assets classified as held for sale	-	-	-	-	-	-	-	-
Total	**3,979,634**	**8,301**	**3,947**	**3,964,490**	**3,507,783**	**45,645**	**23,465**	**3,433,506**

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

It is assumed that the carrying amounts of non-performing loans classified to level three of the fair value hierarchy are a reasonable approximation of their fair values. This assumption is based on the fact that the calculation of fair value is primarily influenced by the expectation of a recovery, based on subjective assessment by the manager.
Similarly, the fair value of performing loans classified to level three is based on models that rely on primarily non-observable inputs (e.g., internal risk parameters).
As a result, and due to the lack of a secondary market, the fair value presented in the financial statements, for disclosure purposes only, could differ significantly from the prices of any sales.

A.5 Day-one profit/loss

On the basis of the composition of the financial instruments portfolio and the results of the analyses performed, no day-one profits were identified. "Day-one profit" is defined as the difference, upon initial recognition, not immediately recognised in the income statement pursuant to IAS 39 AG 76 and AG 76A, between the transaction price and value obtained through the use of valuation techniques that make use of non-market inputs.

Chapter B – NOTES TO THE BALANCE SHEET

ASSETS

Section 1 - Cash and cash equivalents - item 10

1.1 Cash and cash equivalents: composition

	31/12/2019	31/12/2018	%
a) Cash	19,244	18,259	5.4%
b) Free deposits with Central banks	99,335	11,488	n.s.
Total	**118,579**	**29,747**	**298.6%**

Section 2 - Financial assets designated at fair value through profit or loss - item 20

2.1 Financial assets held for trading: composition by type

	31/12/2019			31/12/2018			%
	L1	L2	L3	L1	L2	L3	
A. Cash assets							
1. Debt securities	892	-	-	11	2	-	n.s.
1.1 structured securities	-	-	-	-	-	-	-
1.2 other debt securities	892	-	-	11	2	-	n.s.
2. Equities	51	-	-	0	-	-	n.s.
3. Quotas of UCI	-	-	-	145	-	-	-
4. Loans	-	-	-	-	-	-	-
4.1 reverse repurchase agreements	-	-	-	-	-	-	-
4.2 other	-	-	-	-	-	-	-
Total A	**943**	**-**	**-**	**156**	**2**	**-**	**495.6%**
B. Derivatives							
1. Financial derivatives	-	80	-	-	142	-	-43.7%
1.1 trading	-	80	-	-	142	-	-43.7%
1.2 fair value option	-	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-	-
2.1 trading	-	-	-	-	-	-	-
2.2 fair value option	-	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-	-
Total	**-**	**80**	**-**	**-**	**142**	**-**	**-43.7%**
TOTAL (A+B)	**943**	**80**	**-**	**156**	**145**	**-**	**240.5%**

2.2 Financial assets held for trading: composition by borrower/issuer/counterparty

	31/12/2019	31/12/2018	%
A. ON-BALANCE-SHEET FINANCIAL ASSETS	-	-	-
1. Debt securities	**892**	**13**	n.s.
a) Governments and central banks	-	-	-
b) Other government agencies	878	-	-
c) Banks	-	-	-
d) Other financial companies	11	12	-11.2%
of which: insurance	-	-	-
e) Non financial companies	3	1	n.s.
2. Equity securities	**51**	**145**	**-65%**
a) Banks	-	-	-
b) Other issuers	**51**	0	100%
of which: insurance	51	-	100%
c) Non financial companies	-	0	0%
d) Other issuers	-	-	-
3. Quotas of UCI	**-**	**145**	**-100.0%**
4. Loans	-	-	-
a) Governments and central banks	-	-	-
b) Other government agencies	-	-	-
c) Banks	-	-	-
d) Other financial companies	-	-	-
of which: insurance	-	-	-
e) Non financial companies	-	-	-
f) Households	-	-	-
Total A	**943**	**158**	**495.6%**
B. Derivatives	**80**	**142**	**-43.7%**
a) Central counterparties	-	-	-
b) Other	**80**	**142**	**-43.7%**
Total B	**80**	**142**	**-43.7%**
TOTAL (A+B)	**1,023**	**300**	**240.5%**

2.5 Other financial assets mandatorily measured at fair value: composition by type

	31/12/2019			31/12/2018			%
	L1	L2	L3	L1	L2	L3	
1. Debt securities	-	**1,539**	-	-	-	-	**100.0%**
1.1 Structured securities	-	1,539	-	-	-	-	100.0%
1.2 Other debt securities	-	-	-	-	-	-	-
2. Equities	-	-	-	-	-	-	-
3. Quotas of UCI	-	-	18,485	-	1,324	13,930	21.2%
4. Loans	-	**1,020**	**13,593**	-	**1,033**	**13,124**	**3.2%**
4.1 Repurchase agreements	-	-	-	-	-	-	-
4.2 Other	-	1,020	13,593	-	1,033	13,124	3.2%
Total	-	**2,559**	**32,078**	-	**2,356**	**27,054**	**17.8%**

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

2.6 Other financial assets mandatorily measured at fair value: composition by borrower/issuer

	31/12/2019	31/12/2018	%
1. Equities	-	-	-
of which: banks	-	-	-
of which: other financial companies	-	-	-
of which: non financial companies	-	-	-
2. Debt securities	**1,539**	-	**100%**
a) Central Banks	-	-	-
b) Public administration	**1,539**	0	**100%**
c) Banks	-	-	-
d) Other financial companies	1,539	0	**100%**
of which: insurance companies	-	0	-
e) Non financial companies	-	-	-
3. Quotas of UCI	**18,485**	**15,254**	21.2%
4. Loans	**14,613**	**14,157**	**3%**
a) Central Banks	-	-	-
b) Public administration	-	-	-
c) Banks	-	-	-
d) Other financial companies	14,613	14,157	3.2%
of which: insurance companies	13,594	13,189	3.1%
e) Non financial companies	-	-	-
f) Households	-	-	-
Total	**34,637**	**29,410**	**17.8%**

Section 3 - Financial assets designated at fair value through other comprehensive income - item 30

3.1 Financial assets designated at fair value through other comprehensive income: composition by type

	31/12/2019			31/12/2018			%
	L1	L2	L3	L1	L2	L3	
1. Debt securities	146,947	-	-	285,703	-	-	-48.6%
1.1 Structured securities	-	-	-	-	-	-	-
1.2 Other debt securities	146,947	-	-	285,703	-	-	-48.6%
2. Equities	-	736	19,424	-	795	31,970	-38.5%
3. Loans	-	-	-	-	-	-	-
Total	**146,947**	**736**	**19,424**	**285,703**	**795**	**31,970**	**-47.5%**

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

3.2. *Financial assets designated at fair value through other comprehensive income: composition by borrower/issuer*

	31/12/2019	31/12/2018	%
1. Debt securities	**146,947**	**285,703**	**-48.6%**
a) Central Banks	-	-	-
b) Public administration	133,000	272,439	-51.2%
c) Banks	7,833	10,678	-26.6%
d) Other financial companies	5,109	2,586	97.6%
of which: insurance companies	-	-	-
e) Non financial companies	1,005	-	-
2. Equities	**20,160**	**32,766**	-38%
a) Banks	6,935	5,786	20%
b) Other issuers:	13,225	26,979	-51%
- other financial companies	2,677	16,717	-84%
of which: insurance companies	2,500	2,500	0%
- non financial companies	10,548	10,262	3%
- other	-	-	-
3. Loans	-	-	-
a) Central Banks	-	-	-
b) Public administration	-	-	-
c) Banks	-	-	-
d) Other financial companies	-	-	-
of which: insurance companies	-	-	-
e) Non financial companies	-	-	-
f) Household	-	-	-
Total	**167,107**	**318,469**	**-47.5%**

3.3 Financial assets designated at fair value through other comprehensive income: gross value and total adjustments

	Gross amount				Total adjustment			Total partial write-offs *
	Stage 1	of which: Instrument with low	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	**147,056**	-	-	-	**109**	-	-	-
Loans	-	-	-	-	-	-	-	-
Total 31.12.2019	**147,056**	-	-	-	**109**	-	-	-
Total 31.12.2018	**286,184**	-	-	-	**479**	-	-	-
of which: purchased or originated credit-impaired financial assets	X	X	-	-	X	-	-	-

** Value to be presented for disclosure purposes*

Section 4 - Financial assets measured at amortised cost - item 40

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

Items	31/12/2019						31/12/2018					
	Book value			Fair Value			Book value			Fair Value		
	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	L1	L2	L3	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	L1	L2	L3
A. Claims on central banks	**20,223**	-	-	-	-	**20,223**	**19,680**	-	-	-	-	**19,680**
1. Time deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Reserve requirement	20,223	-	-	X	X	X	19,680	-	-	X	X	X
3. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	-	-	-	X	X	X	-	-	-	X	X	X
B. Due from banks	**26,693**	-	-	**18,522**	**X**	**8,174**	**55,546**	-	-	**21,452**	**X**	**34,095**
1. Loans	8,174	-	-	-	-	8,174	34,095	-	-	-	-	34,095
1.1 Current accounts and free deposits	6,116	-	-	X	X	X	29,978	-	-	X	X	X
1.2 Time deposits	2,058	-	-	X	X	X	4,116	-	-	X	X	X
1.3 Other financing	-	-	-	X	X	X	-	-	-	X	X	X
- repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
- finance leases	-	-	-	X	X	X	-	-	-	X	X	X
- other	-	-	-	X	X	X	-	-	-	X	X	X
2. Debt securities	**18,519**	-	-	**18,522**	-	-	**21,452**	-	-	**21,452**	-	-
2.1 structured	-	-	-	-	-	-	-	-	-	-	-	-
2.2 other debt securities	18,519	-	-	18,522	-	-	21,452	-	-	21,452	-	-
Total	**46,916**	-	-	**18,522**	-	**28,397**	**75,226**	-	-	**21,452**	-	**53,774**

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

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

Items	31/12/2019						31/12/2018					
	Book value			Fair Value			Book value			Fair Value		
	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	L1	L2	L3	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	L1	L2	L3
1. Loans	**2,633,904**	**184,359**	**94**	**-**	**-**	**3,172,936**	**2,407,208**	**251,662**	**300**			
1.1. Current accounts	246,704	33,463	22	X	X	X	261,946	49,884	300	X	X	X
1.2. Repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
1.3. Mortgage loans	1,677,080	132,755	72	X	X	X	1,556,421	173,996	-	X	X	X
1.4. Credit cards, personal loans and loans repaid by automatic deductions from wages	47,588	1,649	-	X	X	X	47,067	1,767	-	X	X	X
1.5. Finance leases	235,476	11,050	-	X	X	X	214,960	16,072	-	X	X	X
1.6. Factoring	-	-	-	X	X	X	-	-	-	X	X	X
1.7. Other	427,056	5,442	-	X	X	X	326,814	9,944	-	X	X	X
2. Debt securities	**936,937**	**-**	**-**	**912,089**	**27,552**	**-**	**556,869**	**-**	**-**			
2.1. structured	-	-	-	-	-	-	-	-	-			
2.2. other debt securities	936,937	-	-	912,089	27,552	-	556,869	-	-			
Total	**3,570,841**	**184,359**	**94**	**912,089**	**27,552**	**3,172,936**	**2,964,077**	**251,662**	**300**			

At 31 December 2019 net finance lease exposures amounted to €262,076 thousand, after deducting provisions for impairment of €9,739 thousand. Of these exposures, €15,550 thousand related to pre-financing for progress on real estate classified to the item “Other loans”. Net non-performing exposures came to €11,050 thousand.
The lease contracts entered into have the following characteristics:

- ✓ all of the risks and rewards associated with ownership of the asset are transferred to the lessee;
- ✓ on signing the lessee pays an advance that is retained by the lessor when the contract begins to generate income and is deducted from the amount financed;
- ✓ the lessee makes periodic payments over the useful life of the contract, the amount of which may vary according to benchmarking clauses;
- ✓ at the end of the contract, the lessee is granted the option to purchase the asset governed by the contract at below the fair value on the strike date, which means that it is reasonably certain that the option will be exercised.

Since the lessor retains legal ownership of the asset for the entire life of the contract, the asset itself constitutes an implicit guarantee of the lessee's exposure, with the consequence that there is no residual amount not covered by the guarantee. In cases of assets that currently cannot be sold or subject to rapid obsolescence, ancillary guarantees are also requested from the lessee or, alternatively, the supplier of the asset.
During the year, charges for potential lease payments of €2,839 thousand were recognised. In this regard, it bears recalling that IAS 17 defines a potential lease payment as the part of a payment the amount of which is not predetermined, but which is based on the future value of a parameter that changes for reasons other than the passage of time (such as a percentage of future sales, the amount of future use, future price indices or future market interest rates).

4.3 Financial assets measured at amortised cost: composition of loans to customers by borrowers/issuers

	31/12/2019			31/12/2018		
	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired	Stage 1 and 2	Stage 3	of which: purchased or originated credit-impaired
1. Debt securities	**936,937**	-	-	**556,869**	-	-
a) Public administration	908,765	-	-	550,808	-	-
b) Other financial companies	27,375	-	-	6,061	-	-
of which: insurance	-	-	-	-	-	-
c) Non financial companies	797	-	-	-	-	-
2. Loans:	**2,633,904**	**184,359**	**94**	**2,407,208**	**251,663**	**300**
a) Public administration	4,634	-	-	7,018	0	-
b) Other financial companies	131,814	3,544	-	92,801	4,492	300
of which: insurance	-	-	-	0	-	-
c) Non financial companies	1,236,483	101,947	94	1,118,452	146,035	-
d) Households	1,260,973	78,868	-	1,188,938	101,136	-
Total	**3,570,841**	**184,359**	**94**	**2,964,077**	**251,663**	300

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

	Gross amount				Total adjustment			Total partial write-offs *
	Stage 1	of which: Instrument with low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt securities	956,289	-	-	-	834	-	-	-
Loans	2,473,297	-	203,315	373,194	7,620	6,691	188,834	19,170
Total 31.12.2019	**3,429,586**	-	**203,315**	**373,194**	**8,454**	**6,691**	**188,834**	**19,170**
Total 31.12.2018	**2,828,209**	-	**227,555**	**511,118**	**7,472**	**8,989**	**259,455**	**5,771.67**
of which: purchased or originated credit-impaired financial assets	X	X	-	316	X	-	222	-

* Value to be presented for disclosure purposes

Section 5 - Hedging derivatives - item 50

This section is not applicable to the financial statements of Banca di Cividale S.c.p.A.

Section 6 - Change in fair value of macro fair value hedge portfolios - item 60

This section is not applicable to the financial statements of Banca di Cividale S.c.p.A.

Section 7 - Equity investments - item 70

7.1 Equity investments: information on investments

	Registered office	Headquarters	% holding	% of votes
A. Companies under exclusive control				
1 Civitas SPV S.r.l. *	Conegliano (TV) - Via V. Alfieri n. 1	Conegliano (TV) - Via V. Alfieri n. 1	0.00%	
2 Civiesco Srl	Udine - Via Vittorio Veneto n. 24	Udine - Via Vittorio Veneto n. 24	100.00%	
B. Companies subject to joint control				
C. Companies under significant influence				
2 Acrent S.p.A.	Udine - Via Crispi n. 17	Udine - Via Crispi n. 17	30.00%	
3 Help Line	Cividale del Friuli (UD) - Via G. Pelizzo n. 8	Cividale del Friuli (UD) - Via G. Pelizzo	29.68%	

** Civitas SPV S.r.l. is a special purpose entity included among the equity investments of Banca di Cividale due to its status as originator of the securitisation operation (without derecognition of the assets transferred) and the contractual conditions of the transaction.*

7.2 Significant equity investments: carrying amounts, fair values and dividends

	Book Value	Fair Value	Dividends received
A. Companies under exclusive control			
1 Civitas SPV S.r.l. *	-	-	-
2 Civiesco Srl	89	-	-
B. Companies subject to joint control			
C. Companies under significant influence			
2 Acrent S.p.A.	548	-	-
3 Help Line	2,553	-	-
	3,190	-	-

7.3 Significant equity investments: accounting information

	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues	Net interest income	Adjustments to / writebacks on property, equipment and intangible assets	Income (Loss) before tax from continuing operations	Income (Loss) after tax from continuing operations	Income (Loss) after tax from discontinued operations	Net income (loss) (1)	Other comprehensive income (net of tax) (2)	Comprehensive income (3) = (1) + (2)
A. Companies under exclusive control	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1 Civitas SPV S.r.l. *	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Companies subject to joint control	X	-	-	-	-	-	X	X	-	-	-	-	-	-
C. Companies under significant influence	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2 Acirent S.p.A. **	X	5,388	1,395	4,665	2,118	3,682	X	X	70	61	-	61	-	61
3 Help Line ***	X	2,204	19,703	-	21,907	32,351	X	X	1,176	801	-	801	-	801
Total	-	**7,592**	**21,098**	**4,665**	**24,025**	**36,033**	-	-	**1,246**	**862**	-	**862**	-	**862**

7.5 Equity investments: annual changes

	31/12/2019	31/12/2018
A. Opening balance	**3,769**	**3,780**
B. Increases	-	-
B.1 Purchases	-	-
of which business combinations	-	-
B.2 Writebacks	-	-
B.3 Revaluations	-	-
B.4 Other changes	-	-
C. Decreases	**579**	**11**
C.1 Sales	579	-
C.2 Writedowns	-	11
C.3 Other changes	-	-
of which business combinations	-	-
D. Closing balance	**3,190**	**3,769**
E. Total revaluations	-	-
F. Total writedowns	-	**11**

7.7 Commitments regarding investments in companies subject to significant influence
No commitments have been recognised in respect of companies subject to significant influence, as shown in the list of equity investments provided in the foregoing table 7.1.

7.8 Significant restrictions
No significant restrictions have been recognised in respect of the list of equity investments presented in table 7.1 above.

Section 8 - Property, plant and equipment - item 80

8.1 Operating property, plant and equipment: composition of assets measured at cost

	31/12/2019	31/12/2018	%
1. Property and equipment owned	**63,761**	**65,885**	**-3.2%**
a) land	4,932	4,933	0.0%
b) buildings	55,219	56,753	-2.7%
c) movables	3,142	3,661	-14.2%
d) electrical plant	468	538	-13.1%
e) other	-	-	-
finance lease	**15,350**	-	-
a) land	-	-	-
b) buildings	13,737	-	-
c) movables	-	-	-
d) electrical plant	-	-	-
e) other	1,613	-	-
Total	**79,111**	**65,885**	**20.1%**
of which: obtained through the enforcement of the guarantees received			

The following are the estimated useful lives of depreciable items of property, plant and equipment by asset class:
- land: indefinite;
- works of art: indefinite;
- buildings – 2% – 50 years;
- furniture – 12% – 9 years;
- plant – 15% – 7 years;
- plant – 30% – 4 years;
- plant – 7.5% – 14 years;
- fixtures – 15% – 7 years; and
- electronic machines – 20% – 5 years.

8.2 Investment property: composition of assets measured at cost

Breakdown	31/12/2019				31/12/2018			
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
1. Property and equipment owned	**10,330**	-	-	**10,330**	**10,574**	-	-	**10,574**
a) land	3,247	-	-	3,247	2,770	-	-	2,770
b) buildings	7,083	-	-	7,083	7,804	-	-	7,804
2. Property and equipment acquired under finance lease	-	-	-	-	-	-	-	-
a) land	-	-	-	-	-	-	-	-
b) buildings	-	-	-	-	-	-	-	-
Total	**10,330**	-	-	**10,330**	**10,574**	-	-	**10,574**
of which: resulting from the enforcement of guarantees	-	-	-	-	-	-	-	-

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

8.6 Operating property, plant and equipment - Owned assets and rights of use acquired under leases: annual changes

	Land	Buildings	Furniture	Electrical plant	Other	Total
A. Opening gross balance	4,933	76,355	13,596	12,476	42	107,402
A.1 Total net writedowns	-	19,602	9,936	11,938	42	41,517
A.2 Opening net balance	4,933	56,753	3,660	538	-	65,885
A.3 Change in opening balance (FTA IFRS16)	-	14,724	-	-	1,567	16,291
A.4 Opening net balance	4,933	71,477	3,660	538	1,567	82,176
B. Increases	-	1,270	83	404	566	2,323
B.1 Purchases	-	1,225	-	149	566	1,940
of wich: business combinations	-	-	-	-	-	-
B.2 Capitalised improvement costs	-	-	-	-	-	-
B.3 Writebacks	-	-	-	-	-	-
B.4 Fair value gains recognised in	-	-	-	2	-	2
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	2	-	2
B.5 Positive exchange rate differences	-	-	-	-	-	-
B.6 Transfers from investment property	-	-	X	X	X	-
B.7 Other changes	-	45	83	253	-	381
C. Decreases	1	3,791	602	474	520	5,388
C.1 Sales	1	505	-	2	-	508
C.2 Depreciation	-	-	-	-	-	-
C.3 Writedowns for impairment recognised in	-	2,977	542	167	409	4,095
a) equity	-	55	4	18	-	77
b) income statement	-	-	-	-	-	-
C.4 Fair value losses recognised in	-	55	4	18	-	77
a) equity	-	208	-	-	111	319
b) income statement	-	208	-	-	111	319
C.5 Negative exchange rate differences	-	-	-	-	-	-
C.6 Transfers to	-	-	-	-	-	-
a) investment property	-	-	-	-	-	-
b) discontinuing operations	-	-	X	X	X	-
C.7 Other changes	-	-	-	-	-	-
D. Closing net balance	-	46	56	287	-	389
D.1 Total net writedowns	4,932	68,956	3,141	468	1,613	79,111
D.2 Closing gross balance	-	22,534	10,395	11,852	451	45,231

8.6 Of which - Operating property, plant and equipment - Rights of use acquired under leases: annual changes

	Land	Buildings	Furniture	Electrical plant	Other	Total
A. Opening gross balance	-	-	-	-	-	-
A.1 Total net writedowns	-	-	-	-	-	-
A.2 Opening net balance	-	-	-	-	-	-
A.3 Change in opening balance (FTA IFRS16)	-	14,724	-	-	1,567	16,291
A.4 Opening net balance	-	14,724	-	-	1,567	16,291
B. Increases	-	1,211	-	-	566	1,777
B.1 Purchases	-	1,211	-	-	566	1,777
of wich: business combinations	-	-	-	-	-	-
B.2 Capitalised improvement costs	-	-	-	-	-	-
B.3 Writebacks	-	-	-	-	-	-
B.4 Fair value gains recognised in	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Positive exchange rate differences	-	-	-	-	-	-
B.6 Transfers from investment property	-	-	X	X	X	-
B.7 Other changes	-	-	-	-	-	-
C. Decreases	-	2,198	-	-	520	2,718
C.1 Sales	-	325	-	-	-	325
C.2 Depreciation	-	1,665	-	-	409	2,074
C.3 Writedowns for impairment recognised in	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.4 Fair value losses recognised in	-	208	-	-	111	319
a) equity	-	208	-	-	111	319
b) income statement	-	-	-	-	-	-
C.5 Negative exchange rate differences	-	-	-	-	-	-
C.6 Transfers to	-	-	-	-	-	-
a) investment property	-	-	X	X	X	-
b) discontinuing operations	-	-	-	-	-	-
C.7 Other changes	-	-	-	-	-	-
D. Closing net balance	-	13,737	-	-	1,613	15,350
D.1 Total net writedowns	-	1,665	-	-	409	2,074
D.2 Closing gross balance	-	15,402	-	-	2,022	17,424
E. Measurement at cost	-	-	-	-	-	-

8.7 Investment property: annual changes

	Total 31/12/2019	
	Land	**Buildings**
A. Opening gross balance	2,770	7,804
B. Increases	477	-
B.1 Purchases	-	-
of wich: business combinations	-	-
B.2 Capitalised improvement costs	-	-
B.3 Positive fair value differences	-	-
B.4 Write-backs	-	-
B.5 Positive foreign exchange differences	-	-
B.6 Transfer from property used in operations	-	-
B.7 Other changes	477	-
C. Decreases	-	721
C.1 Sales	-	-
of which business combinations		
C.2 Depreciation	-	289
C.3 Negative fair value differences	-	-
C.4 Impairment losses	-	432
C.5 Negative foreign exchange differences	-	-
C.6 Transfer to other assets	-	-
a) property used in operations	-	-
b) non-current assets held for sale and discontinued operations	-	-
C.7 Other changes	-	-
D. Final carrying amount	3,247	7,083
E. Fair value measurement		

Section 9 - Intangible assets - item 90

9.1 Intangible assets: composition by category

	31/12/2019		31/12/2018		%
	finite useful life	indefinite useful life	finite useful life	indefinite useful life	
A.1 Goodwill	X	-	X	-	-
A.2 Other intangible assets	-	-	-	-	-
A.2.1 Assets measured at cost	119	-	153	-	-22.2%
a) Internally generated intangible assets	-	-	-	-	-
b) Other assets	119	-	153	-	-22.2%
A.2.2 Assets measured at fair value	-	-	-	-	-
a) Internally generated intangible assets	-	-	-	-	-
b) Other assets	-	-	-	-	-
Total	**119**	**-**	**153**	**-**	**-**

9.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: internally generated		Other intangible assets: other		Total
		Fin.	Indef.	Fin.	Indef.	
A. Gross initial carrying amount	-	-	-	420	-	420
A.1 Total net adjustments	-	-	-	267	-	267
A.2 Net initial carrying amount	-	-	-	153	-	153
B. Increases	-	-	-	29	-	29
B.1 Purchases	-	-	-	29	-	29
of which business combinations	-	-	-	-	-	-
B.2 Increases of internally generated intangible assets	X	-	-	-	-	-
B.3 Write-backs	X	-	-	-	-	-
B.4 Positive fair value differences recognised in	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
B.5 Positive foreign exchange differences	-	-	-	-	-	-
B.6 Other changes	-	-	-	-	-	-
C. Decreases	-	-	-	63	-	63
C.1 Sales	-	-	-	-	-	-
C.2 Impairment losses	-	-	-	-	-	-
- Amortisation	X	-	-	63	-	63
- Write-downs recognised in	-	-	-	-	-	-
shareholders' equity	X	-	-	-	-	-
income statement	-	-	-	-	-	-
C.3 Negative fair value differences recognised in	-	-	-	-	-	-
- shareholders' equity	X	-	-	-	-	-
- income statement	X	-	-	-	-	-
C.4 Transfer to non-current assets held for sale and discontinued operations	-	-	-	-	-	-
C.5 Negative foreign exchange differences	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
D. Net final carrying amount	-	-	-	119	-	119
D.1 Total net adjustments	-	-	-	330	-	330
E. Gross final carrying amount	-	-	-	**449**	-	**449**
F. Measurement at cost	-	-	-	-	-	-

Key: DEF: definite-term INDEF: indefinite-term

Section 10 - Tax assets and tax liabilities - item 100 of assets and item 60 of liabilities

10.1 Deferred tax assets: composition

Composition by type:	31/12/2019	31/12/2018
Securities	147	860
Staff costs	774	1,897
Credit losses	47,817	47,817
Fiscal losses	3,995	5,027
Property and equipment	1,916	1,916
Fta Ifrs 9	9,908	9,908
Other	2,011	2,002
Total	**66,567**	**69,427**

10.2 Deferred tax liabilities: composition

Composition by type:	31/12/2019	31/12/2018
Tax effect on AFS	329	730
Fta Ifrs 9	256	256
Other	29	273
Total	**614**	**1,259**

10.3 Changes in deferred tax assets (through the income statement)

	31/12/2019	31/12/2018
1. Opening balance	58,559	57,851
2.Increases	782	4,359
2.1 Deferred tax assets recognised during the year	782	4,359
a) in respect of previous periods	185	3
b) due to changes in accounting policies	-	-
c) writebacks	-	-
d) other	596	4,356
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	2,994	3,651
3.1 Deferred tax assets derecognised during the year	2,994	3,651
a) reversals	-	-
b) writedowns for supervening non-recoverability	-	-
c) due to change in accounting policies	-	-
d) other	2,994	3,651
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
a) conversion in tax assets set forth in Italian Law 214/2011	-	-
b) other	-	-
4.Closing balance	**56,347**	**58,559**

10.3-bis Changes in deferred tax assets pursuant to Law 214/2011

The item does not present any changes.

10.4 Changes in deferred tax liabilities (through the income statement)

	31/12/2019	31/12/2018
1.Opening balance	273	301
2. Increases	-	-
2.1 Deferred tax liabilities recognised during the year	-	-
a) in respect of previous periods	-	-
b) due to changes in accounting policies	-	-
c) other	-	-
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	244	28
3.1 Deferred tax liabilities derecognised during the year	-	28
a) reversals	-	-
b) due to change in accounting policies	-	-
c) other	-	28
3.2 Reduction in tax rates	-	-
3.3 Other decreases	244	-
4. Closing balance	**29**	**273**

10.5 Changes in deferred tax assets (through equity)

	31/12/2019	31/12/2018
1.Opening balance	10,868	323
2. Increases	144	12,028
2.1 Deferred tax assets recognised during the year	144	12,028
a) in respect of previous periods	-	-
b) due to changes in accounting policies	-	11,235
c) other	144	793
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	793	1,483
3.1 Deferred tax assets derecognised during the year	793	1,483
a) reversals	-	-
b) writedowns for supervening non-recoverability	-	-
c) due to change in accounting policies	-	1,327
d) other	793	155
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4.Closing balance	**10,219**	**10,868**

10.6 Changes in deferred tax liabilities (through equity)

	31/12/2019	31/12/2018
1.Opening balance	986	3,258
2. Increases	328	986
2.1 Deferred tax liabilities recognised during the year	328	986
a) in respect of previous periods	-	-
b) due to changes in accounting policies	-	256
c) other	328	730
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	730	3,258
3.1 Deferred tax liabilities derecognised during the year	730	3,258
a) reversals	-	-
b) due to change in accounting policies	-	-
c) other	730	3,258
3.2 Reduction in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	585	986

Probability test on deferred taxes

According to international accounting standard IAS 12, deferred tax assets and liabilities are recognised according to the following criteria:

- ✓ a deferred tax liability must be recognised for all taxable temporary differences;
- ✓ a deferred tax asset is to be recognised for all deductible temporary differences if it is probable that sufficient taxable income will be earned for the deductible temporary differences. Deferred tax assets not previously recognised – inasmuch as the requirements for their recognition had not been satisfied – are to be recognised in the year in which those requirements are met.

Accordingly, the amount of the deferred tax assets recognised must be tested each year in order to determine whether it is reasonably certain that future taxable income will permit the recovery of the assets.

Considering the amount of the Bank's recognised deferred tax assets, for the 2019 financial statements, as for previous years, an analysis was conducted with the aim of verifying whether forecast earnings are sufficient to ensure the recovery of such assets and therefore justify their continuing recognition in the financial statements (a process known as the "probability test").

In conducting the probability test on IRES and IRAP deferred tax assets carried in the financial statements as at 31 December 2019, as for the 2011-2018 financial statements, deferred tax assets deriving from deductible temporary differences relating to impairment and losses on loans (other than those arising from the first-time adoption of the international accounting standard IFRS 9; see above) were considered separately, as were those on goodwill and other intangible assets with indefinite useful lives ("qualified deferred tax assets" and "qualified temporary differences"), provided that they were recognised in or before financial year 2014. In this regard, it is relevant that, with effect from the tax period ended on 31 December 2011, IRES (corporate income) deferred tax assets recognised in the financial statements on the basis of tax losses deriving from the deferred deduction of qualified temporary differences may be converted into tax credits (Art. 2 (56-bis) of Law Decree No. 225 of 29 December 2010, introduced by Art. 9 of Law Decree No. 201 of 6 December 2011). With effect from tax period 2013, a similar conversion option applies when a net negative value of production is declared

in an IRAP (regional production tax) return, including in the case of IRAP deferred tax assets deriving from qualified temporary differences that have formed part of the net negative value of production (Art. 2 (56-*bis* 1) of Law Decree No. 225 of 29 December 2010, introduced by Law No. 147/2013). These forms of convertibility – which are in addition to those already envisaged where the individual financial statements present a loss for the year (Art. 2, paragraphs 55 and 56 of Law Decree No. 225/2010, as most recently amended by Law No. 147/2013) – represent an additional, complementary means of recovery, which is intended to ensure that deferred tax assets may be recovered in all situations, regardless of the company's future profitability. In fact, if qualified temporary differences exceed taxable income or the net value of production in a given year, the recovery of deferred tax assets does not take the form of a reduction of current taxes, but rather of the recognition of deferred tax assets on the tax loss or net negative value of production, convertible into tax credits pursuant to Article 2, paragraphs 56-bis and 56-bis.1, of Law Decree No. 225/2010. The convertibility of deferred tax assets on tax losses and the net negative value of production resulting from qualified temporary differences is therefore a sufficient condition for the recognition of qualified deferred tax assets in the financial statements, excluding them from the scope of application of the earnings probability test.
A further limit on the outright deductibility of deferred tax assets was introduced by Article 11 of Law Decree No. 59 of 3 May 2016, amended by Law Decree No. 237 of 23 December 2016, which rendered the eligibility for conversion into a tax credit of qualified deferred tax asset that is not associated with an actual prepayment of taxes (a “type-2 DTA”) contingent on an annual payment of 1.5% of the total value of the asset in the years 2016-2030. No payment is due to convert into tax credits qualified deferred tax assets associated with an actual prepayment of greater taxes (“type-1 DTAs”). Considering that all deferred tax assets were all found to be “type-1 DTAs”, the Bank is not currently required to make such payments.
Art. 1, paragraphs 1067 and 1068, of the 2019 Budget Act (Law No. 145 of 30 December 2018) provides for the deductibility (for both IRES and IRAP purposes), over ten tax periods, starting with that in progress on 31 December 2018, of value adjustments to loans to customers recognised by banks and financial entities upon first-time adoption of the international accounting standard IFRS 9. As clarified in the illustrative report on the measure, the deferred tax assets recognised on the basis of the deferral of the above deduction cannot be converted into tax credits pursuant to the aforementioned provisions of Decree-Law No. 225/2010. Accordingly, such taxes must be subject to the probability test.
On this basis, the probability test for other IRES deferred tax assets is structured as follows:

a) identifying, among other deferred tax assets, tax assets that are “non-qualified” since they cannot be converted into tax credits from the Treasury (see the above);
b) analysing such non-qualified deferred tax assets and deferred tax liabilities carried in the balance sheet, distinguishing them by type and projected timing of recovery;
c) provisionally quantifying the Bank's future taxable income on the basis of the Business Plan for years until 2022 (explicit forecasting) and of the continuation of the “average” of the gross income streams for the final two years of explicit forecasting into the years 2023 and 2024 (implicit forecasting), with the consequent observation time horizon for the recovery of “non-qualified” deferred tax assets of five years;
d) preparing a “stand-alone” scenario that assumes a possible greater stress on the performance of future taxable income or loss.

The probability test for IRAP deferred tax assets was also conducted in individual form solely for non-qualified deferred tax assets (as mentioned above, for those convertible into tax credits from the Treasury, the certain prospects of use on the basis of the assumptions of conversion into tax credits provided for in paragraphs 56-*bis* and 56-*bis*.1, Art. 2, of Decree-Law No. 225/2010 in fact form a sufficient basis for recognition, ensuring that the probability test relating to them will implicitly be passed).
The test was conducted by comparing the prospective taxable income for IRAP purposes on the basis of the Business Plan for years until 2022 (explicit forecasting) and of the projection of the “average” of the gross income streams for the final two years of explicit forecasting into the years 2023 and 2024 (implicit forecasting), with the consequent observation time horizon for the recovery of “non-qualified” deferred tax assets of five years. Considering that, for IRAP purposes, as opposed to the case for IRES tax losses, there is no carry-forward provision for taxable income when there is a residual tax loss in one or more years, the IRAP deferred tax assets that may be recognised must be limited solely to those corresponding to the temporary differences that may be recovered in each year considered.

Section 11 - Non-current assets held for sale and discontinued operations and associated liabilities - item 110 of assets and item 70 of liabilities

This section is not applicable to the financial statements of Banca di Cividale S.c.p.A.

Section 12 - Other assets - item 120

12.1 Other assets: composition

	31/12/2019	31/12/2018	%
Other assets - Amounts due from the tax authorities	18,178	20,528	-11.4%
Other assets - Other	11,327	9,223	22.8%
Other items - Costs and advances pending financial allocation	34	170	-79.9%
Other items - Varius items	20,841	25,494	-18.3%
Total	**50,380**	**55,416**	**-9.1%**

The various items include, among others:
- €2,233 thousand of cheques in processing;
- €5,695 thousand of commission income to be received;
- €3,353 thousand of invoices issued for lease payments;

Other items include:
- €1,747 thousand for processing of SDDs received;
- €1,064 of expenses on third-party assets;
- €3,546 of prepaid expenses on securitisation transactions

LIABILITIES

Section 1 - Financial liabilities measured at amortised cost - item 10

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

	31/12/2019				31/12/2018			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L2		L1	L2	L2
1. Due to central banks	**586,058**	**X**	**X**	**X**	**550,882**	**X**	**X**	**X**
2. Due to banks	**131,825**	**X**	**X**	**X**	**121,519**	**X**	**X**	**X**
2.1 Current accounts and demand deposits	23,800	X	X	X	5,047	X	X	X
2.2 Time deposits	-	X	X	X	20,001	X	X	X
2.3 Borrowings	107,950	X	X	X	96,195	X	X	X
2.3.1 Repurchase agreements	-	X	X	X	-	X	X	X
2.3.2 other	107,950	X	X	X	96,195	X	X	X
2.4 Liabilities in respect of commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
2.5 Lease liabilities	-	-	0.0%	0.0%	-	-	0.0%	0.0%
2.6 Other payables	75	X	X	X	275	X	X	X
Total	**717,883**	**-**	**-**	**722,529**	**672,401**	**-**	**-**	**676,152**

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

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

	31/12/2019				31/12/2018			
	BV	Fair Value			BV	Fair Value		
		L1	L2	L2		L1	L2	L2
1. Current accounts and demand deposits	1,871,719	X	X	X	1,817,469	X	X	X
2. Time deposits	514,426	X	X	X	390,126	X	X	X
3. Borrowings	548,783	X	X	X	256,611	X	X	X
3.1 Repurchase agreements	548,675	X	X	X	256,430	X	X	X
3.2 Other	109	X	X	X	181	X	X	X
4. Liabilities in respect of commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Leasing liabilities	15,580	X	X	X	-	X	X	X
6. Other payables	298,895	X	X	X	301,393	X	X	X
Total	**3,249,404**	**-**	**0.0%**	**3,241,961**	**2,765,600**	**-**	**0.0%**	**2,757,226**

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

1.3 Financial liabilities measured at amortised cost: composition of debt securities issued by type

	31/12/2019				31/12/2018			
	Book value	Fair value			Book value	Fair value		
		L1	L2	L3		L1	L2	L3
A. Securities	**12,348**	-	**8,301**	**3,947**	**69,782**	-	**45,645**	**23,593**
1. Bonds	12,348	-	8,301	3,947	69,654	-	45,645	23,465
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	12,348	-	8,301	3,947	69,654	-	45,645	23,465
2. Other	-	-	-	-	128	-	-	128
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	-	-	-	-	128	-	-	128
Total	**12,348**	-	**8,301**	**3,947**	**69,782**	-	**45,645**	**23,593**

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

1.4 Composition of subordinated debt/securities

Description	Amount 31/12/2019	31/12/2018
Subordinated securities	0	22,370

There were no outstanding subordinated bonds at 31 December 2019

Section 2 - Financial liabilities held for trading - item 20

2.1 Financial liabilities held for trading: composition by type

	31/12/2019					31/12/2018				
		FV					FV			
	NV	L1	L2	L3	FV*	NV	L1	L2	L3	FV*
A. On-balance-sheet liabilities										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 structured	-	-	-	-	X	-	-	-	-	X
3.1.2 other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	-	-	-	-	-	-
3.2.1 structured	-	-	-	-	X	-	-	-	-	X
3.2.2 other	-	-	-	-	X	-	-	-	-	X
Total A	-	-	-	-	-	-	-	-	-	-
B. Derivatives										
1. Financial derivatives	-	-	125	-	-	-	-	168	-	-
1.1 trading	X	-	125	-	X	X	-	168	-	X
1.2 associated with fair value option	X	-	-	-	X	X	-	-	-	X
1.3 other	X	-	-	-	X	X	-	-	-	X
2 Credit derivatives	-	-	-	-	-	-	-	-	-	-
2.1 trading	X	-	-	-	X	X	-	-	-	X
2.2 associated with fair value option	X	-	-	-	X	X	-	-	-	X
2.3 other	X	-	-	-	X	X	-	-	-	X
Total B	**X**	-	**125**	-	**X**	**X**	-	**168**	-	**X**
Total (A+B)	**X**	-	**125**	-	**X**	**X**	-	**168**	-	**X**

Key: FV = fair value; FV* = fair value calculated by excluding the changes in value due to the change in the issuer's credit rating since the issue date; NV = nominal or notional value

Section 3 - Financial liabilities designated at fair value - item 30

This section is not applicable to the financial statements of Banca di Cividale S.c.p.A.

Section 4 - Hedging derivatives - item 40

This section is not applicable to the financial statements of Banca di Cividale S.c.p.A.

Section 5 - Change in fair value of macro fair value hedge portfolios - item 50

This section is not applicable to the financial statements of Banca di Cividale S.c.p.A.

Section 6 - Tax liabilities - item 60

For information on this section, please see Section 10 under Assets.

Section 7 - Liabilities associated with discontinued operations - item 70

This section is not applicable to the financial statements of Banca di Cividale S.c.p.A.

Section 8 - Other liabilities - item 80

8.1 Other liabilities: composition

	31/12/2019	31/12/2018	%
Other liabilities - Various items	57,998	74,868	-22.5%
Other liabilities - Amouns due to tax authorities	4,473	6,424	-30.4%
Total	**62,471**	**81,292**	**-23.2%**

The various items include:

- ✓ securitisation liabilities of €18,730 thousand;
- ✓ SEPA credit transfers to be settled of €7,763 thousand;
- ✓ other liabilities due to accruals basis accounting of €6,741 thousand;
- ✓ leasing direct debits to be collected of €3,352 thousand.

Section 9 - Employee termination benefits - item 90

9.1 Employee termination benefits: annual changes

	31/12/2019	31/12/2018
A. Opening balance	**4,794**	**5,073**
B. Increases	**2,082**	**1,864**
B.1 Provision for the year	1,773	1,864
B.2 Other increases	309	-
C. Decreases	**1,886**	**2,143**
C.1 Severance payments	73	112
C.2 Other decreases	1,813	2,031
D. Closing balance	**4,990**	**4,794**
Total	**4,990**	**4,794**

Item C.2 “Other decreases” refers to the amounts transferred to the pension fund and INPS Treasury Fund. Under international accounting principles, employee termination benefits are considered post-employment benefits of the defined-benefit type. Accordingly, for accounting purposes, their value is determined through actuarial approaches based on a technical procedure known in actuarial literature as the “MAGIS” method. This method, based on a stochastic simulation of the Montecarlo type, allows projections to be prepared for the compensation costs for each employee, considering the demographic and compensation figures associated with each position, without aggregating those positions or introducing average values. The calculations were performed for the number of years necessary for all workers currently in service to leave service.
In accordance with IAS 19, the actuarial assessments have been conducted according to the accrued benefit method by using the Projected United Credit Method. Technical assessments were conducted according to the following parameters:

- ✓ annual technical discounting rate: 0.77%;
- ✓ annual inflation rate: 1.00%;

As required by ESMA, the actuarial assessment was repeated while leaving all other hypotheses unchanged but considering a discounting rate equal to the index for the Eurozone, Iboxx Corporate AA, with a duration of 10+ years, in a manner consistent with the average financial duration of prospective divestments tied to departures from the category subject to assessment.

Section 10 - Provisions for risks and charges - item 100

10.1 Provisions for risks and charges: composition

	31/12/2019	31/12/2018
1. Provisions for credit risk associated with commitments and financial guarantees given	556	326
2. Provisions on other commitments and other guarantees given	-	1,055
3. Post-employment benefits	-	-
4. Other provisions for risks and charges	2,764	6,416
4.1 legal disputes	1,054	866
4.2 personnel charges	747	5,000
4.3 other	963	550
Total	**3,320**	**7,797**

10.2 Provisions for risks and charges: annual changes

	Provisions on other commitments and other guarantees given	Postemployment benefits	Other provisions for risk and charges	Total
A. Opening balance	**1,381**	-	**6,416**	**7,797**
B. Increases	-	-	**1,072**	**1,072**
B.1 Provision for the year	-	-	1,072	1,072
B.2 Changes due to passage of time	-	-	-	-
B.3 Changes due to changes in discount rate	-	-	-	-
B.4 Other increases	-	-	-	-
of which: business combinations	-	-	-	-
C. Decreases	**825**	-	**4,724**	**5,549**
C.1 Use during the year	-	-	2,550	2,550
C.2 Changes due the changes in discount rate	-	-	-	-
C.3 Other decreases	825	-	2,174	2,999
D. Closing balance	**556**	-	**2,764**	**3,320**

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

	Provisions for credit risk associated with commitments and financial guarantees given			
	Stage 1	Stage 2	Stage 3	Total
1. Commitments to disburse funds	84	54	-	137
2. Financial guarantees given	197	63	159	419
Total	**280**	**117**	**159**	**556**

10.4 Provisions for other commitments and other guarantees given

Not applicable.

10.6 Provisions for risks and charges - other

Provisions for risks and charges consist of the following:

Provision for revocatory actions

This provision stood at €270 thousand at 31 December 2019 and represents the estimated amount of foreseeable liabilities, calculated individually with the support of the Bank's legal counsel, in respect of judicial and out-of-court actions in which the Bank is a defendant.

Provisions for contingencies and complaints

At 31 December 2019 this provision amounted to €2,494 thousand, of which €1,134 thousand of accruals for complaints by customers and legal disputes with former employees and €748 thousand relating to the accrual for the voluntary redundancy procedure involving the use of the solidarity fund in support of income, employment, retraining and professional development, €612 thousand relating to legal fees for ongoing tax disputes and the remainder of accruals for probable future contractual commitments.

Section 11 - Redeemable shares - item 120

11.1 Redeemable shares: composition

This section is not applicable to the financial statements of Banca di Cividale S.c.p.A.

Section 12 - Shareholders' equity - items 110, 130, 140, 150, 160, 170 and 180

Shareholders' equity is defined by international accounting standards as "the residual value of an entity's assets after all liabilities have been deducted." From a financial standpoint, equity represents the monetary extent of the resources contributed by the owners or generated by the entity.

Capital management is the set of policies and decisions required to determine the capitalisation level, as well as the optimal combination of the various alternative capitalisation instruments aimed at ensuring that capital and capital ratios are consistent with the risk profile assumed, in full accordance with supervisory requirements.

In further detail, the capital policy adopted by the Bank is founded upon the three following approaches:

- ✓ full compliance with regulatory requirements (regulatory approach);
- ✓ appropriate monitoring of risks associated with banking operations (management approach); and
- ✓ support for company development projects (strategic approach).

At 31 December 2019, Banca di Cividale had fully subscribed and paid-in share capital of €50,913 thousand, divided into 16,971,085 ordinary shares.

12.1 Share capital and treasury shares: composition

	31/12/2019	31/12/2018	%
1. Share capital	50,913	50,913	0.0%
2. Share premiums	167,022	167,022	0.0%
3. Reserves	65,534	45,805	43.1%
4. (Treasury shares)	(2,125)	(1,260)	68.6%
5. Valuation reserves	842	9,496	-91.1%
6. Capital instruments	-	-	-
7. Net income (loss) for the period	2,733	2,043	33.8%
Total	**284,920**	**274,018**	**4.0%**

12.2 Share capital - number of shares: annual changes

	Ordinary	Other
A. Shares at start of year	**16,971,085**	-
- fully paid	16,971,085	-
- partly paid	-	-
A.1 Treasury stock (-)	(113,110)	-
A.2 Shares in circulation: opening balance	**16,857,975**	-
B. Increases	-	-
B.1 New issues	-	-
- paid issues:	-	-
- business combinations	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- other	-	-
- bonus issues:	-	-
- to employees	-	-
- to directors	-	-
- other	-	-
B.2 Sale of own shares	-	-
B.3 Other changes	-	-
C. Decreases	**123,608**	-
C.1 Cancellation	-	-
C.2 Purchase of own shares	123,608	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
D. Shares in circulation: closing balance	**16,734,367**	-
D.1 Treasury stock (+)	236,718	-
D.2 Shares at end of the year	16,971,085	-
- fully paid	16,971,085	-
- partly paid	-	-

12.3 Share capital: other information

Schedule illustrating eligibility for distribution, possible uses and origins of shareholders' equity reserves as required by Article 2427 of the Italian Civil Code

	Amount to 31/12/2019	UTILISATION OPTIONS	AMOUNT AVAILABLE	USE IN PRIOR YEARS FOR LOSS COVERAGE	OTHER
Share capital	**50,913**	-	-	-	-
Capital reserves	**167,864**	-	**167,864**	**167,864**	-
Share premiums	167,022	A - B - C	167,022	167,022	-
Valuation reserves	842	A-B	842	842	-
Other reserves	**66,143**	**A - B - C**	**65,534**	**65,534**	-
- legal reserve	22,596	B	22,596	22,596	-
- reserve for the purchase of treasury shares	(2,125)	-	-	-	-
- statutory reserve	42,287	A - B	42,287	42,287	-
- other reserves	651	A - B	651	651	-
- retained earnings	-	A - B	-	-	-
Net income for the period	2,733	-	-	-	-
Total	**284,920**	-	**233,398**	**233,398**	-
Non available	-	-	-	-	-
Available	**284,920**	-	**233,398**	**233,398**	-

A: for share capital increase; B: as loss coverage; C: for distribution to Shareholders.

12.4 Earnings reserves: other information

	31/12/2019	31/12/2018	%
Legal reserve	22,596	22,392	0.9%
Statutory reserve	42,287	39,553	6.9%
Other reserves	23,440	5,500	326.2%
FTA IFRS9	(23,426)	(23,171)	N.A.
Treasury shares	636	1,531	-58.5%
Total	**65,534**	**45,805**	**43.1%**

OTHER INFORMATION

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

	Nominal value on financial release obligations and guarantees			31/12/2019	31/12/2018
	First stage	Second stage	Third stage		
1. Commitment to supply funds	**562,383**	**1,078**	**7,057**	**570,517**	**645,222**
a) Central Banks	-	-	-	-	-
b) Public Administration	176	-	-	176	520
c) Banks	-	-	-	-	14,780
d) Other financial companies	11,493	-	761	12,254	13,074
e) Non-financial companies	474,781	1,023	5,391	481,196	541,097
f) Families	75,933	54	904	76,892	75,752
2. Financial release guarantees	**64,173**	**2,997**	**4,333**	**71,503**	**59,592**
a) Central Banks	-	-	-	-	-
b) Public Administration	260	-	-	260	113
c) Banks	-	-	-	-	-
d) Other financial companies	1,336	25	-	1,361	-
e) Non-financial companies	56,531	2,680	4,281	63,492	54,684
f) Families	6,046	292	52	6,391	4,795

2. Other commitments and other guarantees given

Not applicable.

It is further reported that the Bank has posted off-balance sheet securities of €553,889 thousand as collateral for funding transactions.

3. Assets pledged as collateral for liabilities and commitments

Portfolios	31/12/2019	31/12/2018
1. Financial assets measured at fair value through profit or loss	-	-
2. Financial assets measured at fair value through other comprehensive income	-	89,946
3. Financial assets measured at amortised cost	547,881	169,517
4. Property and equipment	-	-
of which: property and equipment that constitute inventories	-	-

4. Management and intermediation services

Type of service	31/12/2019	31/12/2018
1. Trading in financial instruments on behalf of third parties	-	-
a) Purchases	-	-
1. settled	-	-
2. not yet settled	-	-
b) Sales	-	-
1. settled	-	-
2. not yet settled	-	-
2. Asset management	**207,357**	**189,332**
3. Custody and administration of securities	**3,063,663**	**3,796,941**
a) third-party securities held as part of depository bank services (excluding portfolio management)	-	-
1.securities issued by reporting entity	-	-
2. other	-	-
b) other third-party securities on deposit (excluding portfolio management): other	754,016	801,538
1. securities issued by reporting entity	47,440	101,406
2. other	706,576	700,132
c) third-party securities deposited with third parties	750,288	796,321
d) securities owned by bank deposited with third parties	2,309,647	2,995,402
4. Other	-	-

5 - 6 Financial assets/liabilities presented on a net basis, subject to master netting agreements or similar agreements

IFRS 7 requires that specific disclosure be provided for financial instruments that are set off in the balance sheet pursuant to IAS 32 or that are partially eligible for offsetting, upon the occurrence of certain conditions, in that they are governed by master netting agreements or similar agreements that do not comply with the criteria established by IAS 32 for offsetting in the financial statements.

For Banca di Cividale, there were no outstanding netting agreements for which balances are to be offset in the balance sheet pursuant to IAS 32.

The financial instruments potentially eligible for offsetting in the tables below are governed by the following agreements:

- ✓ for derivative instruments: an ISDA master agreement and clearing house netting agreements;
- ✓ for repurchase and reverse repurchase agreements: Global Master Repurchase Agreements (GMRAs);
- ✓ for securities lending: global master securities lending agreements (GMSLAs).

Technical forms	Gross amount of financial assets	Amount of financial liabilities offset in the financial statements	Net amount of financial assets shown in the financial statements	Related amounts not offse tin the financial statements		Net amount 31/12/2019	Net amount 31/12/2018
				Financial instruments	Cash deposits received as collateral	(f=c-d-e)	
	(a)	(b)	(c=a-b)	(d)	(e)		
1. Derivatives	6	-	6	-	-	6	6
2. Repurchase agreements	-	-	-	-	-	-	-
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
Total 31/12/2019	**6**	-	**6**	-	-	**6**	**X**
Total 31/12/2018	**6**	-	**6**	-	-	**X**	**6**

Technical forms	Gross amount of financial assets	Amount of financial liabilities offset in the financial statements	Net amount of financial assets shown in the financial statements	Related amounts not offse tin the financial statements		Net amount 31/12/2019	Net amount 31/12/2018
				Financial instruments	Cash deposits received as collateral	(f=c-d-e)	
	(a)	(b)	(c=a-b)	(d)	(e)		
1. Derivatives	106	-	106	-	-	**106**	**(143)**
2. Repurchase agreements							
3. Securities lending							
4. Other							
Total 31/12/2019	**106**	-	**106**	-	-	**106**	**X**
Total 31/12/2018	**160**	-	**160**	**303**	**0**	**X**	**(143)**

Chapter C – NOTES TO THE INCOME STATEMENT

Section 1 - Interest - items 10 and 20

1.1 Interest income and similar revenues: composition

	Debt securities	Loans	Other transactions	31/12/2019	31/12/2018	%
1. Financial assets measured at fair value through profit or loss	**95**	**484**	-	**579**	**555**	4.3%
1.1 Financial assets held for trading	71	-	-	71	26	178.9%
1.2 Financial assets designated at fair value	-	-	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value	23	484	-	507	529	-4.1%
2. Financial assets measured at fair value through other comprehensive income	**661**	-	X	**661**	1,964	-66.3%
3. Financial assets measured at amortised cost	**5,912**	**67,297**	-	**73,209**	**71,741**	2.0%
3.1 Due from banks	235	344	X	579	789	-26.6%
3.2 Loans to customers	5,678	66,953	X	72,630	70,952	2.4%
4. Hedging derivatives	X	X	-	-	-	-
5. Other assets	X	X	-	-	-	-
6. Financial liabilities	X	X	X	**3,869**	3,965	-2.4%
Total	**6,668**	**67,781**	-	**78,318**	**78,224**	**0.1%**
of which: interest income on impaired financial assets		4,752				
of which: interest income on financial leasing		5,718				

1.2 Interest income and similar revenues: other information

1.2.1 Interest income on foreign currency financial assets

	31/12/2019	31/12/2018	%
Interest income on foreign-currency financial assets - securities	220	94	133.2%
Total	**220**	**94**	**133.2%**

1.2.2 Interest income on finance lease transactions

	31/12/2019	31/12/2018	%
Interest income on financial lease payables	5,718	5,458	4.8%
Total	**5,718**	**5,458**	**4.8%**

1.3 Interest expense and similar charges: composition

	Debt	Securities	Other liabilities	31/12/2019	31/12/2018	%
1. Financial liabilities measured at amortised cost	16,882	964	-	17,845	17,794	0.3%
1.1 Due to Central Banks	-	X	X	-	-	-
1.2 Due to banks	1,570	X	X	1,570	1,363	15.1%
1.3 Due to customers	15,312	X	X	15,312	14,487	5.7%
1.4 Securities issued	X	964	X	964	1,943	-50.4%
2. Financial liabilities held for trading	-	-	-	-	-	-
3. Financial liabilities designated at fair value	-	-	-	-	-	-
4. Other liabilities and allowances	X	X	-	-	-	-
5. Hedging derivatives	X	X	-	-	-	-
6. Financial assets	X	X	X	1	(1)	-184.3%
Total	**16,882**	**964**	-	**17,846**	**17,794**	**0.3%**
of which: interest expense on lease liabilities	**421**					

1.4 Interest expense and similar charges: other information

1.4.1 Interest expense on foreign currency financial liabilities

	31/12/2019	31/12/2018	%
Interest expence on foreign-currency financial assets	404	559	-27.8%
Total	**404**	**559**	**-27.8%**

Section 2 - Commissions - items 40 and 50

2.1 Commission income: composition

Type of services / Amounts	31/12/2019	31/12/2018	%
a) guarantees issued	1,011	1,098	-7.9%
b) credit derivatives	-	-	-
c) management, intermediation and advisory services:	11,200	9,871	13.5%
1. trading in financial instruments	152	79	92.1%
2. foreign exchange	297	315	-5.8%
3. asset management	1,778	1,896	-6.2%
4. securities custody and administration	118	122	-3.0%
5. depository services	-	-	-
6. securities placement	4,589	4,535	1.2%
7. reception and transmission of orders	266	283	-6.2%
8. advisory services	-	-	-
8.1. on investments	-	-	-
8.2. on financial structure	-	-	-
9. distribution of third-party services	4,000	2,641	51.5%
9.1 asset management	-	-	-
9.1.1 individual	-	-	-
9.1.2 collective	-	-	-
9.2 insurance products	4,000	2,641	51.5%
9.3 other	-	-	-
d) collection and payment services	9,882	9,301	6.2%
e) servicing activities for securitizations	-	-	-
f) services for factoring transactions	-	-	-
g) tax collection services	-	-	-
h) management of multilateral trading facilities	-	-	-
i) management of current accounts	7,114	6,234	14.1%
j) other	8,832	8,207	7.6%
Total	**38,039**	**34,711**	**9.6%**

2.2 Commission income: distribution channels for products and services

Channels/Amounts	31/12/2019	31/12/2018	%
a) at Bank branches:	10,367	8,498	21.99%
1. portfolio management	1,778	2,098	-15.25%
2. placement of securities	4,589	5,175	-11.32%
3. third party products and services	4,000	1,226	226.42%
b) outside bank branches:	-	-	-
1. portfolio management	-	-	-
2. placement of securities	-	-	-
3. third party products and services	-	-	-
c) other distribution channels:	-	-	-
1. portfolio management	-	-	-
2. placement of securities	-	-	-
3. third party products and services	-	-	-

2.3 Commission expenses: composition

	31/12/2019	31/12/2018	%
a) guarantees received	91	33	173.5%
b) credit derivatives	-	-	-
c) management and intermediation services:	354	77	358.4%
1. trading in financial instruments	128	77	65.3%
2. foreign exchange	-	-	-
3. asset management	-	-	-
3.1 own portfolio	-	-	-
3.2 third-party portfolio	-	-	-
4. securities custody and administration	-	-	-
5. placement of financial instruments	226	-	100.0%
6. off-premises distribution of securities, products and services	-	-	-
d) collection and payment services	3,978	3,683	8.0%
e) other services	1,066	896	19.0%
Total	**5,488**	**4,689**	**17.0%**

Section 3 - Dividends and similar income - item 70

3.1 Dividends and similar income: composition

	31/12/2019		31/12/2018		%
	Dividends	Similar income	Dividends	Similar income	
A. Financial assets held for trading	1	14	18	1	-95.6%
B. Other financial assets mandatorily measured at fair value	-	1	-	21	-
C. Financial assets measured at fair value through other comprehensive income	145	-	10,509	-	N.S.
D. Equity investments	-	X	-	X	-
Total	**145**	**14**	**10,527**	**22**	**N.S.**

Section 4 - Net trading income or loss - item 80

4.1 Net trading income or loss: composition

	Capital gains (A)	Trading profits (B)	Capital losses (C)	Trading losses (D)	Net income [(A+B) - (C+D)]
1. Financial assets held for trading	0	415	(12)	(321)	82
1.1 Debt securities	0	330	(11)	(269)	49
1.2 Equity securities	-	35	(0)	(0)	34
1.3 Units in collective investment undertakings	-	50	-	(51)	(1)
1.4 Loans	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	-	-	-	-	-
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
differences	X	X	X	X	(19)
4. Derivatives	66	167	(66)	(129)	213
4.1 Financial derivatives	66	167	(66)	(129)	37
- on debt securities and interest rates	66	167	(66)	(129)	37
- on equity securities and equity indices	-	-	-	-	-
- on foreign currencies and gold	X	X	X	X	175
- other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
Total	**66**	**582**	**(78)**	**(450)**	**276**

Section 5 - Net fair value changes in hedge accounting - item 90

This section is not applicable to the financial statements of Banca di Cividale S.c.p.A.

Section 6 - Profit (loss) on disposal or repurchase - item 100

6.1 Profits (loss) on disposal of investments: composition

Transactions/Income components	Total 31/12/2019			Total 31/12/2018		
	Gains	Losses	Net gain (loss)	Gains	Losses	Net gain (loss)
A. Financial assets						
1. Financial assets measured at amortised cost	14,886	(14,524)	362	2,118	(2,941)	(823)
1.1 Due from banks	107	-	107	-	-	-
1.2 Loans to customers	14,779	(14,524)	255	2,118	(2,941)	(823)
2. Financial assets measured at fair value through other comprehensive income	2,010	(714)	1,296	1,176	(607)	569
2.1 Debt securities	2,010	(714)	1,296	1,176	(607)	569
2.2 Loans	-	-	-	-	-	-
Total assets (A)	**16,896**	**(15,238)**	**1,658**	**3,294**	**(3,548)**	**(254)**
B. Financial liabilities valued at amortized cost						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	13	(1)	12	126	(15)	111
Total liabilities (B)	**13**	**(1)**	**12**	**126**	**(15)**	**111**

Section 7 - Profit (loss) on financial assets and liabilities designated at fair value - item 110

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

Transactions/Income components	Capital gains (A)	Trading profits (B)	Capital losses (C)	Trading losses (D)	Net income [(A+B) - (C+D)]
1. Financial assets	**573**	**278**	**(784)**	**(4)**	**62**
1.1 Debt securities	19	-	-	-	19
1.2 Equities	-	12	-	-	12
1.3 Quotas of CIUs	495	265	(769)	(4)	(13)
1.4 Loans	59	-	(15)	-	44
2. Financial assets: exchange differences	X	X	X	X	0
Total	**573**	**278**	**(784)**	**(4)**	**62**

The capital losses on interests in CIUs refer to the units in:

- ✓ Fondo Immobiliare Asset Bancari of €406 thousand;
- ✓ Fondo Immobiliare Asset Bancari III of €116 thousand;
- ✓ Fondo Finint Fenice of €73 thousand;
- ✓ Fondo Housing Sociale of €3 thousand;
- ✓ Fondo Sviluppo PMI of €43 thousand;
- ✓ Fondo Idea CCR of €124 thousand;
- ✓ Fondo Aladdin Ventures of €4 thousand.

Section 8 - Charges/write-backs on impairment - item 130

8.1 Net charges on impairment due to credit risk on financial assets measured at amortised cost: composition

	Impairment losses (1)			Recoveries (2)		31/12/2019 (3) = (1) + (2)	31/12/2018	%
	Stage 1 and 2	Stage 3		Stage 1 and 2	Stage 3			
		Write-offs	Other					
A. Due from banks	82	-	- -	14	-	68	94	-28%
- Loans	0	-	-	-	-	0	94	-100%
- Debt securities	82	-	- -	14	-	68	-	100%
of which: purchased or originated credit-impaired	-	-	-	-	-	-	-	0%
B. Loans to customers	509	7,069	43,897	(1,919)	(24,164)	25,392	24,961	2%
- Loans	-	7,069	43,897	(1,015)	(24,164)	25,787	24,036	7%
- Debt securities	509	-	-	(904)	-	(395)	925	-143%
of which: purchased or originated credit-impaired	-	-	-	-	-	-	-	-
C. Total	**591**	**7,069**	**43,897**	**(1,933)**	**(24,164)**	**25,460**	**25,055**	**2%**

8.2 Net charges on impairment due to credit risk on financial assets designated at fair value through other comprehensive income: composition

	Impairment losses (1)			Recoveries				
		Stage 3						
	Stage 1 and 2	Write-offs	Other	Stage 1 and 2	Stage 3	31/12/2019 (3) = (1) + (2)	31/12/2018	%
A. Debt securities	64	-	- -	434	-	(370)	11	n.s.
B. Loans	-	-	-	-	-	-	-	-
- to customers	-	-	-	-	-	-	-	-
- to banks	-	-	-	-	-	-	-	-
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	-	-
C. Total	**64**	-	-	**(434)**	-	**(370)**	**11**	**n.s.**

Key: A = interest B = other write-backs

Section 9 - Profit/(loss) on contractual amendments not subject to derecognition - item 140

This section is not applicable to the financial statements of Banca di Cividale S.c.p.A.

Section 10 – Administrative expenses – item 160

10.1 Personnel expenses: composition

	31/12/2019	31/12/2018	%
1) Employees	41,355	39,717	4.1%
a) wages and salaries	28,742	27,621	4.1%
b) social security contributions	7,663	7,513	2.0%
c) severance benefits	253	239	5.7%
d) pensions	-	-	-
e) allocation to employee severance benefit provision	1,518	1,504	0.9%
f) allocation to provision for pensions and similar liabilities	-	-	-
- defined contribution	-	-	-
- defined benefit	-	-	-
g) payments to external pension funds	1,204	1,313	-8.3%
- defined contribution	1,204	1,313	-8.3%
- defined benefit	-	-	-
h) costs in respect of agreements to make payments	-	-	-
in own equity instruments	-	-	-
i) other employee benefits	1,975	1,526	29.4%
2) Other personnel	306	1,053	-70.9%
3) Board of Directors	592	576	2.8%
4) Early retirement costs	-	-	-
5) Recovery of expenses for employees of the Bank seconded to other entities	260	189	37.6%
6) Reimbursement of expenses for employees of other entities seconded to the Bank	-	-	-
Total	**41,994**	**41,157**	**2.0%**

10.2 Average number of employees by category

	2019	2018
Employees		
a) Senior management	10	10
b) Middle management	250	242
c) Other personnel	349	341
Other personnel	-	-
Total	**609**	**593**

10.4 Other employee benefits

Other employee benefits include €727 thousand in meal vouchers and €745 thousand in insurance policies.

10.5 Other administrative expenses: composition

	31/12/2019	31/12/2018	%
Compensation for professional and consultancy services	4,258	4,411	-3.5%
Insurance	281	297	-5.6%
Advertising	1,005	858	17.1%
Telephone, postal and data transmission	341	444	-23.1%
Office supplies and printing	142	192	-26.2%
Maintenance and repairs	737	894	-17.5%
Electricity, heating and shared property service charges	1,071	982	9.0%
Services provided by third parties	6,803	6,786	0.3%
Cleaning	444	466	-4.7%
Travel expenses	650	851	-23.6%
Security and transport of valuables	468	456	2.7%
Membership fees	523	530	-1.4%
Commercial information	760	663	14.6%
Magazine and newspaper subscriptions	37	26	45.0%
Rent payable	82	1,991	-95.9%
Entertaining expenses	73	68	8.1%
Taxes and duties	6,812	6,751	0.9%
Contributions to SFR and DGS	3,452	3,647	-5.3%
Other expenses	1,485	767	93.6%
Total	**29,427**	**31,081**	**-5.3%**

Administrative expenses are not fully comparable due to the effect of the IFRS 16 reclassification. Restated in management terms, reclassifying the IFRS 16 2018 figure, they would be down by 0.9%.

Contributions to deposit guarantee schemes and resolution mechanisms

In enacting Directive 2014/49/EU (Deposit Guarantee Schemes Directive – "DGSD") of 16 April 2014, Directive 2014/59/EU (Bank Recovery and Resolution Directive – "BRRD") of 15 May 2014, and establishing the Single Resolution Mechanism (Regulation (EU) No 806/2014 of 15 July 2014), European lawmakers made significant changes to the rules for bank crises, with the strategic aim of reinforcing the single market and systemic stability. Following the transposition of the above Directives into national legislation, with effect from 2015 credit institutions have been required to provide the financial resources necessary to fund the Interbank Deposit Protection Fund (FITD) and National Resolution Fund (merged into the Single Resolution Fund – SRF – with effect from 2016) by paying ordinary contributions and, where necessary, extraordinary contributions. In accordance with the DGSD, the FITD has required Italian banks to pay ordinary annual contributions until target level has been reached. This target level has been set at 0.8% of the total protected deposits of Italian banks participating in the FITD. This level must be reached by 3 July 2024. The amount of the contribution required of each bank is proportionate to the amount of its protected deposits as at 30 September of each year, as a percentage of the total protected deposits of Italian banks participating in the FITD, and to the risk level of the participating bank with protected deposits compared with the risk levels of all other banks participating in the FITD.

Under the BRRD, Italian banks must pay ordinary annual contributions until the SRF has reached financial resources of at least 1% of the total protected deposits of all authorised credit institutions in all participating Member States. This level must be reached by 1 January 2024. Each entity's contributions are calculated according to the ratio of its liabilities (net of protected deposits and own funds and, for entities belonging to a group, net of intra-group liabilities) to the total liabilities (net of protected deposits and own funds) of all Italian banks and to the risk level associated with each credit institution compared with the risk levels of all other Italian banks. It bears emphasising that if the available financial resources of the FITD and/or the SRF should prove insufficient to ensure reimbursement of depositors or to finance resolution, respectively, credit institutions are required to cover these needs through extraordinary contributions.

Ordinary contributions are recognised in item "160. b) Other administrative expenses" in application of interpretation IFRIC 21 *Levies*, according to which the liability associated with the payment of a levy (the contributions in question are considered equivalent to a levy from an accounting standpoint) arises when the "obligating event" occurs, i.e. when the obligation to pay the annual dues is incurred. In the case of the contributions in question, it has been determined that the "obligating event" occurs in the first quarter for the SRF and in the third quarter for the FITD.

In further detail, in 2019:

- ✓ the ordinary and extraordinary contribution to the national resolution fund amounted to €1,980 thousand, charged to the income statement entirely in 2019, on the basis of the notification received from the Bank of Italy. It bears clarifying that this contribution was paid solely in "cash", since Banca di Cividale did not exercise the option of paying 15% of the amount through irrevocable payment commitments;
- ✓ the ordinary contribution to the FITD amounted to €1,463 thousand, was charged to the income statement in its entirety in 2019 and was paid in December 2019, in accordance with the notification received from the FITD that same month.

Interbank Deposit Protection Fund – Voluntary Scheme

Banca di Cividale is a participant in the FITD Voluntary Scheme, created in November 2015 to provide action in support of participating banks in extraordinary administration, in default or at risk of default.

At 31 December 2019 the fair value of the mezzanine and junior securities subscribed by the Voluntary Scheme totalled €12.2 million. The fair value of the residual investment held by Banca di Cividale in the Voluntary Scheme, taken to "Financial assets mandatorily measured at fair value", amounted to €27 thousand.

Section 11 - Net provisions for risks and charges - item 170

11.2 Net provisions for other commitments and other guarantees given: composition

Net provisions for commitments and other guarantees given amounted to €825 thousand.

11.3 Net provisions for other risks and charges: composition

	31/12/2019	31/12/2018	%
Customer disputes	(168)	(4,969)	N.S.
Legal disputes	1,494	(712)	-309.8%
Revocatory actions	(224)	-	-
Other	-	49	-100.0%
Total	**1,102**	**(5,632)**	**N.S.**

Section 12 - Charges/write-backs on impairment of property, plant and equipment - item 180

12.1. Charges/write-backs on impairment of property, plant and equipment: composition

Assets/Income component	Depreciation (a)	Writedowns for impairment (b)	Writebacks (c)	Net adjustments (a+b-c)
A. Property, plant and equipment				
A.1 owned	4,095	-	-	4,095
- operating assets	2,021	-	-	2,021
- investment property	2,074	-	-	2,074
A.2 acquired under finance leases	289	432	-	721
- operating assets	289	432	-	721
- investment property	-	-	-	-
Total	**4,384**	**432**	-	**4,816**

Section 13 - Charges/write-backs on impairment of intangible assets - item 190

13.1 Charges/write-backs on impairment of intangible assets: composition

Assets/Income component	Amortization (a)	Writedowns for impairment (b)	Writebacks (c)	Net adjustments (a+b-c)
A. Intangible assets				
A.1 Owned	63	-	-	63
- generated internally by the Bank	-	-	-	-
- other	63	-	-	63
A.2 Acquired under finance leases	-	-	-	-
Total	**63**	-	-	**63**

Section 14 - Other operating income/expenses - item 200

14.1 Other operating expenses: composition

	31/12/2019	31/12/2018	%
Losses from sales of fixed assets under finance leases	-	-	-
Property sales losses, investment securities, equity investments, other assets	-	-	-
Out-of-period expenses and reductions in assets	(827)	(1,189)	30.4%
Other	(472)	(236)	-100.4%
Total	**(1,299)**	**(1,425)**	**8.8%**

14.2 Other operating income: composition

	31/12/2019	31/12/2018	%
Other income - rentals and fees	340	305	11.5%
Expenses charged to others - recovery of taxes	5,440	5,413	0.5%
Expenses charged to others on deposits and current accounts	638	629	1.5%
Expenses charged to others - other	2,313	2,548	-9.2%
Out-of-period income and reductions in liabilities	796	569	39.9%
Total	**9,527**	**9,465**	**0.7%**

Section 15 - Profit (loss) on equity investments - item 220

15.1 Profit (loss) on equity investments: composition

Income component/Amount	31/12/2019	31/12/2018	%
A. Revenues	-	-	-
1. Revaluations	-	-	-
2. Profits on disposal	-	-	-
3. Write-backs	-	-	-
4. Other	-	-	-
B. Charges	79	11	**-622%**
1. Write-downs	-	-	0%
2. Impairment losses	-	11	100%
3. Losses on disposal	79	-	-
4. Other	-	-	-
Net result	**(79)**	**(11)**	**-622%**

Section 16 – Net adjustment to the fair value of property, plant and equipment and intangible assets – item 230

This section is not applicable to the financial statements of Banca di Cividale S.c.p.A.

Section 17 - Goodwill impairment - item 240

This section is not applicable to the financial statements of Banca di Cividale S.c.p.A.

Section 18 - Profit (loss) on disposal of investments - item 250

18.1 Profit (loss) on disposal of investments: composition

Income component/Amount	31/12/2019	31/12/2018
A. Real estate assets	(55)	67
- profits on disposal	-	67
- losses on disposal	(55)	-
B. Other assets (a)	(15)	-
- profits on disposal	2	-
- losses on disposal	(17)	-
Net result	**(70)**	**67**

Section 19 - Taxes on income from continuing operations (item 270)

19.1 Taxes on income from continuing operations: composition

	31/12/2019	31/12/2018	%
1. Current taxes (-)	(1,361)	(857)	-58.7%
2. Changes in current taxes from previous periods (+/-)	1,200	-	-
3. Reduction of current taxes for the period (+)	1,134	-	-
3. bis Reduction in current taxes for the year for credit taxes set forth in Italian Law no. 214/2011 (+)	-	-	0
4. Change in deferred tax assets (+/-)	(2,230)	2,367	n.s.
5. Change in deferred tax liabilities (+/-)	244	28	-785.9%
6. Taxes for the period (-) (-1+/-2+3+/-4+/-5)	**(1,013)**	**1,537**	**-165.9%**

19.2 Reconciliation of theoretical tax liability and actual tax liability recognised

	31/12/2019	31/12/2018
Income (loss) before tax from continuing operations	3,746	67
Theoretical taxable income	3,746	67
Income tax - theoretical tax expense	(1,030)	(18)
Effect of revenues that do not form taxable income	-	2,064
Income tax - actual tax expense	**(1,030)**	**2,045**
Theoretical tax expense - IRAP	(174)	(3)
Effect of other changes	191	(506)
Actual tax expense - IRAP	**17**	**(509)**
Actual tax expenses for the period	**(1,013)**	**1,536**
of which: actual tax expenses from continuing operations	-	-
actual tax liabilities on the groups of assets being divested	-	-

Section 20 - Income (loss) after tax from discontinued operations - item 290

This section is not applicable to the financial statements of Banca di Cividale S.c.p.A.

Section 21 - Other information

There is no additional information to report beyond that provided in the previous sections.

Section 22 - Earnings per share

22.1 Average number of ordinary shares (fully diluted)

The methods of calculating basic earnings per share and diluted earnings per share are defined by IAS 33 *Earnings per Share*. Basic earnings per share is defined as the relationship between the net income attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding during the period. The following table presents basic earnings per share and the details of the calculation.

Basic Earning per share	**31/12/2019**	**31/12/2018**
Adjusted attributable profit	2.733	2.043
Weighted average number of shares	16.971.085	16.971.085
Basic Earning per share	**0,16**	**0,12**

Banca di Cividale has not issued financial instruments that grant their holders the right to obtain ordinary shares.

Chapter D – COMPREHENSIVE INCOME

	31/12/2019	31/12/2018
10 NET INCOME (LOSS)	**2,733**	**2,043**
Other comprehensive income without reclassification to profit or loss	-	-
20 Equity instruments measured at fair value through other comprehensive income	8,726	(685)
a) fair value changes	884	63
b) transfer to other components of shareholders' equity	7,842	(748)
30 Financial liabilities designated at fair value through profit or loss (change in own credit rating)	-	-
a) fair value changes	-	-
b) transfer to other components of shareholders' equity	-	-
40 Hedging of equity instruments measured at fair value through other comprehensive income	-	-
a) fair value changes (hedged instrument)	-	-
b) fair value changes (hedging instrument)	-	-
50 Property and equipment	-	-
60 Intangible assets	-	-
70 Defined benefit plans	(170)	151
80 Non-current assets held for sale and discontinued operations	-	-
90 Share of valuation reserves connected with investments carried at equity	-	-
100 Income taxes associated with other comprehensive income that may not be reclassified to the income statement	-	-
Other comprehensive income that may be reclassified to the income statement	-	-
110 Hedges of foreign investments:	-	-
a) fair value changes	-	-
b) reclassification to the income statement	-	-
c) other changes	-	-
120 Foreign exchange differences:	-	-
a) value change	-	-
b) reclassification to the income statement	-	-
c) other changes	-	-
130 Cash flow hedges:	-	-
a) fair value changes	-	-
b) reclassification to the income statement	-	-
c) other changes	-	-
of which: gains (losses) on net positions	-	-
140 Hedging instruments (not designated elements)	-	-
a) value change	-	-
b) reclassification to the income statement	-	-
c) other changes	-	-
150 Financial assets (other than equities) measured at fair value through other comprehensive income	477	(928)
a) fair value changes	847	(1,407)
b) reclassification to the income statement	(370)	479
- adjustments for credit risk	(370)	479
- gains/losses on disposals	-	-
c) other changes	-	-
160 Non-current assets held for sale and discontinued operations	-	-
a) fair value changes	-	-
b) reclassification to the income statement	-	-
c) other changes	-	-
170 Share of valuation reserves connected with investments carried at equity:	-	-
a) fair value changes	-	-
b) reclassification to the income statement	-	-
- impairment losses	-	-
- gains/losses on disposals	-	-
c) other changes	-	-
190 Income taxes associated with other comprehensive income that may be reclassified to the income statement	**9,033**	**(1,462)**
200 TOTAL COMPREHENSIVE INCOME (Item 10+190)	**11,766**	**581**

Chapter E – RISKS AND HEDGING POLICIES

Introduction

Identifying the risks to which the Bank is actually or potentially exposed is of primary importance to assuming such risks in an informed manner and managing them effectively, using the appropriate tools and techniques to mitigate those risks.

The management and monitoring of risks at Banca di Cividale are founded upon the following basic principles:

- ✓ identifying responsibilities for assuming risks;
- ✓ adopting consistent, adequate measurement and control systems in formal and substantial terms in light of the extent of the risks to be monitored; and
- ✓ organisational separation of functions responsible for management and functions responsible for control.

These principles are formally stated and illustrated in specific policies and the related rules and procedures concerning risks identified as significant. These documents, which are submitted for the approval of the Bank's Board of Directors, govern the set of regulated risks, significant and periodically monitored indicators, observation thresholds and operating limits, breach management methods, stress tests applied and the company's organisational structure, bodies and functions charged with performing the activities concerned, in keeping with the roles and responsibilities assigned to them.

In this process, which takes place at various levels of the organisational structure, a fundamental role is played, in accordance with prudential regulations, by the Bank's Board of Directors, which is responsible for establishing directives and strategic guidelines concerning the assumption of risk, approving strategic and operational limits (RAF) and drawing up the related guidelines.

The Risk Appetite Framework (RAF) thus represents the general architecture within which the risks assumed by the Bank are managed, through the establishment of general principles concerning maximum risk tolerance and the ensuing structure for oversight of the Bank's overall risk profile and major specific risks. The process requires a high degree of consistency and reconciliation of the strategic plan, RAF, ICAAP, ILAAP, Recovery Plan, budget and internal control system.

Instituted pursuant to applicable supervisory regulations on corporate governance and the related provisions of the Articles of Association, the Risks Committee is an internal committee of the Board of Directors composed of three non-executive directors, at least two of whom are independent, and in which at least one of the members of the Board of Statutory Auditors participates. In accordance with supervisory regulations, the Risks Committee has preliminary review, consultative and propositional tasks relating to the internal control and risk management system. Its main purpose is to serve as "interface" between the Board of Directors, Board of Statutory Auditors, company control functions and the Bank's other organisational units.

The activities for which the Risk Committee is responsible according to supervisory regulations include liaising with company control functions. In accordance with the new supervisory rules (Bank of Italy Circular No. 285/2013), the organisational structure of Banca di Cividale identifies the Risk Management Function and Compliance Function (which also includes Anti-money Laundering Directive), which are to report directly to the Board of Directors, as the level-two company control functions. This is also assured for the Auditing Function, a level-three control function that is independent of the other company units. The three functions (Risk Management, Compliance and Internal Auditing) are part of the internal control system, governed by prudential supervisory regulations, the internal document Internal Control System Guidelines, and the Rules and Procedures for the Coordination of Control Functions.

Risk Management Function

It performs a risk control function, as prescribed by the specific supervisory rules. From a structural standpoint, in accordance with the current organisation chart, the Risk Management Function includes a separate sub-unit known as Credit Risk, focused on systematic, integrated measurement and monitoring of the credit risk assumed by the bank.

The Risk Management Function is responsible for mapping, assessing and measuring the relevant company risks included in the "risk map", as well as periodically monitoring them. It collaborates in defining the RAF, the risk governance policies and the various phases of the risk management process, in addition to setting operating limits on the assumption of the various types of risk. It verifies the adequacy of the RAF and conducts ongoing assessment of the adequacy of the risk management process and compliance with operating limits, in addition to reporting periodically to the general management, Management Committee, ALCo, Risks Committee and the company boards on the activities performed, ensuring an adequate system of information flows, the content and frequency of which are established by internal rules and procedures. It is also tasked with formulating advance opinions on the consistency of major transactions with the RAF, and with analysing the risks of new products and services and the risks arising from entry into new operating and market segments. It assists the company boards in assessing strategic risk by monitoring the significant variables, supporting the planning of the assessment of risk profiles, capital adequacy (capital management) and liquidity risk associated with the performance projected in company plans. It coordinates the activities of the ICAAP/ILAAP Process Group (responsible for the internal process of determining capital adequacy and the adequacy of the governance and liquidity risk management system) and the production of the annual ICAAP/ILAAP report in accordance with the supervisory guidelines. It also coordinates the process of preparing and drafting the recovery plan and updates to the recovery plan by periodically monitoring recovery indicators. It is responsible for the stage allocation process and the transfer criteria, as well as for verifying and monitoring the calculation of the impairment of performing loans and securities, within the framework of the process of preparing the financial statements in accordance with IFRS 9.

Compliance Function

Legal compliance is the responsibility of an independent function that supervises management of non-compliance risk, according to a risk-based approach, for all company activity, ensuring that internal procedures are adequate to prevent that risk. The Compliance Function is responsible for supervising legal compliance in respect of financial intermediation and complaints handling services. The Anti-Money Laundering Function, along with a specific sub-unit, is responsible for preventing and managing the risk of non-compliance with laws governing money-laundering and terrorist financing. The Head of the Compliance Function acts as the head of both functions for supervisory purposes, in addition to serving as the party responsible for reporting suspect transactions pursuant to Legislative Decree No. 231/07.

According to the organisational model, a Management Committee and an Asset and Liability Committee have been instituted, in addition to the Risk Committee, with the additional aim of ensuring an effective exchange of information regarding exposure to such risks between the various segments and maximising the efficacy of the overall control of those risks.

The Management Committee, in which the heads of the company control functions also participate, supports the general management in operational coordination of the guidelines established with the Strategic Plan and periodically compares company results with the objectives established in the Plan. Within the framework of the overall internal control system, it also plays a consultative, informative and propositional role with regard to decisions of an operational nature relating to initiatives and projects that have an effect on the risk management process and it aids the general manager in performing the roles assigned to the position by internal risk management policies.

The A.L.Co. (Assets and Liabilities Committee), in which the Manager of the Risk Management Function also participates, collaborates in determining the strategic guidelines and management policies for managing liquidity risk, including the policies for liquidity reserves and managing collateral, in addition to playing an advisory role with regard to risk assumption rules, liquidity risk mitigation and the identification of any corrective measures aimed at rebalancing the risk position. In general, it is charged with proposing strategic decisions in financial matters to the Board of Directors, through the General Manager, as well as with coordinating management policies for assets, liabilities and the associated risks, in light of market scenarios and the guidelines established in the current Strategic Plan. It also supports the General Manager in indicating behaviour for financing activity to company units, translating the guidelines set by the Board of Directors into operational terms and verifying that they are executed.

ICAAP, ILAAP and the Recovery Plan at Banca di Cividale

In accordance with the regulatory provisions governing the prudential control process, the Bank has implemented specific company rules, approved by the Board of Directors and periodically updated, that regulate the internal capital adequacy assessment process (ICAAP) and the liquidity risk adequacy assessment process (ILAAP).

The supervisory regulations require that ICAAP and ILAAP be based on appropriate company risk-management systems and presuppose adequate corporate governance mechanisms, an organisational structure with clearly defined lines of responsibility and an effective internal-control system. The corporate boards are responsible for the process and enjoy full autonomy in defining its structure and organisation to the extent of their respective expertise and prerogatives. They implement and promote updates to ICAAP and ILAAP with the aim of ensuring that they constantly adhere to the Bank's operational characteristics and strategic context. The processes must be formalised, documented, internally audited and approved by the corporate boards. In detail, the processes aim to:

- ✓ identify capital and liquidity requirements on the basis of actual risk and the strategic guidelines set by the Bank, in accordance with the Risk Appetite Framework (RAF);

- ✓ ensure that capital and liquidity reserves are constantly adequate to current and prospective needs;
- ✓ keep all major risks under observation;
- ✓ ensure that regular attention is devoted to risk-measurement and -management processes, developing an increasingly strong "risk culture"; and
- ✓ define approaches, tools, methods, and organisational and control systems for risks and capital commensurate to the Bank's strategies, characteristics, scope and complexity, with a view towards constant, gradual refinement.

By April of each year, at the conclusion of the process described above, the Board of Directors approves the ICAAP/ILAAP Report at 31 December of the previous year, which represents both the point of convergence and end result of financial planning, risk management, capital management and liquidity management, as well as a tool to be used in strategic evaluation and implementation of business decisions.
With effect from 2017, regulations also require banks to prepare a Recovery Plan, a document dedicated to responding promptly and effectively to crisis situations, specifying the measures to be taken to restore the bank to financial equilibrium. Preparation of the Plan is based on the proportionality principle, in a manner consistent with the Bank's business model, associated risk profile, degree of complexity and the volume of the various businesses conducted. Specific qualitative and quantitative recovery indicators are identified to be used as means of promptly identifying any leading signals of a potential state of crisis, integrated into the RAF scheme as thresholds. Within the framework of the escalation process, the Plan sets out the roles, responsibilities and decision-making levels that permit or do not permit crisis management action to be taken, to be implemented in particularly adverse scenarios, providing the Bank with access to a broader range of concretely implementable options and allowing it to maximise their effects for recovery purposes. This document is also approved and signed by the Board of Directors at least once every two years.
In order to ensure that company bodies and control functions are fully aware of and capable of managing risk factors and compliance with the RAF, in addition to the ICAAP and ILAAP reports, Risk Management prepares complete, timely information streams, concerning the assessment and monitoring of exposure to risk, submitted with the established frequency to the senior management, Management Committee, Risk Committee and other company bodies (Board of Directors and Board of Statutory Auditors). Specific stress tests are also introduced to permit a better assessment of risk exposure and how risks respond to adverse conditions, the relating mitigation and control systems and the adequacy of financial and organisational safeguards.
The disclosure obligations imposed by prudential regulations (Bank of Italy Circular 285/2013 and the CRR, Regulation EU No 575/2013) are discharged through preparation of the Disclosure by Institutions document published in the specific Investor Relations section of the company's website, www.civibank.it The document contains a disclosure for market operators of information concerning capital and liquidity adequacy, risk exposure, the general characteristics of management systems and the oversight thereof. The information, which is both qualitative and quantitative in nature, is provided through concise overviews, thus fostering the transparency and comparability of the data.

SECTION 1 – CREDIT RISK
1.1 CREDIT RISK
QUALITATIVE DISCLOSURES

1. General aspects

Lending is an essential aspect of the core business of Banca di Cividale. In this framework, the Bank is exposed to the risk that some loans may not be repaid either at maturity or thereafter, due to a deterioration of the borrower's financial conditions, and therefore need to be written off in whole or in part.
The provisions of the Credit Policy and the general operating parameters established and approved by the Board of Directors represent the framework of reference for developing and implementing the Lending Process of Banca di Cividale, in accordance with the Bank's Articles of Association, mission and values, and specifically: "to be a point of reference for families, government and businesses in the local community, and to promote and support the social, economic and cultural growth of the community in which it operates."
The strategies, powers and rules for granting and managing credit at Banca di Cividale are oriented towards the following general guidelines:

- ✓ achieving a sustainable growth target for lending, consistent with the risk appetite, with a view to maximising return;
- ✓ diversifying the portfolio, by limiting the concentration of exposures to individual counterparties/groups and individual sectors of the economy;

- ✓ efficiently selecting groups and individual borrowers to which to lend through a thorough analysis of creditworthiness aimed at limiting the risk of default;
- ✓ favouring lending in support of the real economy and production, during the current phase of the economic scenario.
- ✓ constantly monitoring borrowers, through both automatic procedures and systematic surveillance of positions, in order to identify any signs of imbalance in a timely manner and then launch the corrective measures aimed at preventing the relationship from deteriorating.

The general guidelines for granting loans are consistent with the credit risk management policies set by the Board of Directors and are based on a definition of the elements that characterise the Bank's orientation in assuming and managing risk, with particular regard to the following aspects:

- ✓ the tolerated scope of non-performing exposures in the portfolio according to the pre-determined objectives set in the long-term plan for reducing non-performing loans according to a formal strategy aimed at optimising NPL management by maximising the present value of recoveries;
- ✓ concentration limits, including “large exposures”;
- ✓ eligible customer segments;
- ✓ particular limitations on the characteristics of potential borrowers and guarantors;
- ✓ objectives for the mitigation of risk through the acquisition of guarantees;
- ✓ objectives for the profitability and capital absorption of loans;
- ✓ compliance with supervisory regulations in terms of credit quality and risk management and monitoring.

The Bank's credit risk profile takes the form of identifying specific indicators and setting limits on risk, subject to periodic assessment and review, as established in the RAF, for the various phases of the lending process (rating system; concentration limits; large exposures; major transactions; and associated parties) or the level-one risk management control phase (constant monitoring of the quality of the loan portfolio, pursued through the adoption of precise operating methods throughout all management phases of the preliminary relationship for assignment up to the level-two control performed by Risk Management).

2. Credit risk management policies

2.1 Organisational aspects

Within the organisational structure adopted by Banca di Cividale, management of credit risk is entrusted to the following organisational units, to varying extents, in accordance with the mission and activities assigned to each under specific internal rules and procedures:

- ✓ Financial Reporting and Credit Area: it operates according to guidelines set by the Board of Directors and by the Management Committee, in accordance with the guidelines and/or directives provided by the general management; the area is charged with responsibility for, coordination and management of the sectors operating within its assigned remit.
- ✓ Loan Department: it is tasked with overseeing the process of assuming all types of risks associated with lending, with the support of the Loan Administration and Loan Application Review functions. Through the general management, in consultation with the Risk Management function, it proposes credit management policies to the Board of Directors. It is responsible for ensuring that the lending process is compliant with the provisions of the law, supervisory authority, Articles of Association and internal rules and procedures, and it constantly updates the technical procedures for loan application review, assessment and disbursement and the associated internal rules. It supervises all roles involved in the lending process and ensures that the NPL Department receives support with its monitoring and ongoing management of risk positions, in order to keep credit quality within acceptable limits.
- ✓ Mortgage Administration: it is tasked with ensuring the regular performance of administrative and accounting obligations associated with the disbursement and management of mortgage loans, special loans, subsidised loans and other medium-to-long-term loans issued by the Bank; it monitors the adequacy of company policies and real estate appraisal reports prepared for the Bank and oversees the activities connected with real estate surveillance, availing itself of the support of the competent functions for the various types of loans.
- ✓ NPL Department (reporting directly to the General Manager), established in January 2018, is the unit into which the Anomalous Loan and Dispute functions have been merged and which has been assigned the following main tasks: optimisation of non-performing loan (NPL) management; identification of the optimal combination of the various recovery actions; support with the preparation of operating plans for managing NPLs; support for the creation of special projects (e.g., sale, securitisation, etc.);

and periodic monitoring and reporting of the results achieved. The two functions' specific activities are described below.

- ✓ Anomalous Loans: with the aid of the loan monitoring IT procedure, it manages positions that present operational anomalies within the framework of the credit limits granted and/or unauthorised uses of credit, or that have been directly or indirectly affected by detrimental events, assigned to the unit on the basis of pre-defined quantitative and qualitative portfolio classification criteria; it provides instructions to the network in order to ensure that the necessary actions are taken at the operational level to restore positions to performing status, where possible, and in any event to ensure the best possible management of credit claims, including assessment of opportunities for transfer to the enforcement procedure. In accordance with internal rules and procedures, it submits proposals to the competent bodies regarding the amount of the provisions to be set aside when preparing the financial statements.
- ✓ Disputes: it manages legal aspects of positions classified as bad debts, and in particular is responsible for taking legal measures and actions aimed at recovering the amounts concerned. It is also tasked with conducting assessments of loss projections for individual disputed positions and proposing the necessary provisions.
- ✓ Loan Monitoring (an operating unit of the general management staff): it manages, maintains and implements the loan monitoring procedure in accordance with the evolving legal and regulatory situation by preparing additional tools for facilitating the identification and management of positions that present symptoms of deteriorating performance, in order to strengthen the culture of credit quality. It coordinates the activity of the Deputy Area Heads with regard to their duties in connection with “credit quality”. It is tasked with managing relations with the outsourcers responsible for debt recovery activities for the positions within its purview and performing quantitative and qualitative checks on the monitoring activity performed by the competent functions (branches or Anomalous Loans), in addition to reporting periodically to the Loan Department and the general management on the checks carried out.
- ✓ Risk Management/Credit Risk Unit: it is responsible for identifying, assessing and monitoring, according to an integrated, systemic approach, the credit risk assumed by the bank, exposures to large risks and related-party transactions, while ensuring an adequate system for reporting to company bodies and the responsible production units. It collaborates in the preparation of the RAF, in the drafting of the lending policy with regard to the assumption of credit and concentration risk, and in setting the related operating limits. It proposes the quantitative and qualitative parameters required to define credit risk assumption policies, while also referring to stress scenarios. It is tasked with verifying the proper conduct of performance monitoring of individual exposures, in particular non-performing positions, and with assessing the consistency of classification, the appropriateness of provisions and the adequacy of the recovery process. Finally, it is charged with formulating advance opinions regarding the consistency with the RAF of the most significant transactions relating to credit facilities.
- ✓ Treasury & Funding Function: in the context of its specific operations, it is tasked with ensuring the compliance of financing activity with the rules and procedures governing credit risk as regards credit limits for institutional counterparties (monitoring of the system of limits imposed by the regulations).

2.2 Management, measurement and control systems

The risk profile of the loan portfolio of Banca di Cividale is monitored throughout all phases of the process, beginning with application review and assessment of the borrower's satisfaction of reliability requirements, through verification of the borrower's creditworthiness, the transaction's risk level, the appropriateness of the return and the current and prospective sustainability of the credit risk. The power to approve loans is delegated by the network to the head offices and company bodies, according to a system governed by the Lending Process Rules and Procedures, which provide for specific loan authorisation powers assigned according to various factors including the amount of the credit facility, any collateral securing the facility, reports on the use of various services, the classification of the counterparty as non-performing, and specific cases falling within the exclusive purview of the Board of Directors.

The credit decision-making process is supported by an internal procedure (the Credit Portal), which allows management of all phases of the lending process (from contact with the customer to application review, disbursement, management and final closure), and which includes integrated consultation of the various external databases. All applications are automatically assigned to the competent level according to the rules and limits of amount laid down in the Lending Process Rules and Procedures.

Creditworthiness is analysed according to elements of a quantitative nature (income components, financial statement analysis, and internal and systemic performance data) and of a qualitative nature (a thorough understanding of the customer, the competitive environment, an analysis of the sector, shareholder composition, adverse entries, and so forth), with the use of specific data providers (foremost among which are: the Bank of Italy Central Credit Register; CRIF credit information system; CRIF Strategy One, an engine used to calculate an initial score used for individual borrowers only; the Cerved database for excerpts of chamber of commerce certificates and adverse judgments; and the Centrale Bilancio financial statement database).

One fundamental element of the set of parameters and instruments used to manage credit risk by the Bank is represented by the ratings calculated on the basis of specific statistical models and estimated specifically for the various customer segments (Corporate, Retail SME-Corporate, and Retail Individuals). With effect from 9 October 2017, following the change of its IT centre, Banca di Cividale implemented a rating system developed by the CSE consortium, the Bank's new full-outsourcing IT provider. Its main objective is to prepare monthly estimates, based on an associated rating class, of the creditworthiness of the Bank's borrowers and to monitor both the risk of default and the risk of downgrading.

The factors considered in the internal rating model for corporates are: a) the internal performance score, a quantitative score based on a statistical analysis of internal data relating to the performance of the borrower's relationships with the Bank; b) the nationwide performance score, a quantitative score based on a statistical analysis of information from the Centrale Rischi database regarding the customer's behaviour with other intermediaries in the banking system; and c) the financial statement score: a quantitative score based on a statistical analysis of earnings and financial performance indicators drawn from the company's annual financial statements in the Centrale Bilanci database or obtained by the Bank. The factors considered in the internal rating model for individuals are: a) the internal performance score, a quantitative score based on a statistical analysis of internal data relating to the performance of the borrower's relationships with the Bank; b) the nationwide performance score, a quantitative score based on a statistical analysis of information from the Centrale Rischi database regarding the customer's behaviour with other intermediaries in the banking system; and c) the socio-demographic score, a quantitative score based on a statistical analysis of the customer's personal particulars, behaviour and finances according to the Bank's internal records.

The Bank's borrowers are classified according to a score of one to ten, consisting of nine categories of performing borrowers and one category of defaulted borrowers (D). A probability of default is associated with each rating class in each segment, referring to the probability that a borrower classified to a certain rating class will be reclassified to default status within a period of one year. Rating models are estimated on the basis of statistical analyses of the CSE Consortium's historical data and according to a calibration factor that takes account of the Bank's historical series.

Another parameter used by the Bank to measure and manage credit risk is loss given default ("management LGD"), which represents the rate of loss in the event of a default, i.e. the expected value for the relationship of the loss due to the default and the amount of the exposure at the time of default (exposure at default or "EAD"), expressed in percent terms. The estimated LGD on bad debts and the danger rate are taken as the basis for determining LGD. These parameters are also derived from management models developed by the CSE Consortium and adopted by the Bank starting in October 2017.

In accordance with the provisions of IFRS 9 *Financial Instruments*, for the purposes of identifying expected losses (impairment), the Bank has also adopted estimated risk parameters over a lifetime horizon conditioned by expectations relating to the projected macroeconomic scenarios ("forward-looking" scenarios), determined by internal models developed at the consortium level by the IT provider CSE (to which the Bank has fully outsourced ITO activities and services), on which appropriate calibration measures are performed, inclusive of each bank's historical series.

In accordance with prudential regulations and internal rules and procedures, the overall rating system and IFRS 9 expected credit loss models are subject to periodic reviews by the Risk Management Function within the framework of validation of the models used for non-regulatory purposes and of IFRS 9 validation, as part of a dedicated process that also involves specific activities performed by the CSE Consortium.

Risk parameters play a central role in disbursement, monitoring and performance management processes, and in particular they contribute to steering managers in deciding on the performance classification of positions. With effect from 1 January 2018, the above risk parameters (in particular, ratings and PD) are also used in classifying performing loans to customers (Stage 1 and Stage 2, in accordance with the accounting standard

IFRS 9), for the purposes of identifying a significant increase in credit risk (a necessary and sufficient condition for classifying the asset being assessed in Stage 2).

After a loan is approved and disbursed, the position is assessed over time (on a fixed date or at defined intervals), initially by the branches, which are responsible for specific daily and monthly activities, as well as by the geographical areas. Further specific assessments may be conducted on the basis of reports or on the initiative of dedicated units such as Anomalous Loans, which is responsible for performance control of relationships, undertaken according to a management model that calls for the assignment to portfolios of positions belonging to the various credit risk segments (Corporate, Retail SME and Retail Individual), through the application of the new Loan Monitoring procedure, intended to prevent positions from deteriorating, while ensuring active management.

Within the Lending Area's lending process and IT procedures, specific functions have been activated, allowing potential forborne exposures (exposures subject to forbearance measures) to be identified, managed and monitored, in accordance with prudential regulations. Forborne positions do not represent an additional administrative status, but a further element for defining the customer's credit quality, complementary to, while not overlapping with, the previously existing classifications.

Definitive classification as forborne is nonetheless subject to individual assessment by the decision-making body during the processes of disbursing or reviewing the loan. In accordance with applicable supervisory regulations, forborne exposures are classified to two categories (according to a transaction-based approach):

- non-performing forborne exposures, i.e. exposures subject to forbearance measures due to financial difficulty by the borrower, classified among non-performing positions (bad debts, unlikely to pay and past due);
- performing forborne exposures, i.e. exposures subject to forbearance measures due to financial difficulty of the borrower, classified among performing positions, which are subject to different credit monitoring procedures.

In accordance with prudential regulations and the Bank's organisational structure, level-two control of credit risk is assigned to the Credit Risk Unit, a part of the Risk Management Function which through specific periodic reports pursues the objective of monitoring and measuring the level of credit risk associated with the Bank’s loan portfolio. The main information base consists of the data provided by the Central Risks Database, the general records database and the economic groups database and supervisory reporting streams.

In particular, the quarterly reports prepared by Risk Management, which are addressed to the general management, Risks Committee, Board of Directors and the functions of the Lending Area, including the NPL Department, include:

- ✓ an analysis of the composition and performance of the loan portfolio, with an emphasis on credit quality, including a breakdown of loans into performing positions classified to Stage 1 and Stage 2 and non-performing (past due, unlikely-to-pay and bad debts) and a comparison with the industry benchmark; the analysis also includes the transition matrices and the calculation of default rates;
- ✓ a dedicated analysis relating to the monitoring of the objectives set out in the plan for reducing non-performing loans, in accordance with the Bank's strategy;
- ✓ the qualitative analysis of risk profiles from a strategic standpoint; the application of stress tests on the risk level of the loan portfolio, including in terms of capital requirements;
- ✓ an analysis of concentration risk for single names and associated groups and an analysis of concentration risk by geographical area and sector, with a calculation of capital requirements as well in both ordinary and stress conditions.

Additional information is available concerning online management reporting tools, which allow all management units involved in implementing credit policies to maintain adequate oversight. In particular, analyses of the following are available:

- ✓ the performance of various classes of risk: composition, changes and comparisons by category and area;
- ✓ the ratings assigned to companies and individuals; portfolio composition; distribution by use; changes of class (deterioration/improvement);
- ✓ the primary exposures by risk class; and
- ✓ uses by sector (ATECO or SAE codes).

Supervisory regulations concerning internal control systems also require that the Risk Management Function conduct ongoing credit performance monitoring in order to determine:

- ✓ the proper functioning of the credit monitoring model and the proper use of monitoring parameters;

- ✓ the proper classification of exposures (representative of the risk level) and the proper assessment of valuation inputs (guarantees);
- ✓ the consistency of provisions and the portfolio's risk profile.

On this basis, and in accordance with the proportionality principle, as established by the law, the Credit Risk Unit has implemented a level-two control system aimed at ensuring compliance with regulations.

Concentration risk

The Risk Management Function – Credit Risk Unit, is responsible for measuring concentration risk. The approach taken to measuring the concentration risk of the portfolio of loans to customers differs according to whether it derives from:

- ✓ concentration by individual counterparty or groups of related customers;
- ✓ concentration by common factor (geographical and segment concentration).

The granularity adjustment approach indicated in the prudential supervisory regulations is adopted to measure the internal capital covering concentration risk by individual counterparties or groups of related customers. The method proposed by the Italian Banking Association is adopted to measure concentration risk by geographical area and segment.

Various analyses are conducted by Risk Management, involving the preparation of a series of statements aimed at analysing concentration by geographical area, ATECO sector, counterparty and related groups (monitoring of counterparties that exceed the limit of 3% of own funds) and draw-down levels for major customers (top 10, top 20 and top 50 in terms of amounts drawn down and granted). Periodic reports addressed to the Board of Directors are also prepared by the Loan Department and NPL Department on the performance of the credit relationships with the Bank's largest customers (in terms of amount granted and drawn down), classified as performing, bad debts or unlikely-to-pay, with specific information about the counterparties' state of health.

In accordance with the lending process, in addition to observing the limits set by supervisory provisions with respect to large exposures, Banca di Cividale has implemented an internal system of concentration limits, calculated in proportion to the values of own funds.

2.3 Methods of measuring expected credit losses

In accordance with the accounting standard IFRS 9, all financial assets not measured at fair value through profit or loss must be subject to the new forward-looking impairment model according to an expected loss approach.

In application of the accounting standard IFRS 9, the Bank classifies financial instruments to three different categories (“stages”) on the basis of the deterioration of credit quality (or risk) potentially occurring between the reporting date and initial recognition (origination date), with the consequent differentiation of the level of value adjustments.

The stages are defined as follows:

- ✓ Stage 1: Stage 1 includes financial assets upon their origination and instruments for which, from initial recognition until the reporting date the bank has not found evidence of a “significant” increase in the related credit risk. In addition, instruments that at the reporting date are believed to have structurally “low” credit risk may optionally be included in this stage. IFRS 9 requires that financial assets classified to this stage be assessed for impairment losses sufficient to cover the expected credit losses (ECLs) over a time horizon of twelve months from the reporting date.
- ✓ Stage 2: this category includes performing financial assets that, as opposed to those classified to stage 1, have shown a “significant” increase in credit risk since initial recognition. IFRS 9 requires that financial assets classified to this stage be assessed for impairment losses sufficient to cover the expected losses over the time horizon equal to the entire contractual lifetime of the exposure being assessed (Lifetime Expected Credit Losses - LECLs).
- ✓ Stage 3: finally, non-performing financial assets are classified to this category. In accordance with applicable supervisory regulations, they are classified as past-due loans, unlikely-to-pay loans and bad debts, as further specified in the paragraph “Non-performing credit exposures”.

In order to comply with the provisions of IFRS 9, at each reporting date financial assets other than those designated at fair value through profit or loss are tested to determine whether there is evidence that their carrying amounts may not be fully recoverable. A similar analysis is also conducted for commitments to grant finance and guarantees granted, which fall within the scope of impairment testing pursuant to IFRS 9.

Where such evidence (“evidence of impairment”) is found to exist, the financial assets concerned – in a manner consistent with all remaining assets attributable to that same counterparty – are considered impaired and reclassified to stage 3. With regard to such assets, alignment of the accounting and regulatory definitions of

default – already achieved – means that the current criteria for classifying exposures as "non-performing" / "impaired" may be considered identical to the criteria for classifying exposures to stage 3;
In cases of such exposures, represented by financial assets classified, pursuant to Bank of Italy Circular No. 262/2005, to the categories of non-performing positions, unlikely-to-pay positions and positions past due by more than 90 days, adjustments equal to the expected losses over their entire residual lives must be recognised.
For financial assets for which there is no evidence of impairment (performing financial instruments), it must be verified whether there are indicators that the credit risk of the individual transaction has increased significantly since initial recognition. The consequences of this verification, from the standpoint of classification (or, more properly, staging) and measurement, are as follows:
- where such indicators exist, the financial asset is classified to stage 2. In this case, in accordance with international accounting standards, despite the absence of a manifest impairment loss, measurement is based on recognising adjustments equal to the credit losses expected over the entire residual life of the financial instrument (known as the "lifetime expected credit loss");
- where such indicators do not exist, the financial asset is classified to stage 1. In this case, in accordance with international accounting standards, despite the absence of a manifest impairment loss, measurement is based on recognising the expected credit losses on the specific financial instrument over the following twelve months (the "12 month expected credit loss"). Such adjustments are reviewed at each subsequent reporting date both to periodically determine whether they are consistent with the constantly updated loss estimates and to take account of the changed time horizon for calculating the expected credit loss where there are indicators of "significantly increased" credit risk.
Forward-looking information relating to, among other subjects, the development of the macroeconomic scenario is included when calculating expected credit losses ("ECLs").
The elements that according to the Standard, as implemented by Banca di Cividale, are the main drivers to be considered when measuring financial assets, and in particular when identifying a "significant increase" in credit risk (a necessary and sufficient condition for the asset being measured to be classified to stage 2) are as follows:

- ✓ the counterparty's rating (considered as a proxy for the lifetime risk of default), where available, quantifies credit risk; the difference in terms of 'notches' between the rating class when the relationship is formed and the rating class assigned on the reporting date is used as a proxy for measuring the change in credit risk (e.g., as the relative threshold for significant deterioration of credit risk);
- ✓ the presence of any, of amounts past due by at least 30 days; in other words, in such cases the exposure's credit risk is presumed to have "increased significantly", resulting in "transfer" to stage 2 (where the exposure was previously classified to stage 1);
- ✓ any forbearance measures, where applicable, which are also presumed to entail the classification of the exposures in question among those for which credit risk has "increased significantly" since initial recognition;
- ✓ the assignment to the individual relationship or counterparty, where applicable, of qualitative factors relating to non-performance as at the reporting date, defined by the Bank within the framework of the process of identifying particularly risky positions, as part of credit monitoring, the occurrence of which is presumed to indicate that there has been a significant increase in credit risk, unless there is evidence to the contrary.

Once the definitive allocation of the exposures to the various credit risk stages has been determined, expected credit losses (ECLs) are calculated at the level of each transaction or tranche of a security, based on the internal models developed at the consortium level by the IT provider (to which the Bank has fully outsourced IT activities and services), through the parameters probability of default (PD), loss given default (LGD) and exposure at default (EAD), which are subject to appropriate calibration measures inclusive of each bank's historical series.
In accordance with the prudential regulations implementing the European Banking Authority's Guidelines dated 20 September 2017 on credit institutions' credit risk management practices and accounting for expected credit losses (EBA/GL/2017/06), the rating system and expected credit loss models implemented in accordance with the accounting standard IFRS 9 are periodically reviewed by the Risk Management Function within the framework of IFRS 9 validation activities, through a dedicated process in which specific activities are also performed by the CSE Consortium (the fully outsourced IT provider). In addition, the Bank's Risk Management performed periodic level-two controls on the process of calculating expected credit losses, together with dedicated analyses monitoring the staging criteria applied and the level of impairment of credit exposures on the basis of the various drivers of analysis (technical form, type of customer, rating class, etc.), in accordance with the policies and procedures applied, accounting framework and proportionality principle.

Some special criteria apply to the staging of securities. In contrast to loans, purchase transactions involving this type of exposure after initial purchase may customarily fall within the scope of ordinary management of the positions (with the resulting need to select a method to be adopted to identify sales and redemptions in order to determine the residual quantities of the individual transactions with which to associate a credit quality/rating upon origination to be compared with that at the reporting date). Within this framework, it was decided that the use of the "first-in, first-out" or "FIFO" method (for the recycling to the income statement of the ECL recognised, in the event of sales or redemptions) contributes to more transparent management of the portfolio, including from the standpoint of front-office personnel, while also permitting assessments of creditworthiness to be constantly updated on the basis of new purchases.
External providers have been consulted as part of the process of calculating expected credit losses on securities. It bears emphasising that the "first-in, first-out" or "FIFO" method has been used to calculate the recycling to the income statement of the expected credit loss recognised in the event of sales.
It should be noted that Banca di Cividale does not apply the "Low Credit Risk Exemption," which would allow it not to perform the significant deterioration of credit risk test for transactions that as at the measurement date present low credit risk, with the exception of the portfolio of debt securities with an investment grade rating.
The Bank performs a specific assessment on positions classified as unlikely to pay above a certain exposure threshold (> €200 thousand) and on all positions classified as bad debts, based on prudent criteria that take account of all factors capable of giving rise to a lesser or greater degree of recovery (inclusive of the financial effect estimated as necessary for recovery). In particular, the main debtor's ability to repay, the presence of collateral, personal guarantees or consortium guarantees and the contingent market value of collateral are all taken into account in this process. When conducting specific assessments, the Bank differentiates its accounting treatment of non-performing loans according to whether recovery depends on future operating cash flows (the "going-concern" scenario) or solely on the enforcement of guarantees (the "gone-concern" scenario).
Non-performing exposures classified as past-due and unlikely-to-pay beneath a certain gross exposure threshold (<€200 thousand) are measured collectively, by applying a stage 3 impairment calculation model, consistent with the criteria laid down in the accounting standard IFRS 9 for determining the expected credit loss, calculated over a lifetime horizon, as envisaged for positions classified to Stage 2 and also inclusive of forward-looking parameters.

2.4 Credit risk mitigation techniques

Risk mitigation techniques include those instruments that contribute to reducing the loss that the Bank would sustain in the event of a default by the counterparty. In particular, they consist of guarantees and various contracts that give rise to a reduction in credit risk. Guarantees are a secondary consideration in the loan approval process. Loan approval continues to be based on the borrower's effective ability to repay the amount of the loan.
Operating procedures for the proper acquisition, use and management of guarantees have been established in specific internal rules with the aim of ensuring consistent, uniform operations.
Guarantees are acquired through an operational procedure that ensures an assessment of the formal and substantive validity of documentation that includes ascertaining the legal capacity to contract required to provide the guarantee in question. Checks are supplemented at the central level, where securities are held and contracts managed. In the case of pledges, only specified, easily liquidated assets are eligible for acquisition and valuation under the procedure. In the case of mortgages, the assets are valued by independent appraisers, who act in accordance with the Italian Banking Association Property Appraisal Guidelines adopted by the Bank and the related rules and procedures.
The guarantees acquired that comply with the generic and specific suitability criteria established by supervisory legislation for the mitigation of credit exposures are also used to determine capital requirements.
In the case of real estate collateral in particular, each year the Bank commissions an external provider to perform a periodic update of the market value of properties provided as collateral or subject to finance lease, on statistical bases, in order to ensure "property monitoring". For exposures of more than €3 million, the Bank has the appraisals revised by independent experts at least once every three years, in accordance with applicable legislation.
Before personal guarantees are accepted, checks are usually made at the competent register of deeds to ascertain the guarantor's actual real estate portfolio, bearing in mind the possibility of a rapid, unexpected depletion of the asset base.

As part of ICAAP, the Bank assesses what is known as "residual risk", which is defined as the risk that recognised techniques for mitigating credit risk prove less effective than expected. The use of such techniques may expose the Bank to other risks (for example, operational and legal risks) that, were they to occur, might result in greater credit exposure than expected, due to the reduced effectiveness or effective unavailability of protection. Residual risk is primarily managed through appropriate initiatives of a procedural and organisational nature. Organisational changes aimed at enhancing level-one and level-two controls were made with the purpose of reducing residual risk.

3. Non-performing credit exposures

3.1 Management strategies and policies

According to the supervisory regulations, non-performing financial assets (IFRS 9 Stage 3) are classified to the following categories:

- ✓ Exposures past due by more than 90 days: on-balance sheet exposures other than those classified as bad debts or unlikely-to-pay which are past due at the reporting date by more than 90 days, according to the conditions set out in the Bank of Italy supervisory regulations. Past-due exposures may be determined in reference to either the individual borrower or the individual transaction, as permitted by the regulations. Banca di Cividale adopts the individual borrower approach for all exposures.
- ✓ Unlikely to pay: on- and off-balance sheet exposures to borrowers who the Bank, at its discretion, believes it is unlikely will be able to repay all (principal and/or interest) of their credit obligations without recourse to measures such as the enforcement of guarantees.
- ✓ Bad debts: all on- and off-balance sheet exposures to borrowers in a state of insolvency or substantially equivalent situations, regardless of any loss projections formulated.

In accordance with those same supervisory regulations, a transversal category known as "forborne exposures" has also been identified within the various risk classes (performing and non-performing). A forborne exposure is an exposure to which forbearance measures have been applied. Forbearance measures are contractual concessions granted by the Bank to a borrower who is currently experiencing difficulty, or about to experience difficulty, in fulfilling its financial obligations ("financial difficulty"). Such exposures form sub-sets of both the previous categories of non-performing exposures ("Non-performing exposures with forbearance measures") and of performing exposures ("Other exposures with forbearance measures"), depending on the risk status of the exposure at the time of renegotiation, or as a consequence of renegotiation.

Loans classified as unlikely-to-pay, above a certain threshold, and bad debt positions are the responsibility of the NPL Department.

The classifications of individual positions are decided upon by the competent bodies, normally by proposal of the branch or Anomalous Loan Function. The amount of provisions to be recognised is also determined during the decision-making process. Likewise, the competent bodies also decide to reclassify positions as ordinary and thus out of the unlikely to pay category. Once a loan is classified as unlikely to pay, the decision-making powers of individual loan officers are suspended and any further decision on extending loans rests solely with collegial bodies. Positions classified as unlikely to pay of amounts in excess of the limit set in the Rules for the Classification of Positions and the Assessment of Non-Performing Exposures are managed by the Anomalous Loan Function, which also provides constant support to individual branches with managing accounts of limited amounts, with regard to the measures to be taken to seek to restore the positions to performing status.

The procedure for classifying a position as a bad debt is analogous to that used for managing unlikely-to-pay loans. Decisions concerning the amounts of individual provisions, as well as any changes, are taken by the competent bodies upon the recommendation of the Dispute Function.

The Bank's approach to assessing non-performing exposures involves applying the following criteria: 1) non-performing positions (positions past due by more than 90 days that exceed the materiality threshold) and unlikely-to-pay positions below a pre-defined draw-down threshold are assessed on a portfolio basis by applying a stage 3 impairment classification model consistent with the criteria laid down in the accounting standard IFRS 9 for determining the lifetime expected loss, as established for positions classified to stage 2 and also inclusive of forward-looking parameters; 2) in accordance with IAS/IFRS accounting rules, unlikely-to-pay positions beyond a pre-defined threshold and bad debts are subject to an analytical assessment process that results in the determination of the expected loss on each position.

3.2 Write-off

The gross carrying amount of a financial asset is written off when there is no reasonable expectation that it may be recovered (it is "irrecoverable") and when it is not believed to be economically expedient to proceed with recovery and management activity. When these conditions are met, the Bank writes the asset off; such cases involve a write-off event that does not entail forbearance of the underlying loan.

Write-offs may be total and thus involve the full amount of a financial asset, or partial, in which case only a part of the exposure is written off.

The accounting treatment of this process involves:

- ✓ reversal of the overall adjustments through the gross value of the financial asset;
- ✓ allocation to tax-deductible losses of the amount in excess of the total adjustments.

Any recoveries due to collection of a position that has been written off are taken to profit or loss as other operating income.

The 2019-2022 non-performing loan reduction operating plan, updated to March 2019, calls for the sale and/or derecognition (write-off) of exhausted portfolios of non-performing loans amounting to approximately €110 million over the plan period. In accordance with this objective, a specific write-off policy has been in place since March 2018 and write-offs of €50.3 million were applied to gross non-performing loans in 2019, largely through the use of the provision already set aside.

3.3 Purchased or originated credit-impaired financial assets

In accordance with IFRS 9, loans already considered impaired when they are initially recognised, in view of the high credit risk associated with them, are termed purchased or originated credit-impaired (POCI) assets. Such loans, where they fall within the scope of application of impairment as defined in IFRS 9, are measured by setting aside, with effect from the date of initial recognition, provisions for covering losses that extend over the entire residual life of the loan (lifetime expected credit loss). Since these are non-performing loans, they are initially classified to stage 3, although they may be transferred to stage 2 in the course of their lifetime, where they are no longer found to be impaired on the basis of a credit risk analysis.

4. Renegotiated and forborne financial assets

As specified in section 3.1, forbearance measures are measures granted to a debtor that is currently experiencing, or is about to experience, difficulties in meeting its payment commitments. The term "forbearance" refers to both contractual amendments granted to a debtor experiencing financial difficulties and new loans granted to permit a pre-existing obligation to be fulfilled. "Forbearance" also includes contractual amendments, which may be freely requested by a debtor within the framework of an existing contract, but only if the creditor believes that the debtor is experiencing financial difficulty (known as "embedded forbearance clauses"). The notion of "forborne" therefore excludes renegotiations for commercial reasons/practices unrelated to financial difficulties experienced by the debtor.

Banca di Cividale identifies the following cases as forbearance (provided that they have not been undertaken for commercial purposes):

- ✓ changes in the economic conditions relating to the rate;
- ✓ suspension of principal and/or interest payments;
- ✓ moratoria;
- ✓ extensions of term;
- ✓ refinancing; and
- ✓ change of loan type.

Changes of economic rate conditions do not apply to newly established relationships, i.e. relationships that less than six months old, since such renegotiations are considered commercial in nature. In addition, the scope also includes exposures for which a debt restructuring plan is envisaged pursuant to Art. 67 or Art. 182-bis of the Bankruptcy Law (i.e. all exposures with the management status of "former restructured" positions).

At the end of 2019, the on-balance credit exposures of Banca di Cividale included gross non-performing forborne exposures of €80,925 thousand and gross performing forborne exposures of €42,289 thousand.

QUANTITATIVE DISCLOSURES

A. CREDIT QUALITY

A.1 Performing and non-performing credit exposures: amounts, adjustments, performance and economic distribution

A.1.1 Distribution of financial assets by portfolio and credit quality (carrying amounts)

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	69,404	101,112	13,844	212,671	3,405,085	3,802,116
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	146,947	146,947
3. Financial assets designated at fair value	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value	-	1,020	-	0	15,132	16,152
5. Non-current financial assets held for sale	-	-	-	-	-	-
Total 31/12/2019	**69,404**	**102,133**	**13,844**	**212,671**	**3,567,164**	**3,965,215**
Total 31/12/2018	**111,235**	**127,732**	**13,729**	**300,872**	**3,037,258**	**3,590,826**

A.1.2 Distribution of financial assets by portfolio and credit quality (gross and net values)

Portfolios/Quality	Impaired assets				Other assets			Total net exposure
	Gross exposure	Specific writedowns	Net exposure	Overall partial writeoff	Gross exposure	Portfolio writedowns	Net exposure	
1. Financial assets valued to amortized cos	373,194	188,834	184,360	19,169	3,632,901	15,144	3,617,756	3,802,116
2. Financial assets valued to fair value with impact on overall profitability	-	-	-	-	147,056	109	146,947	146,947
3. Financial assets designated to fair value	-	-	-	-	X	X	-	-
4. Other financial assets mandatorily valuated to fair value	1,020	-	1,020	-	X	X	15,132	16,152
5. Financial assets as held for sale	-	-	-	-	-	-	-	-
Total 31/12/2019	**374,215**	**188,834**	**185,380**	**19,169**	**3,779,956**	**15,253**	**3,779,835**	**3,965,215**
Total 31/12/2018	**513,012**	**260,316**	**252,695**	**5,772**	**3,341,947**	**16,940**	**3,338,130**	**3,590,826**

A.1.3 Distribution of financial assets by past-due brackets (carrying amounts)

Portfolios/Risk Stages	Stage 1			Stage 2			Stage 3		
	Between 1 and 30 days	Between 30 and 90 days	Over 90 days	Between 1 and 30 days	Between 30 and 90 days	Over 90 days	Between 1 and 30 days	Between 30 and 90 days	Over 90 days
1. Financial assets measured at amortised cost	131,288	0	44	57,520	13,585	10,234	8,944	2,100	158,881
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
3. Financial instruments classified as held for sale	-	-	-	-	-	-	-	-	-
Total 31/12/2019	**131,288**	**0**	**44**	**57,520**	**13,585**	**10,234**	**8,944**	**2,100**	**158,881**
Total 31/12/2018	**142,259**	**0**	**218**	**46,320**	**10,982**	**11,147**	**6,597**	**2,241**	**215,000**

A.1.4 Financial assets, commitments to grant finance and financial guarantees given: performance of total adjustments and total provisions

Reasons/risk stages	Total adjustments																Total provisions on commitments to disburse funds and financial guarantees given			Total
	Stage 1 assets					Stage 2 assets					Stage 3 assets					Purchased or originated creditimpaired financial assets				
	Financial assets measured at amortized cost	Financial assets measured at fair value with an impact on total profitability	Financial instruments classified as held for sale	of which: individual writedowns	of which: collective writedowns	Financial assets measured at amortized cost	Financial assets measured at fair value with an impact on total profitability	Financial instruments classified as held for sale	of which: individual writedowns	of which: collective writedowns	Financial assets measured at amortized cost	Financial assets measured at fair value with an impact on total profitability	Financial instruments classified as held for sale	of which: individual writedowns	of which: collective writedowns		Stage 1	Stage 2	Stage 3	
Initial amount	7,378	479	-	-	7,857	8,989	-	-	-	8,989	259,455	-	-	257,400	2,055	131	497	610	274	277,682
Increases in purchased or originated financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Derecognition other than write-offs	(3,006)	(420)	-	-	(3,426)	(1,925)	-	-	-	(1,925)	(47,392)	-	-	(46,968)	(424)	-	(239)	(95)	(27)	(53,104)
Net losses/recoveries for credit risk (+/-)	4,053	50	-	-	4,102	(373)	-	-	-	(373)	30,860	-	-	30,294	566	91	22	(398)	(87)	34,126
Changes in contracts without derecognition	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in the estimation methodology	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs	-	-	-	-	-	-	-	-	-	-	(54,088)	-	-	(54,025)	(63)	-	-	-	-	**(54,088)**
Other changes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0	-	-	-	-
Final amount	**8,425**	**109**	-	-	**8,534**	**6,691**	-	-	-	**6,691**	**188,834**	-	-	**186,700**	**2,134**	**222**	**280**	**117**	**159**	**204,616**
Recoveries on collection of financial assets previously written off	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs recognised directly through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.1.6 On- and off-balance sheet loan exposures to banks: gross and net values

Type of exposure/amounts	Gross exposure		Total adjustments and total provisions for credit risk	Net exposure	Total partial write-offs*
	Non performing	Performing			
A. On-balance sheet 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	54,791	42	54,749	-
- of which: forborne exposures	X	-	-	-	-
Total (A)	**-**	**54,791**	**42**	**54,749**	**-**
B. Off-balance sheet exposures					
a) Non-performing	-	X	-	-	-
b) Performing	X	5	-	5	-
Total (B)	**-**	**5**	**-**	**5**	**-**
Total (A+B)	**-**	**54,796**	**42**	**54,753**	**-**

A.1.7 On- and off-balance sheet loan exposures to customers: gross and net values

Type of exposure/amounts	Gross exposure		Total adjustments and total provisions for credit risk	Net exposure	Total partial write-offs*
	Non performing	Performing			
A. On-balance sheet exposures					
a) Bad loans	206,341	X	136,937	69,404	19,137
- of which: forborne exposures	16,003	X	9,040	6,964	282
b) Unlikely to pay	151,897	X	49,764	102,133	14
- of which: forborne exposures	62,384	X	17,495	44,888	14
c) Non-performing past due exposures	15,977	X	2,133	13,844	-
- of which: forborne exposures	2,538	X	294	2,244	-
d) Performing past due exposures	X	216,246	3,574	212,671	15
- of which: forborne exposures	X	14,721	308	14,413	-
e) Other performing exposures	X	3,524,943	11,636	3,513,307	4
- of which: forborne exposures	X	27,569	590	26,979	-
Total (A)	**374,215**	**3,741,189**	**204,045**	**3,911,358**	**19,170**
B. Off-balance sheet exposures	-	-	-	-	-
a) Non-performing	11,390	X	159	11,231	-
b) Performing	X	630,706	397	630,309	-
Total (B)	**11,390**	**630,706**	**556**	**641,540**	**-**
Total (A+B)	**385,605**	**4,371,895**	**204,602**	**4,552,898**	**19,170**

A.1.9 On-balance sheet loan exposures to customers: changes in gross impaired positions

	Bad loans	Unlikely to pay	Past due positions
A. Opening gross exposure	**318,585**	**176,824**	**15,760**
- of which: exposures assigned but not derecognized	-	-	-
B. Increases	**45,977**	**42,490**	**14,016**
B.1 from performing positions	19,854	19,557	12,482
B.2 transfers from other categories of impaired positions	-	-	-
B.3 transfers from other non-performing exposures categories	17,704	5,733	-
B.4 changes in contracts without derecognition	8,420	17,199	1,533
B.5 other increases	-	-	-
C. Decreases	**158,222**	**67,416**	**13,799**
C.1 to performing positions	-	12,739	1,475
C.2 writeoffs	48,502	8	301
C.3 collections	44,795	24,466	2,561
C.4 assignments	15,065	6,981	1,106
C.5 losses on sale	10,319	2,150	0
C.6 transfers to other categories of impaired positions	-	15,724	7,712
C.7 changes in contracts without derecognition	39,541	5,354	0
C.8 other decreases	- -	5	643
D. Closing gross exposure	**206,341**	**151,897**	**15,976**
- of which: exposures assigned but not derecognized	-	-	-

A.1.9bis On-balance sheet loan exposures to customers: changes in gross forborne exposures, by credit quality

	Forborne exposures: non performing	Forborne exposures: performing
A. Opening gross exposure	**99,030**	**60,930**
- of which: exposures assigned but not derecognized	-	-
B. Increases	**27,187**	**23,037**
B.1 from performing positions	5,699	19,814
B.2 transfers from other categories of impaired positions	5,085	X
B.3 transfers from forborne non performing positions	X	1,797
B.4 transfers from not forborne non performing positions	7,305	1,050
B.5 other increases		
C. Decreases	**45,293**	**41,678**
C.1 to performing positions	X	8,415
C.2 to other categories of performing forborne positions	1,797	X
C.3 to other categories of non performing forborne positions	X	5,085
C.4 write offs	6,979	5
C.5 collections	21,647	27,401
C.6 assignments	2,074	-
C.7 losses on sale	1,353	-
C.8 other decreases	11,443	772
D. Closing gross exposure	**80,924**	**42,289**
- of which: exposures assigned but not derecognized	-	-

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A.1.11 Non-performing on-balance sheet loan exposures to customers: changes in total adjustments

Reason/Categories	Bad loans		Unlikely to pay		Past due positions	
	Total	Of which: forborne exposures	Total	Of which: forborne exposures	Total	Of which: forborne exposures
A. Total opening adjustments	**207,350**	**8,162**	**50,935**	**21,706**	**2,031**	**407**
- of which: exposures assigned but not derecognized	-	-	-	-	-	-
B. Increases	**40,356**	**5,382**	**20,950**	**6,809**	**1,745**	**368**
B.1 impairment losses on acquired or originated assets	-	X	-	X	-	X
B. 2 other value adjustments	22,347	2,163	20,453	6,614	1,722	276
B.3 losses on disposal	10,319	-	-	-	0	-
B.4 transfer from other impaired exposure	7,689	3,219	497	195	-	-
B. 5 contractual changes without cancellations	-	-	-	-	-	-
B.6 other increases	**0**	-	-	-	**23**	**92**
C. Reductions	**110,769**	**4,504**	**22,120**	**11,019**	**1,643**	**482**
C.1 write-backs from assessments	3,263	69	5,924	2,144	499	140
C.2 write-backs from recoveries	12,645	1,201	3,122	2,399	87	11
C.3 gains on disposal	2,830	-	-	-	165	30
C.4 write-offs	62,718	3,234	4,831	3,229	63	-
C.5 transfers to other impaired exposures	-	-	7,358	3,112	829	302
C. 6 contractual changes without cancellations	-	-	-	-	-	-
C.7 other decreases	29,314	-	885	134	-	-
D. Closing overall amount of writedowns	**136,937**	**9,040**	**49,765**	**17,496**	**2,133**	**293**
- of which: exposures assigned but not derecognized	-	-	-	-	-	-

A.2 CLASSIFICATION OF FINANCIAL ASSETS, COMMITMENTS TO GRANT FINANCE AND FINANCIAL GUARANTEES GIVEN ON THE BASIS OF EXTERNAL AND INTERNAL RATINGS

A.2.1 Distribution of financial assets, commitments to grant finance and financial guarantees given by external rating classes (gross values)

Under the Bank of Italy preparation rules, the table in question has not been compiled since the Bank does not rely on external ratings issued by authorised ratings agencies (ECAIs) for on- and off-balance sheet exposures to customers.

A.2.2 - Distribution of financial assets, commitments to grant finance and financial guarantees given by internal rating classes (gross values)

This table has not been compiled since rating models are not used for regulatory purposes. However, they are used as a management tool for classifying and analysing customers for risk management purposes.

A.3 DISTRIBUTION OF SECURED CREDIT EXPOSURES BY TYPE OF GUARANTEE

A.3.2 On- and off-balance-sheet secured exposures to customers

	Gross exposure	Net exposures	Collateralsi (1)				Guarantees (2)										Total (1)+(2)
							Credit derivatives					Signature Loans (loans guarantees)					
								Other credit derivatives									
			Property	Financial leasing	Securities	Other assets	CLN	Goverments and Central Banks	Other public entities	Banks	Other entities	Goverments and Central Banks	Other public entities	Banks	Other entities		
1. Secured on balance sheet credit exposures:	**2,433,815**	**2,295,634**	**1,631,277**	**167,338**	**9,119**	**155,737**	-	-	-	-	-	**51,043**	**17**	**35,684**	**202,948**		**2,253,162**
1.1. totally secured	2,259,520	2,168,810	1,590,307	167,338	7,140	141,734	-	-	-	-	-	40,928	12	29,976	191,107		2,168,541
- of which impaired	208,774	129,549	101,992	9,898	33	2,948	-	-	-	-	-	407	5	2,288	11,978		129,549
1.2. partially secured	174,296	126,824	40,970	-	1,979	14,003	-	-	-	-	-	10,115	5	5,708	11,841		84,621
- of which impaired	87,747	40,745	19,666	-	1,152	3,533	-	-	-	-	-	447	2	856	2,536		28,191
2. Secured off balance sheet credit exposures:	**175,965**	**175,662**	**14,249**	**57**	**1,536**	**11,228**	-	-	-	-	-	**1,095**	**296**	**4,206**	**116,617**		**149,284**
2.1. totally secured	128,381	128,163	10,835	57	647	7,544	-	-	-	-	-	832	296	3,585	104,064		127,859
- of which impaired	4,391	4,338	280	-	80	165	-	-	-	-	-	-	-	98	3,714		4,338
2.2. partially secured	47,584	47,499	3,414	-	890	3,685	-	-	-	-	-	263	-	621	12,553		21,425
- of which impaired	1,218	1,218	-	-	-	343	-	-	-	-	-	-	-	58	108		509

A.4 FINANCIAL AND NON-FINANCIAL ASSETS OBTAINED THROUGH THE ENFORCEMENT OF GUARANTEES RECEIVED

This section is not applicable to the financial statements of Banca di Cividale S.c.p.A.

B. DISTRIBUTION AND CONCENTRATION OF CREDIT EXPOSURES

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

Exposures/Counterparties	Public Administrations		Financial companies		Financial companies (of which: insurance companies)		Non-financial companies		Households	
	Net exposure	Specific writedowns	Net exposure	Specific writedowns	Net exposure	Specific writedowns	Net exposure	Specific writedowns	Net exposure	Specific writedowns
A. ON-BALANCE-SHEET EXPOSURES										
A.1. Bad loans	-	-	348	1,456	-	-	38,248	99,709	30,808	35,772
- Of which: forborne exposures	-	-	-	-	-	-	2,882	6,541	4,081	2,499
A.2. Unlikely to pay	-	-	4,217	3,298	-	-	57,242	33,279	40,674	13,188
- Of which: forborne exposures	-	-	1,430	425	-	-	26,819	11,587	16,639	5,484
A.3. Non performing, past due exposures	0	-	-	-	-	-	6,457	1,151	7,387	982
- Of which: forborne exposures	-	-	-	-	-	-	1,643	237	601	56
A.4. Other performing exposures	1,047,277	753	179,440	400	13,565	-	1,238,288	10,992	1,260,973	3,065
- Of which: forborne exposures	-	-	-	-	-	-	23,369	625	18,023	273
TOTAL A	1,047,277	753	184,005	5,154	13,565	-	1,340,235	145,131	1,339,841	53,007
B. OFF-BALANCE-SHEET EXPOSURES										
B.1 Non-performing exposures	-	-	761	-	-	-	9,519	153	950	6
B.2 Performing exposures	436	0	12,852	1	147	0	534,715	376	82,307	20
TOTAL B	436	0	13,614	1	147	0	544,234	529	83,257	26
TOTAL (A+B) 31/12/2019	1,047,713	754	197,619	5,155	13,712	0	1,884,469	145,660	1,423,098	53,033
TOTAL (A+B) 31/12/2018	845,677	1,471	133,182	5,823	13,081	-	1,859,103	210,553	1,370,542	60,617

B.2 Distribution of on- and off-balance sheet credit exposures to customers by geographical area

Exposures/Geographical areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
A. ON-BALANCE-SHEET EXPOSURES										
A.1. Bad loans	69,377	136,842	27	95	-	-	-	-	-	-
A.2. Unlikely to pay	101,994	49,708	139	57	-	-	-	-	-	-
A.3. Non performing, past due exposures	13,766	2,120	78	13	-	-	-	-	0	0
A.4. Other performing exposures	3,707,491	15,027	17,199	183	489	0	627	0	173	0
TOTAL A	3,892,628	203,696	17,442	348	489	0	627	0	173	0
B. OFF-BALANCE-SHEET EXPOSURES										
B.1 Non-performing exposures	11,231	159	-	-	-	-	-	-	-	-
B.2 Performing exposures	628,403	397	1,906	0	0	-	-	-	-	-
TOTAL B	639,634	556	1,906	0	0	-	-	-	-	-
TOTAL (A+B) 31/12/2019	**4,532,262**	**204,252**	**19,348**	**348**	**489**	**0**	**627**	**0**	**173**	**0**
TOTAL (A+B) 31/12/2018	**4,180,504**	**277,855**	**20,064**	**561**	**7,163**	**3**	**577**	**0**	**197**	**45**

In further detail, exposures in Italy break down by geographical area as shown in the following table:

Exposures/Geographical areas	Northwest Italy		North east Italy		Italy - Center		South Italy and Islands	
	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
A. ON-BALANCE-SHEET EXPOSURES								
A.1. Bad loans	1,486	2,421	65,409	128,409	2,366	5,664	115	348
A.2. Unlikely to pay	9,541	5,174	90,452	43,150	1,988	1,380	12	3
A.3. Non performing, past due exposures	434	66	12,873	1,958	448	93	11	2
A.4. Other performing exposures	93,726	658	2,484,116	13,089	1,123,280	1,248	6,369	32
TOTAL A	105,188	8,319	2,652,850	186,607	1,128,083	8,385	6,507	385
B. OFF-BALANCE-SHEET EXPOSURES	-	-	-	-	-	-	-	-
B.1 Non-performing exposures	-	-	11,207	159	23	-	-	-
B.2 Performing exposures	16,049	2	608,139	389	3,920	6	296	0
TOTAL B	16,049	2	619,346	548	3,944	6	296	0
TOTAL (A+B) 31/12/2019	121,236	8,321	3,272,196	187,155	1,132,026	8,392	6,803	385
TOTAL (A+B) 31/12/2018	76,034	9,332	3,215,061	258,237	883,171	9,109	6,238	1,176

B.3 Distribution of on- and off-balance sheet credit exposures to banks by geographical area

Exposures/Geographical areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF WORLD	
	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total adjustments
A. ON-BALANCE-SHEET EXPOSURES										
A.1. Bad loans	-	-	-	-	-	-	-	-	-	-
A.2. Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3. Non performing, past due exposures	-	-	-	-	-	-	-	-	-	-
A.4. Other performing exposures	48,776	38	3,877	2	2,096	2	-	-	-	-
TOTAL A	48,776	38	3,877	2	2,096	2	-	-	-	-
B. OFF-BALANCE-SHEET EXPOSURES										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	-	-	5	-	-	-	-	-	-	-
TOTAL B	-	-	5	-	-	-	-	-	-	-
TOTAL (A+B) 31/12/2019	**48,776**	**38**	**3,882**	**2**	**2,096**	**2**	-	-	-	-
TOTAL (A+B) 31/12/2018	**68,131**	**148**	**6,839**	**5**	**10,941**	**21**	-	-	-	-

In further detail, exposures in Italy break down by geographical area as shown in the following table:

Exposures/Geographical areas	Northwest Italy		North east Italy		Italy - Center		South Italy and Islands	
	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns	Net exposure	Total writedowns
A. ON-BALANCE-SHEET EXPOSURES								
A.1. Bad loans	-	-	-	-	-	-	-	-
A.2. Unlikely to pay	-	-	-	-	-	-	-	-
A.3. Non performing, past due exposures	-	-	-	-	-	-	-	-
A.4. Other performing exposures	10,034	11	0	0	38,742	27	-	-
TOTAL A	10,034	11	0	0	38,742	27	-	-
B. OFF-BALANCE-SHEET EXPOSURES								
B.1 Non-performing exposures	-	-	-	-	-	-	-	-
B.2 Performing exposures	-	-	-	-	-	-	-	-
TOTAL B	-	-	-	-	-	-	-	-
TOTAL (A+B) 31/12/2019	**10,034**	**11**	**0**	**0**	**38,742**	**27**	-	-
TOTAL (A+B) 31/12/2018	**34,095**	**84**	**0**	**0**	**34,036**	**64**	-	-

B.4 Large exposures

In accordance with applicable legislation, the number of the “large exposures” presented in the table has been determined by reference to unweighted “exposures” exceeding 10% of Eligible Capital, as defined in Regulation (EU) No 575/2013 (“CRR”), where “exposures” mean the sum of on-balance sheet risk assets and off-balance sheet transactions (excluding those deducted from Eligible Capital) in respect of a customer, or of a group of related customers, without the application of weighting factors.

An entity's exposure to a customer or a group of related customers is considered a large exposure when its value is equal to or greater than 10% of the entity’s eligible capital (CRR, Article 392). Considering the effect of the exemptions and mitigation of credit risk, large exposures must, in any event, comply with the limit of 25% of the entity's eligible capital. At 31 December 2019 eligible capital coincided with the amount of own funds.

These presentation criteria result in the inclusion in the “large exposures” table of the financial statements of parties that despite having a weighting equal to 0% present an unweighted exposure in excess of 10% of the entity's Eligible Capital. It bears noting that the table below includes exposures to the Italian government of €1,300,328 thousand and exposures to Cassa Compensazione e Garanzia of €580,865 thousand, whereas the remainder refers to exposures to financial counterparties.

	31/12/2019	**31/12/2018**
Amount - Book value	1,918,391	1,284,247
Amount - Weighted value	95,195	78,924
Number	4	4

C. SECURITISATIONS

QUALITATIVE DISCLOSURES

Securitisation is undertaken to increase the degree of liquidity of assets and expand the pool of financial instruments eligible for refinancing operations with the European Central Bank and/or suited for use as collateral in financing transactions with institutional and market counterparties. In keeping with medium-to-long term funding needs, such transactions may involve the purchase of securities by third parties, thus yielding immediate liquidity.

In 2019 the Bank completed a second additional securitisation within the framework of the Civitas SPV S.r.l. – RMBS – 2017 programme, through the sale of performing residential mortgage loans, with the resulting increase in the residual value of the ABSs. It also concluded a new securitisation designated Civitas Spv Srl – SME – 2019 through a sale of loans disbursed to small and medium enterprises.

The following securitisation transactions were ongoing at the reporting date:

- ✓ Civitas Spv S.r.l. - RMBS - 2012;
- ✓ Civitas Spv S.r.l. - RMBS - 2017;
- ✓ Civitas Spv Srl - SME – 2019.

These transactions were undertaken pursuant to Law No. 130/1999.

The quantitative disclosures presented in this section include only the transaction Civitas SPV S.r.l. – RMBS – 2012, since the other transactions, Civitas SPV S.r.l. – RMBS – 2017 and Civitas Spv Srl – SME – 2019 are of the originate-to-retain variety, in which the originator subscribes for all of the liabilities issued by the vehicle at the moment of issuance.

Main information	
Date of transaction	February 2012
Special purpose entities	Civitas Spv Srl
Subject matter of the transaction	Performing residential mortgages
Banks/ Originator groups	Banca di Cividale S.c.p.A.
Original aggregate amount of transferred loans and receivables of Banca di Cividale	383 mln
RMBS Restructuring	246 mln
Original aggregate amount of transferred loans and receivables of Banca Popolare di Cividale	629 mln
Securities issued and subscribed by Banca di Cividale	122 mln
of which senior securities a	0 mln
of which junior securities b	122 mln
Initial Rating of senior securities	AA+ Standard&poor's - A1 Moody's
Overall residual notional amount of the securities as at 31/12/2019	53 mln
Residual values of loans and receivables as at 31/12/2019	290 mln
Rating of senior securities	AA Standard&poor's - Aa3 Moody's

Objectives, strategies and processes: The main objective of the Civitas Spv Srl - RMBS – 2012, Civitas Spv Srl - RMBS – 2017 and Civitas Spv Srl - SME – 2019 securitisations pursued through the three transactions is to ensure balanced structural management of the Bank's liquidity situation, within the framework of a company strategy consistently focused on this aspect. The Bank's role, in addition to that of originator of the transactions and the underlying loans, is that of servicer responsible for all activities relating to relationships with borrowers, including periodic collection of payments.

Internal measurement systems: the credit risk associated with assets transferred in securitisation operations is retained by the Bank. Consequently, internal risk measurement and control systems are applied in an entirely uniform manner to both securitised and non-securitised assets.

Section 2. Securitisation of bad loans

GACS 2019 bad debt securitisation

In 2019 the Bank participated, pursuant to Law No. 130 of 30 April 1999, in a bad debt securitisation with GACS guarantee with a total amount of approximately €50.7 million. The Bank participated in the initiative promoted by Luzzatti Spa, within the framework of Assopopolari, which developed a multioriginator securitisation of loans subject to GACS, the government guarantee backing the senior notes issued when implementing these transactions.

The transaction is designed to improve the risk profile and quality of assets, along with earnings prospects, and in particular to reduce incidence of bad debt positions on total assets, while also reducing the administrative, legal and judicial expenses relating to the management of bad debts.

The securitised portfolio is “mixed” in nature, including both secured and mortgage loans to non-financial companies and other private borrowers, primarily based in the Region of Friuli Venezia Giulia and Eastern Veneto; Banca di Cividale’s participation took the form of 280 positions with a total amount outstanding of approximately €50.7 million (total GBV of the transaction approximately €827 million). The following is a breakdown of the positions sold by economic activity sector (amounts gross of the discounting effect):

Economic activity - €/milions	Gross amount	Adjustments	Net amount (civil)	Net amount (IAS)
Businesses and Producing Families	40.5	29.1	11.4	11.4
Consumer Families	10.2	6.3	3.9	3.9
Total 31/12/2019	**50.7**	**35.4**	**15.3**	**15.3**

The consideration for the sale of the loans to the SPV, designated “Pop NPLs 2019 S.r.l.”, totalled €177 million (of which €13.6 million attributable to the Bank’s portfolio).

The SPV financed the purchase of the loans by issuing the following classes of notes pursuant to the combined provisions of Articles 1 and 5 of Law No. 130, for a total value of €203 million, broken down as follows:
- ✓ €173 million of variable-rate Senior ABSs set to mature in February 2045 (the “**Senior Notes**”);
- ✓ €25 million of variable-rate Mezzanine ABSs set to mature in February 2045 (the “**Mezzanine Notes**”);
- ✓ €5 million of variable-rate, variable-return Junior ABSs set to mature in February 2045 (the “**Junior Notes**”).

The Senior Notes have been rated BBB by DBRS and BBB by Scope Ratings AG and the Mezzanine Notes have been rated CCC by DBRS and CCC by Scope Ratings AG.

The Junior Notes have not been rated. The notes are not listed on any regulated market. On 23 December 2019 the Selling Banks sold the Mezzanine Notes and Junior Notes, net of the retention share, to Banca Agricola Popolare di Ragusa S.C.p.A., which in turn transferred them to a third-party professional investor.

The Selling Banks undertook to maintain a net economic interest, throughout the term of the Securitisation, by retaining a percentage of no less than 5% of the par value of each class of Notes (“Retained Notes”) issued overall in order to comply with the retention obligation set out in i) Art. 405(1)(a) of Regulation (EU) No 575/2013 (the “CRR”), ii) Art. 3(1)(a) and Art. 3(3) of Commission Delegated Regulation (EU) No 625/2014, iii) Art. 51(1)(a) of Commission Delegated Regulation (EU) No 231/2013 (the “AIFMD Regulation”) and iv) Art. 254 of Commission Delegated Regulation (EU) No 35/2015 (the “Solvency II Regulation”).

The following table presents the details of the transaction and the related figures attributable to the Bank:

Euro	Pool of Banks	Civibank	
GBV as at 31/12	826,664,619	50,701,146	
Net book velue	228,791,219	15,335,893	(1)
Nominal Value of the issued Notes	177,000,000	13,650,000	
Difference between the Net Book value and the Nominal Value of the issued Notes	26,000,000	2,002,593	
Senior Notes	173,000,000	13,342,000	(2)
Senior Notes retained €	173,000,000	13,342,000	
Senior Notes retained %	100.00%	100.00%	
Mezzanine Notes	25,000,000	1,925,000	
Mezzanine Notes retained €	1,346,678	96,399	(3)
Mezzanine Notes retained %	5.39%	5.01%	
Junior Notes	5,000,000	385,593	
Junior Notes retained €	269,274	19,280	(4)
Junior Notes retained %	5.39%	5.00%	

(1) The net carrying amount is €12,587,823, to which collections of €2,748,070 were added, for GACS purposes.
(2) Senior Note classified to item 40.b) Financial assets measured at amortised cost;
(3) Mezzanine Note classified to item 20.c) Financial assets designated at fair value through profit or loss: other financial assets mandatorily measured at fair value;
(4) Junior Note classified to item 20.c) Financial assets designated at fair value through profit or loss: other financial assets mandatorily measured at fair value.

The transaction was structured to have characteristics and requirements suited to proceeding with the derecognition of the loans transferred, in accordance with the applicable international accounting standards (IASs/IFRSs), since substantially all rights and benefits of the financial assets sold were transferred to the special-purpose vehicle Pop NPLs 2019 Srl (IFRS 9, para. 3.2.4 (a) and 3.2.6 (a)). The derecognition of the loans resulted in the recognition of a loss on disposal (net of the discounting effect) of €1.7 million, taken to item 100 a) of the income statement, "Profits (losses) on disposal or repurchase of assets measured at amortised cost".

With regard to the aspects of guidance, governance and control of the Transaction, the entire process was conducted in accordance with, and in application of, the policy on the sale and write-off of non-performing loans. The transaction is part of the long-term strategies for managing NPLs and the relevant results, in terms of both improved asset quality and internal capital allocation, in accordance with the strategic objectives set out therein.

Main information	
Date of transaction	December 2019
Special purpose entities	POP NPLs 2019 S.r.l.
Subject matter of the transaction	Transfer of credit risk to third parties
Banks/ Originator groups	Pool of 12 Banks
Original aggregate amount of transferred loans and receivables	
of Banca di Cividale	50 mln
Original aggregate amount of transferred loans and receivables	50 mln
Securities issued and subscribed by Banca di Cividale	13 mln
of which senior securities a	13 mln
of which junior securities	0,1 mln
Initial Rating of senior securities	BBB
Overall residual notional amount of the securities as at 31/12/2019	13 mln
Residual values of loans and receivables as at 31/12/2019	BBB
Rating of senior securities	BBB

QUANTITATIVE DISCLOSURES

On 10 April 2019 the contractual documentation was signed for the restructuring of new sale within the framework of the Civitas SPV S.r.l. – RMBS – 2017 securitisation programme. The operation has a partly paid structure in which additional tranches of loans may be sold during a "ramp-up" period of three years from issuance, up to a maximum of €600 million. During the additional sale phase, the operation thus entailed:

- ✓ the transfer without recourse of an additional portfolio of performing residential mortgage loans with a face value of €106 million;
- ✓ an increase in the residual value of senior, mezzanine and junior securities of €75 million, €8 million and €15 million, respectively.

C.1 Exposures deriving from major "own" securitisation transactions, by type of securitised asset and type of exposure

Type of securitised asset/ Exposure	ON-BALANCE SHEET EXPOSURES						GUARANTEES ISSUED						CREDIT LINES					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Book value	Adjust. / recoveries	Book value	Adjust. / recoveries	Book value	Adjust. / recoveries	Book value	Adjust. / recoveries	Book value	Adjust. / recoveries	Book value	Adjust. / recoveries	Book value	Adjust. / recoveries	Book value	Adjust. / recoveries	Book value	Adjust. / recoveries
A. Fully derecognised																		
POP NPLS 19 2/45 TV	13,913	52	16	-	0	-	-	-	-	-	-	-	-	-	-	-	-	-
- Own non-committed securities	13,290	52	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Other	624	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Subordinated loan in the form of securities	-	-	16	-	0	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Partly derecognised																		
C. Not derecognised																		
C.1 Civitas Spv Srl																		
- Securities issued	-	-	-	-	122,300	-	-	-	-	-	-	-	-	-	-	-	-	-

In the case of the Civitas SPV S.r.l. – RMBS – 2012 securitisation, the Bank holds all of the junior notes, whereas the senior notes have been sold and are currently held by institutional investors.

The amounts indicated in the table refer to the value of the junior and senior securities held by the Bank, which would have been presented among assets or liabilities in the balance sheet but have been eliminated in application of the accounting standards.

C.2 Exposures deriving from major "third-party" securitisation transactions, by type of securitised asset and type of exposure

Type of underlying asset/Exposures	ON-BALANCE SHEET EXPOSURES						GUARANTEES ISSUED						CREDIT LINES					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Book value	Adjust. / recoveries	Book value	Adjust. / recoveries	Book value	Adjust. / recoveries	Book value	Adjust. / recoveries	Book value	Adjust. / recoveries	Book value	Adjust. / recoveries	Book value	Adjust. / recoveries	Book value	Adjust. / recoveries	Book value	Adjust. / recoveries
VITRUVIO SPV SRL	110	43																
Own non-committed securities SPV000001410	110	43																

C.3 Securitisation vehicles

SECURITISATION/ SPECIAL PURPOSE VEHICLE	REGISTERED OFFICE	CONSOLIDATION	Assets			Liabilities			
			Loans	Debt securities	Other	Senior	Mezzanine	Junior	Other
POP NPLS 19 2/45 TV	Conegliano Veneto (TV)	Not Consolidated	155,820	-	29,239	173,000	4,011	15	8,034
Civitas Spv Srl *	Conegliano Veneto (TV)	Not Consolidated	288,045	-	-	135,254	-	122,300	122,300

* as at 31/12/2019

C.4 Unconsolidated securitisation vehicles

The Bank does not hold interests in unconsolidated structured entities.

C.5 Servicing – own securitisations: collections of securitised loans and redemption of securities issued by the securitisation vehicle

Not applicable.

D. STRUCTURED ENTITIES NOT CONSOLIDATED FOR ACCOUNTING PURPOSES (OTHER THAN SECURITISATION VEHICLES)

This section is not applicable to the financial statements of Banca di Cividale S.c.p.A.

E. TRANSFERS

In 2019 the Bank participated in the initiative promoted by Luzzatti Spa, within the framework of Assopopolari, which developed a multioriginator securitisation of loans subject to GACS, the government guarantee securing the senior notes issued when implementing these transactions.
The securitised portfolio is "mixed" in nature, including both secured and mortgage loans to non-financial companies and other private borrowers, primarily based in the Region of Friuli Venezia Giulia and Eastern Veneto; Banca di Cividale's participation took the form of 280 positions with a total amount outstanding of approximately €50.7 million (total GBV of the transaction approximately €827 million). The derecognition of the loans resulted in the recognition of a loss on disposal (net of the discounting effect) of €1.7 million, taken to item 100 a) of the income statement, "Profits (losses) on disposal or repurchase of assets measured at amortised cost".

A. Financial assets sold but not fully derecognised

QUALITATIVE DISCLOSURES

Securitisation

Within the framework of the various measures aimed at enhancing coverage of exposure to liquidity risk, the Bank has undertaken securitisation transactions with the goal of increasing the degree of liquidity of its assets and prudentially increasing its pool of financial instruments eligible for refinancing operations with the European Central Bank, or otherwise suited for use as collateral in funding transactions beyond the short term with institutional and market counterparties. In accordance with these aims, all asset-backed securities issued by the special-purpose vehicle formed pursuant to Law No. 130/99 have been fully subscribed by the Bank, in the case of the securitisation operations Civitas SPV S.r.l. – RMBS – 2017 and Civitas SPV S.r.l. – SME – 2019, whereas in the case of the operation Civitas SPV S.r.l. – RMBS – 2012 the Bank only holds junior securities (thus retaining, for all three of the transactions cited, the credit risk associated with the underlying loans disbursed). Accordingly, since essentially all of the risks and rewards associated with the transferred portfolio have been retained, the loans concerned have not been derecognised. On 10 April 2019 the contractual documentation was signed for the restructuring of new sale within the framework of the Civitas SPV S.r.l. – RMBS – 2017 securitisation programme. The operation has a partly paid structure in which additional tranches of loans may be sold during a "ramp-up" period of three years from issuance, up to a maximum of €600 million. During the additional sale phase, the operation thus entailed:

- ✓ the transfer without recourse of an additional portfolio of performing residential mortgage loans with a face value of €106 million;
- ✓ an increase in the residual value of senior, mezzanine and junior securities of €75 million, €8 million and €15 million, respectively.

In October 2019 the contractual documentation was also signed for

- ✓ the early redemption of the securitisation undertaken in July 2012 through the special-purpose vehicle Civitas Spv Srl, involving:
  - the repurchase by Banca di Cividale S.c.p.A. of the residual securitised loans
  - the early redemption of the securities
  - the termination of the securitisation contracts
- ✓ the new Civitas Spv Srl – SME – 2019 securitisation. During the issuance phase, the transaction entailed:
  - The transfer without recourse of an initial portfolio of performing mortgage and unsecured loans to small and medium enterprises with a face value of €451 million;
  - The issuance of securities with a nominal value of €458.5 million, divided into senior (€320 million), mezzanine (€50 million) and junior notes (€88.5 million).

The following table provides an overview of the securitisation transactions undertaken.

Main information	
Date of transaction	February 2012
Special purpose entities	Civitas Spv Srl
Subject matter of the transaction	Performing residential mortgages
Banks/ Originator groups	Banca di Cividale S.c.p.A.
Original aggregate amount of transferred loans and receivables	
of Banca di Cividale	383 mln
RMBS Restructuring	246 mln
Original aggregate amount of transferred loans and receivables	
of Banca Popolare di Cividale	629 mln
Securities issued and subscribed by Banca di Cividale	122 mln
of which senior securities a	0 mln
of which junior securities b	122 mln
Initial Rating of senior securities	AA+ Standard&poor's - A1 Moody's
Overall residual notional amount of the securities as at 31/12/2019	53 mln
Residual values of loans and receivables as at 31/12/2019	290 mln
Rating of senior securities	AA Standard&poor's - Aa3 Moody's

Main information	
Date of transaction	July 2017
Special purpose entities	Civitas Spv Srl
Subject matter of the transaction	Performing residential mortgages
Banks/ Originator groups	Banca di Cividale S.c.p.A.
Original aggregate amount of transferred loans and receivables	
of Banca di Cividale	253 mln
RMBS Restructuring 2018	112 mln
RMBS Restructuring 2019	106 mln
Original aggregate amount of transferred loans and receivables	471 mln
Securities issued and subscribed by Banca di Cividale	600 mln
of which senior securities a	228 mln
of which junior securities b	228 mln
of which mezzanine securities	51 mln
of which junior securities	93 mln
Initial Rating of senior securities	A Standard&poor's - AA DBRS
Overall residual notional amount of the securities as at 31/12/2019	356 mln
Residual values of loans and receivables as at 31/12/2019	377 mln
Rating of senior securities	A+ Standard&poor's - AA DBRS

Main information	
Date of transaction	October 2019
Special purpose entities	Civitas Spv Srl
Subject matter of the transaction	SME performing loans
Banks/ Originator groups	Banca di Cividale S.c.p.A.
Original aggregate amount of transferred loans and receivables	
of Banca di Cividale	451 mln
Original aggregate amount of transferred loans and receivables	451 mln
Securities issued and subscribed by Banca di Cividale	458 mln
of which senior securities a	320 mln
of which mezzanine securities	50 mln
of which junior securities	88 mln
Initial Rating of senior securities	A Standard&poor's - A+ DBRS
Overall residual notional amount of the securities as at 31/12/2019	459 mln
Residual values of loans and receivables as at 31/12/2019	330 mln
Rating of senior securities	A Standard&poor's - A+ DBRS

Main information	
Date of transaction	December 2019
Special purpose entities	POP NPLs 2019 S.r.l.
Subject matter of the transaction	Transfer of credit risk to third parties
Banks/ Originator groups	Pool of 12 Banks
Original aggregate amount of transferred loans and receivables of Banca di Cividale	50 mln
Original aggregate amount of transferred loans and receivables	50 mln
Securities issued and subscribed by Banca di Cividale	13 mln
of which senior securities a	13 mln
of which junior securities	0,1 mln
Initial Rating of senior securities	BBB
Overall residual notional amount of the securities as at 31/12/2019	13 mln
Residual values of loans and receivables as at 31/12/2019	BBB
Rating of senior securities	BBB

QUANTITATIVE DISCLOSURES

E.1. - Financial assets sold but fully recognised and associated liabilities: carrying amounts

	Financial assets sold fully recognised				Related financial liabilities		
	Book value	of which: securitisations	of which: subject to sales contracts with repurchase clauses	of which: non-performing	Book value	of which: securitisations	of which: subject to sales contracts with repurchase clauses
A. Financial assets held for trading	-	-	-	X	-	-	-
1. Debt securities	-	-	-	X	-	-	-
2. Equities	-	-	-	X	-	-	-
3. Loans	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
B. Other financial assets mandatorily measured at fair value	-	-	-	-	-	-	-
1. Debt securities	-	-	-	-	-	-	-
2. Equities	-	-	-	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	-	-	-	-	-	-	-
1. Debt securities	-	-	-	-	-	-	-
2. Equities	-	-	-	X	-	-	-
3. Loans	-	-	-	-	-	-	-
E. Financial assets measured at amortised cost	837,537	289,857	547,680	9,748	683,936	135,262	548,675
1. Debt securities	547,680	-	547,680	-	548,675	-	548,675
2. Loans	289,857	289,857	-	9,748	135,262	135,262	-
TOTAL 31/12/2019	**837,537**	**289,857**	**547,680**	**9,748**	**683,936**	**135,262**	**548,675**
TOTAL 31/12/2018	**423,251**	**333,318**	**89,933**	**11,617**	**274,164**	**185,046**	**89,118**

E.3 Sales with liabilities subject to recovery solely for the assets sold and not derecognised in full: fair values

	Fully recognised	Partly recognised	Total	
			31/12/2019	31/12/2018
A. Financial assets held for trading	-	-	-	-
1. Debt securities	-	-	-	-
2. Equities	-	-	-	-
3. Loans	-	-	-	-
4. Derivatives	-	-	-	-
B. Other financial assets mandatorily measured at fair value	-	-	-	-
1. Debt securities	-	-	-	-
2. Equities	-	-	-	-
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	-	-	-	-
1. Debt securities	-	-	-	-
2. Equities	-	-	-	-
3. Loans	-	-	-	-
E. Financial assets measured at amortised cost (fair value)	**334,918**	-	**334,918**	**384,067**
1. Debt securities	-	-	-	-
2. Loans	334,918	-	334,918	384,067
Total financial assets	334,918	-	334,918	**384,067**
Total related financial liabilities	135,974	-	X	**185,359**
Net value 31/12/2019	**198,945**	-		**X**
Net value 31/12/2018	**185,359**		X	**198,708**

B. Financial assets sold and fully derecognised with recognition of continuing involvement

This section is not applicable to the financial statements of Banca di Cividale S.c.p.A.

F. CREDIT RISK MEASUREMENT MODELS

Please refer to the qualitative disclosures on credit risk for further information.

SECTION 2 - MARKET RISKS

The Bank's investment policy is inspired by the goal of limiting market risk in its various forms (interest rate risk, price risk and exchange rate risk).

2.1 INTEREST RATE RISK AND PRICE RISK – SUPERVISORY TRADING BOOK

The trading book, as defined in supervisory regulations, includes financial instruments subject to capital requirements for market risks.

QUALITATIVE DISCLOSURES

A. General aspects

The trading book is of extremely modest value. The Bank does not have positions in structured credit products or derivative contracts. Likewise, there are no ties whatsoever to special-purpose entities (SPEs) with exposures to risky financial instruments.

B. Interest rate and price risk management processes and measurement methods

The Bank's investment policy is aimed at limiting market risk for those components of such risk that it knowingly intends to assume:

- ✓ interest rate risk;
- ✓ price risk; and
- ✓ foreign exchange risk.

The Bank does not normally assume positions that entail commodity risk.

In accordance with the lending policies of the Bank, which focuses on retail customers, financing activity is essentially aimed at protecting the overall financial balance of the Bank. Investment and trading activity is conducted in accordance with the guidelines established at the relevant Bank levels and is carried out within a comprehensive system of delegated powers and specific rules setting operational restrictions in terms of instruments, amounts, investment markets, types of security and issuer and capital absorption. Management of the trading book is particularly aimed at optimising the profitability of the available financial resources, with

the limitation of containment of the variability of expected performance in the Finance area and of the Bank's net income.
The investment policies pursued resulted in the retention of a significant amount of government bonds eligible as collateral for refinancing operations with the ECB, primarily as a liquidity buffer. The significance of issuer risk is primarily attributable to the creditworthiness of the Italian government.
At the same time, the extremely limited size of the trading book means that the exposure to price risk associated with the securities held in those portfolios is extremely limited.
The Risk Management Function conducts daily monitoring of the Bank's exposure to market risk and verifies that it is consistent with the risk appetite defined by company bodies in accordance with the Risk Appetite Framework and respect for the system of limits.

QUANTITATIVE DISCLOSURES

1. Regulatory trading book: distribution by residual maturity (repricing date) of on-balance sheet financial assets and liabilities and derivatives

Currency: EUR

	on demand	up to 3 months	more than 3 months to 6 months	more than 6 months to 1 year	more than 1 year to 5 years	more than 5 years to 10 years	more than 10 years	unspecified maturity
1. Assets	-	10	0	1	-	0	0	-
1.1 Debt securities	-	10	0	1	-	0	0	-
- with early redemption option	-	10	0	0	-	0	0	-
- other	-	-	-	1	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Liabilities	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Derivatives	2,350	11,501	309	318	1,796	4,790	314	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	2,350	11,501	309	318	1,796	4,790	314	-
- Options	-	-	-	-	73	4,790	314	-
+ long positions	-	-	-	-	37	2,395	157	-
+ short positions	-	-	-	-	37	2,395	157	-
- Other derivatives	2,350	11,501	309	318	1,722	-	-	-
+ long positions	1,175	3,971	155	159	861	-	-	-
+ short positions	1,175	7,530	155	159	861	-	-	-

Currency: Other

	on demand	up to 3 months	more than 3 months to 6 months	more than 6 months to 1 year	more than 1 year to 5 years	more than 5 years to 10 years	more than 10 years	unspecified maturity
1. Assets	-	-	-	-	877	-	-	-
1.1 Debt securities	-	-	-	-	877	-	-	-
- with early redemption option	-	-	-	-	3	-	-	-
- other	-	-	-	-	874	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Liabilities	-	-	-	-	-	-	-	-
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Derivatives	-	11,501	-	-	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	11,501	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	11,501	-	-	-	-	-	-
+ long positions	-	7,530	-	-	-	-	-	-
+ short positions	-	3,971	-	-	-	-	-	-

Among "other currencies," the main currency of denomination of the trading portfolio is the U.S. dollar.

2.2 INTEREST RATE RISK AND PRICE RISK – BANKING BOOK

QUALITATIVE DISCLOSURES

The banking book consists entirely of financial assets and liabilities not included in the trading book. It is primarily composed of amounts due from and due to banks and customers and proprietary securities (largely government securities).

A. General aspects, interest rate risk and price risk management processes and measurement methods

The process of managing the interest rate risk associated with the banking book is governed by specific company regulations approved by the Board of Directors and subject to periodic review. Those Regulations aim to set general rules for managing interest rate risk for the assets and liabilities included within the banking book, as defined by supervisory regulations for the purposes of determining pillar two capital requirements (namely, all liabilities and assets other than those allocated to the trading book) and assign precise responsibilities and tasks to the various organisational units of the Bank and companies involved in the process.

Management of interest rate risk aims to limit the impact of unfavourable changes in the rate curve on both the economic value of capital and on cash flows generated by line items. Exposure to interest rate risk is primarily contained by applying uniform parameters at the level of assets and liabilities.

Measurement of the interest rate risk associated with the banking book is founded upon economic value, defined as the present value of the expected net cash flows generated by assets, liabilities and off-balance sheet positions. In particular, exposure to the interest rate risk associated with the banking book is monitored for the purposes of determining the associated capital absorption on the basis of the Bank of Italy's regulatory model.

Exposure to interest rate risk is calculated by measuring the change in the economic value of the banking book resulting from hypothetical instantaneous shifts in the interest rate maturity curve. The shift in the interest rate structure is quantified in the following manner, in accordance with prudential regulations:

- in ordinary conditions, in which reference is made to the annual changes for each node of the interest rate structure recorded over an observation period of six years, alternatively considering the 1st percentile (downward shift) and 99th percentile (upwards shift); and
- in a stress scenario, in which reference is made to a parallel shift in the interest rate structure of ± 200 basis points.

In addition to the parallel shock of ± 200 basis points, supervisory regulations require that in stress tests on the exposure to interest rate risk of the banking book, all banks (regardless of the relevant class) also consider non-parallel shifts in the yield curve, taking account of the rate volatility differences in respect of the various maturities, in accordance with the indications provided in the Guidelines of the European Banking Authority EBA/GL/2018/02 regarding the management of interest rate risk (Subsection 4.4.4, "Interest rate risk stress scenarios").

The changes in economic capital are then normalised in relation to own funds.

The Risk Management Function conducts quarterly monitoring of the Bank's exposure to interest rate risk and verifies that it is consistent with the risk appetite defined by company bodies in accordance with the Risk Appetite Framework and respect for the system of internal limits.

QUANTITATIVE DISCLOSURES

1. Banking book: distribution by residual duration (re-pricing date) of financial assets and liabilities

Currency: EUR

	on demand	up to 3 months	more than 3 months to 6 months	more than 6 months to 1 year	more than 1 year to 5 years	more than 5 years	more than 10 years	unspecified maturity
1. Assets	501,755	1,736,590	184,292	81,372	1,044,338	207,106	201,656	-
1.1 Debt securities	-	74,427	151,450	-	873,564	4,501	-	-
- with early redemption option	-	30,309	-	-	6,295	2,977	-	-
- other	-	44,118	151,450	-	867,270	1,524	-	-
1.2 Loans to banks	129	20,223	-	-	2,058	-	-	-
1.3 Loans to customers	501,626	1,641,940	32,842	81,372	168,716	202,605	201,656	-
- current acct.	251,436	4,543	6,294	12,784	5,110	0	-	-
- other loans	250,190	1,637,398	26,548	68,588	163,607	202,605	201,656	-
- with early repayment option	37,133	1,214,518	14,221	30,071	107,417	184,759	192,349	-
- other	213,057	422,880	12,327	38,516	56,189	17,846	9,308	-
2. Liabilities	2,053,302	715,029	266,756	331,812	531,236	56,019	12,384	-
2.1 Due to customers	2,009,370	701,382	67,546	130,511	291,807	27,478	8,237	-
- current acct.	1,843,600	70,165	63,726	120,327	252,649	5,429	60	-
- other payables	165,770	631,217	3,820	10,183	39,158	22,050	8,177	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	165,770	631,217	3,820	10,183	39,158	22,050	8,177	-
2.2 Due to banks	43,932	2,296	198,212	201,302	239,429	28,541	4,147	-
- current acct.	23,719	-	-	-	-	-	-	-
- other payables	20,213	2,296	198,212	201,302	239,429	28,541	4,147	-
2.3 Debt securities	-	11,350	998	-	-	-	-	-
- with early redemption option	-	-	948	-	-	-	-	-
- other	-	11,350	50	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	-	71,098	17,445	4,893	31,058	25,824	40,577	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	71,098	17,445	4,893	31,058	25,824	40,577	-
- Options	-	71,098	17,445	4,893	31,058	25,824	40,577	-
+ long positions	-	204	332	4,100	31,058	25,380	34,373	-
+ short positions	-	70,894	17,113	793	-	444	6,204	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4. Other operations	36,681	34,970	-	-	-	-	1,811	-
+ long positions	-	34,920	-	-	-	-	1,811	-
+ short positions	36,681	50	-	-	-	-	-	-

Currency: Other

	on demand	up to 3 months	more than 3 months to 6 months	more than 6 months to 1 year	more than 1 year to 5 years	more than 5 years	more than 10 years	unspecified maturity
1. Assets	5,988	2,117	-	-	-	-	-	-
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Loans to banks	5,988	-	-	-	-	-	-	-
1.3 Loans to customers	0	2,117	-	-	-	-	-	-
- current acct.	0	-	-	-	-	-	-	-
- other loans	0	2,117	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	0	2,117	-	-	-	-	-	-
2. Liabilities	13,095	-	-	-	-	-	-	-
2.1 Due to customers	13,072	-	-	-	-	-	-	-
- current acct.	13,072	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Due to banks	23	-	-	-	-	-	-	-
- current acct.	13	-	-	-	-	-	-	-
- other payables	10	-	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	-	-	-	-	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4. Other operations	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-

2. Banking book: internal models and other sensitivity analysis methods

In 2019 the capital requirement for interest rate risk on the banking book was calculated by applying the simplified model indicated in Annex C to Part One, Title III, Chapter 1 of Bank of Italy Circular No. 285/2013, as amended, in effect at 31 December 2019.
This calculation is performed by classifying fixed-rate assets and liabilities in accordance with the supervisory model into 14 time bands on the basis of their residual lives and classifying floating-rate assets and liabilities into the various time bands according to the date of renegotiation of the interest rate. Within each band, asset and liability positions are multiplied by weighting factors and then set off against one another, resulting in a net position. Exposure to interest rate risk for the purpose of determining the capital requirement is then calculated by measuring the change in the value of the banking book caused by hypothetical instantaneous shifts in the interest rate maturity curve in a scenario of ordinary conditions. To that end, use is made of the annual changes for each node of the interest rate structure recorded over an observation period of six years, alternatively considering the 1st percentile (downward shift) and 99th percentile (upward shift).
On the basis of the simplified Bank of Italy model in effect for 2019, at 31 December 2019, under ordinary conditions, applying a historical simulation approach to annual changes in interest rates over a period of six years, the decrease in economic capital amounts to €16,250 thousand in the event of an upwards shift in the rate structure, equal to 5.4% of own funds. In the downward shift scenario, subject to the restriction that nominal rates may not go negative, economic capital would increase by €11,971 thousand, or 4.0% of own funds. In the stress scenario, the decline in the value of economic capital generated by a parallel upwards shift of 200 basis points amounts to €23,772 thousand, or 8.0% of own funds. In the event of a negative shock of 200 basis points, subject to the restriction that nominal rates for the various maturities may not go negative, the increase in the value of the economic capital of Banca di Cividale's banking book would come to €11,971 thousand, or 4.0% of own funds.
The cautionary threshold of 20% of own funds set by supervisory regulations has been observed. The reporting and intervention limits established in internal rules and procedures have also been observed.

2.3 FOREIGN EXCHANGE RISK

QUALITATIVE DISCLOSURES

A. General aspects, foreign exchange risk management processes and measurement methods
The Bank normally does not deal on its own account on the foreign exchange market for speculative purposes. Transactions in foreign currencies are mostly related to spot and forward transactions by customers. Assets and liabilities in foreign currencies are negligible.
Operational management involves real-time monitoring of the exposure in various currencies, systematically hedging positions on the market as required to minimise the exposure to foreign exchange risk.
At 31 December 2019 the capital requirement for foreign exchange risk, calculated according to the method set out in supervisory regulations, was far below the prudential limit of 2% of the Bank's own funds.

B. Foreign exchange risk hedging

All foreign currency positions generated by relations with Bank customers are handled together by analysing open gaps (un-netted positions), which are typically kept essentially at zero through market hedging transactions.

QUANTITATIVE DISCLOSURES

1. Distribution by currency of assets, liabilities and derivatives

	Currencies					
	US dollar	Pound sterling	Yen	Canadian dollar	Swiss franc	Other
A. Financial assets	**4,767**	**190**	**51**	**8**	**2,183**	**1,787**
A.1 Debt securities	881	-	-	-	-	-
A.2 Equity securities	0	-	-	-	-	-
A.3 Loans to banks	3,876	190	51	8	75	1,787
A.4 Loans to customers	10	0	-	-	2,107	-
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**268**	**224**	**33**	**32**	**133**	**57**
C. Financial liabilities	**10,904**	**85**	**1**	**490**	**286**	**1,329**
C.1 Due to banks	9	-	-	-	1	13
C.2 Due to customers	10,895	85	1	490	285	1,316
C.3 Due to customers	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	-	-	-	-	-	-
E. Financial derivatives	**7,759**	**352**	**246**	**479**	**2,612**	**51**
- Options	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-
- Other	7,759	352	246	479	2,612	51
+ Long positions	6,723	-	-	479	277	51
+ Short positions	1,037	352	246	-	2,336	-
Total assets	**11,758**	**414**	**84**	**519**	**2,592**	**1,895**
Total liabilities	**11,941**	**438**	**247**	**490**	**2,622**	**1,329**
Difference (+/–)	**(182)**	**(24)**	**(162)**	**29**	**(30)**	**566**

Section 3 – DERIVATIVE INSTRUMENTS AND HEDGING POLICIES

3.1 TRADING DERIVATIVE INSTRUMENTS

A. FINANCIAL DERIVATIVES

A.1 Trading financial derivatives: end-period notional amounts

Underlying asset/Type of derivatives	31/12/2019				31/12/2018			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central Counterparties	without central counterparties			Central Counterparties	without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Debt securities and interest rate	-	-	10,041	-	-	-	11,232	-
a) Options	-	-	7,692	-	-	-	8,288	-
b) Swaps	-	-	2,350	-	-	-	2,944	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equities and stock indices	-	-	-	-	-	-	-	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Foreign exchange rates and gold	-	-	9,917	-	-	-	10,657	-
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	9,917	-	-	-	10,657	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
4. Commodities	-	-	-	-	-	-	-	-
5. Other	-	-	-	-	-	-	-	-
Total	-	-	**19,959**	-	-	-	**21,889**	-

A.2 Trading financial derivatives: positive and negative gross fair values – distribution by product

Underlying asset/Type of derivatives	31/12/2019				31/12/2018			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central Counterparties	without central counterparties			Central Counterparties	without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Positive fair value	-	-	-	-	-	-	-	-
a) Options	-	-	2	-	-	-	6	-
b) Interest rate swaps	-	-	74	-	-	-	136	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	-	4	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	-	-	**80**	-	-	-	**142**	-
2. Negative fair value	-	-	-	-	-	-	-	-
a) Options	-	-	2	-	-	-	6	-
b) Interest rate swaps	-	-	74	-	-	-	136	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	-	49	-	-	-	25	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	-	-	**125**	-	-	-	**168**	-

A.3 OTC trading financial derivatives: notional amounts, positive and negative gross fair values by counterparty

Underlying asset	Central Counterparties	Banks	Other financial companies	Other counterparties
Contracts not included under netting agreements				
1) Debt securities and interest rates	-	**5,097**	-	**5,097**
- notional amount	X	5,021	-	5,021
- positive fair value	X	2	-	74
- negative fair value	X	74	-	2
2) Equities and stock indices	-	-	-	-
- notional amount	X	-	-	-
- positive fair value	X	-	-	-
- negative fair value	X	-	-	-
3) Foreign exchange rates and gold	-	**9,660**	-	**310**
- notional amount	X	9,609	-	309
- positive fair value	X	3	-	1
- negative fair value	X	49	-	0
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 under netting agreements	-	-	-	-
1) Debt securities and interest rates	-	-	-	-
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
2) Equities and stock indices	-	-	-	-
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Foreign exchange rates and gold	-	-	-	-
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Commodities	-	-	-	-
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other	-	-	-	-
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual maturity of OTC trading financial derivatives: notional amounts

	Up to 1 year	Between 1 and 5 years	Over 5 years	Total
A.1 Financial derivatives on debt securities and interest rates	1,241	7,161	1,639	10,041
A.2 Financial derivatives on equities and stock indices	-	-	-	-
A.3 Financial derivatives on foreign exchange rates and gold	9,917	-	-	9,917
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31/12/2019	**11,159**	**7,161**	**1,639**	**19,959**
Total 31/12/2018	**11,847**	**8,181**	**1,860**	**21,889**

B. CREDIT DERIVATIVES

This item is not applicable to the financial statements of Banca di Cividale S.c.p.A.

3.2 ACCOUNTING HEDGES

This item is not applicable to the financial statements of Banca di Cividale S.c.p.A.

3.3 OTHER INFORMATION ON HEDGING AND TRADING DERIVATIVE INSTRUMENTS

A. Financial and credit derivatives

A.1 OTC financial and credit derivatives: net fair values by counterparty

	Central Counterparties	Banks	Other financial companies	Other counterparties
A. Financial Derivatives				
1) Debt securities and interest rates	-	**5,097**	-	**5,097**
- notional amount	-	5,021	-	5,021
- positive fair value	-	2	-	74
- negative fair value	-	74	-	2
2) Equities and stock indices	-	-	-	-
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Foreign exchange rates and gold	-	**9,660**	-	**310**
- notional amount	-	9,609	-	**309**
- positive fair value	-	3	-	**1**
- negative fair value	-	49	-	**0**
4) Commodities	-	-	-	-
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other	-	-	-	-
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
B. Credit derivatives	-	-	-	-
1) Protection purchases	-	-	-	-
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
2) Protection sales	-	-	-	-
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

SECTION 4 – LIQUIDITY RISK

QUALITATIVE DISCLOSURES

A. General aspects, liquidity risk management processes and measurement methods

Liquidity risk, to which banks are naturally exposed as a result of the maturity transformation phenomenon, is the risk of being unable to fulfil payment obligations due either to an inability to procure funds on the market (funding liquidity risk) or to liquidate assets (market liquidity risk). Liquidity risk also includes the risk that an entity may be forced to discharge its payment obligations at non-market costs, meaning that it may be forced to bear a high cost of funding or (in some cases, concurrently) sustain capital losses when liquidating assets.

The process of assessing the adequacy of the Bank's liquidity profile also includes the risk associated with the level of encumbered assets ("asset encumbrance"), i.e. the risk that such assets may increase due to situations of significant tension, such as plausible, while improbable, shocks, including as regards the downgrading of the Bank's credit rating (where present), the write-down of collateral and increased margin requirements.

In accordance with prudential regulations, the liquidity risk management process includes: procedures for identifying risk factors, measuring the risk exposure, conducting stress tests, identifying appropriate risk mitigation initiatives, preparing emergency plans, monitoring for observance of limits and reporting to company bodies.

The liquidity risk management process primarily involves various specific units.

The ALCo (Asset and Liabilities Committee), in which the Manager of the Risk Management Function also participates, collaborates in determining the strategic guidelines and management policies for managing liquidity risk, including the policies for liquidity reserves and managing collateral, in addition to playing an advisory role with regard to risk assumption rules, liquidity risk mitigation and the identification of any corrective measures aimed at rebalancing the risk position.

Through the Treasury & Funding Function, the Finance Department is responsible for treasury management and funding activities on the interbank market. It plays a role in managing short-term liquidity risk through the use of financial instruments on the markets of reference and may propose funding and structural liquidity risk mitigation transactions. It conducts general supervision of financial management (proprietary portfolio, funding and liquidity policies and trading activity) and takes part in defining the structural liquidity balance (funding plan), within the framework of the annual and long-term planning process of the Bank's various components. The risk control function is involved in managing liquidity risk and contributes to setting risk management policies and processes, develops the liquidity risk assessment process, verifies observance of the limits imposed on the various company functions and proposes risk mitigation initiatives to the strategic supervision and management bodies.

Exposure to liquidity risk is identified, measured and monitored on a current and forward-looking basis. The processes are characterised by two distinct, yet closely related management profiles: - operational liquidity, consisting of daily management of treasury balances and expected cash inflows and outflows over a short-term time horizon; - structural liquidity, aimed at ensuring the Bank's overall financial equilibrium, and as such a part of the strategic high-level financial planning, without time limits.

Furthermore, in addition to the ordinary liquidity situation, the Bank conducts simulations of adverse stress scenarios caused by forms of tension and crisis in the financial system generally or specific significant changes in the Bank’s financial aggregates.

The process of containing exposure to liquidity risk, which aims to ensure the Bank’s solvency even in conditions of tension or crisis, is primarily pursued through a complex set of management decisions and organisational measures, the most significant of which are:

- ✓ constant monitoring of the balanced structure of the maturities of assets and liabilities, through the operational and strategic maturity ladder statements and regulatory capital ratios (LCR and NSFR);
- ✓ diversification at the level of types, counterparties, markets and sources of funding; the Bank intends to maintain a high level of retail funding by pursuing the strategic objective of reducing dependency on market funds (interbank funding and issuance intended for institutional investors), while reinforcing stable, structural forms;
- ✓ holding highly liquid assets that can be used as collateral for financing transactions or sold directly in situations of tension, so as to maintain an adequate short-term liquidity buffer, consistent with the requirements of supervisory regulations governing compliance with the regulatory limit for the short-term liquidity indicator known as the liquidity coverage ratio (LCR); LCR (*Liquidity Coverage ratio*);
- ✓ preparation of a Contingency Funding Plan describing the procedures to be followed and the measures to be taken when situations of severe liquidity tension occur or are expected. This framework calls for an intervention plan to be triggered, according to two levels of criticality, following an evaluation and escalation process based on a series of indicators. The sources of funding and management mechanisms that the bodies tasked with handling the crisis may use in order to restore a normal liquidity situation are also identified. The purpose of the CFRP is to ensure management of a short-term liquidity crisis and is limited to this aspect. On the other hand, the recovery plan refers to situations of significant deterioration of the Bank's financial situation and identifies the recovery options/actions to be implemented in extreme situations;

- ✓ preparation, within the annual ICAAP/ILAAP report, of specific self-assessment analyses within the framework of the Internal Liquidity Adequacy Assessment Process (ILAAP).

QUANTITATIVE DISCLOSURES

1. Distribution of financial assets and liabilities by residual maturity

Denominated in euro

	on demand	more than 1 day to 7 days	more than 7 days to 15 days	more than 15 days to 1 month	more than 1 month to 3 months	more than 3 months to 6 months	more than 6 months to 1 year	more than 1 year to 5 years	More than 5 years	Unspecified
On-balance-sheet assets	**468,524**	**8,465**	**11,208**	**41,029**	**99,247**	**107,450**	**258,596**	**1,756,143**	**1,277,068**	**21,969**
A.1 Government securities	-	-	335	-	1,672	3,901	5,909	985,306	30,000	-
A.2 Other debt securities	-	-	56	4	14,328	319	5,565	22,512	41,337	-
A.3 Units in collective investment undertakings	18,485	-	-	-	-	-	-	-	-	-
A.4 Loans	450,039	8,465	10,817	41,025	83,247	103,229	247,123	748,325	1,205,731	21,969
- banks	129	-	-	-	-	-	-	2,000	-	20,223
- customers	449,910	8,465	10,817	41,025	83,247	103,229	247,123	746,325	1,205,731	1,745
On-balance-sheet liabilities	**1,896,877**	**556,707**	**8,759**	**27,767**	**39,819**	**277,463**	**359,780**	**668,726**	**130,922**	-
B.1 Deposits	1,883,472	8,020	8,748	17,498	35,982	63,978	121,395	252,649	5,489	-
- banks	23,787	-	-	-	-	-	-	-	-	-
- customers	1,859,685	8,020	8,748	17,498	35,982	63,978	121,395	252,649	5,489	-
B.2 Debt securities	-	-	-	-	199	8	6,266	4,379	1,581	-
B.3 Other liabilities	13,404	548,688	11	10,269	3,638	213,477	232,120	411,698	123,852	-
Off-balance-sheet transactions	**41,590**	**1,690**	**9,640**	**172**	**352**	**188**	**195**	**10,726**	**35,337**	-
C.1 Financial derivatives with exchange of capital	-	1,569	9,623	124	184	-	-	-	-	-
- long positions	-	1,037	2,902	32	-	-	-	-	-	-
- short positions	-	532	6,721	92	184	-	-	-	-	-
C.2 Financial derivatives without exchange of capital	153	-	-	-	-	-	-	-	-	-
- long positions	76	-	-	-	-	-	-	-	-	-
- short positions	76	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be settled	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to lend funds	36,818	100	-	-	-	-	-	6,897	29,921	-
- long positions	-	50	-	-	-	-	-	6,897	29,921	-
- short positions	36,818	50	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	4,620	21	17	47	167	188	195	3,829	5,416	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

Denominated in other currencies

	on demand	more than 1 day to 7 days	more than 7 days to 15 days	more than 15 days to 1 month	more than 1 month to 3 months	more than 3 months to 6 months	more than 6 months to 1 year	more than 1 year to 5 years	More than 5 years	Unspecified
On-balance-sheet assets	**5,994**	-	-	-	**2,140**	**11**	**11**	**893**	-	-
A.1 Government securities	-	-	-	-	-	11	11	890	-	-
A.2 Other debt securities	-	-	-	-	-	0	1	3	-	-
A.3 Units in collective investment undertakings	-	-	-	-	-	-	-	-	-	-
A.4 Loans	5,994	-	-	-	2,140	-	-	-	-	-
- banks	5,994	-	-	-	-	-	-	-	-	-
- customers	0	-	-	-	2,140	-	-	-	-	-
On-balance-sheet liabilities	**13,095**	-	-	-	-	-	-	-	-	-
B.1 Deposits	13,085	-	-	-	-	-	-	-	-	-
- banks	13	-	-	-	-	-	-	-	-	-
- customers	13,072	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	10	-	-	-	-	-	-	-	-	-
Off-balance-sheet transactions	-	**1,569**	**9,623**	**124**	**184**	-	-	-	-	-
C.1 Financial derivatives with exchange of capital	-	1,569	9,623	124	184	-	-	-	-	-
- long positions	-	532	6,721	92	184	-	-	-	-	-
- short positions	-	1,037	2,902	32	-	-	-	-	-	-
C.2 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be settled	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to lend funds	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

SECTION 5 - OPERATIONAL RISKS

QUALITATIVE DISCLOSURES

A. General aspects, operational risk management processes and measurement methods

The definition adopted by the Bank, in line with supervisory regulations, identifies operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Such risks include losses resulting from fraud, human error, business disruption, system unavailability, breach of contract and natural disasters.

In the risk map adopted by the bank, operational risk has been divided into the following sub-categories:

- ✓ legal operational risk: this includes the exposure to fines or penalties due to decisions of the Supervisory Authority or settlements with individuals;
- ✓ ICT operational risk (or ICT risk): this is the risk of incurring economic losses or loss of reputation and market share in connection with the use of information and communication technology (ICT); in the integrated representation of company risks for prudential purposes (ICAAP), this type of risk is classified, according to the specific aspects, as operational, reputational and strategic risk; the analysis of ICT risk is a means of ensuring the efficacy and efficiency of the measures taken to protect ICT resources;
- ✓ privacy risk: with reference to the specific data protection impact assessment process, privacy risk is considered the likelihood of occurrence of a threat that may compromise the confidentiality, integrity or availability of personal information that may give rise to a breach of the rights and freedoms of natural persons. Privacy risk, like legal and ICT risk – with both of which it has something in common – is to be considered a type of operational risk;
- ✓ Other operational risk: this includes all other types of losses arising from the bank's operating activity.

Risk is contained through regulatory, organisational, procedural and training actions.

Operational risk management incorporates elements of considerable complexity, in view of the many aspects involved, and is governed by the “Rules and procedures for managing operational risks”, which lay down the guidelines for preventing and containing operational risks, a process of defining, identifying, assessing and managing the exposure to such risks, including those arising from low-frequency or particularly severe events. The processes of identifying, assessing and monitoring operational risks are aimed at undertaking mitigation actions.

Specific types of risk are transferred through a series of insurance policies that offer broad-spectrum coverage of various types of potentially detrimental events.

In addition, appropriate provisions are recognised in accordance with international accounting standards to mitigate the potential economic losses arising from pending legal proceedings involving the Bank.

Operational risk mitigation activities include the business continuity plan, set out in specific internal rules and procedures to be followed in the event of the states of crisis of various levels to which the bank may be exposed. The functioning of the business continuity plan and disaster recovery plan is described; the goal of these plans is to respond to events that may result in the unavailability of the data processing centre to which the Bank has entrusted ITO (information technology outsourcing) activities and services according to a full outsourcing approach.

To protect against operational risks, company operational loss data is collected by line of business and event type (loss threshold of €5,000), in accordance with the scheme adopted by the Italian Operational Loss Database (DIPO) managed by ABI, and compared with industry-wide figures (receipt of the return stream). The results of the data collection process, which is governed by internal rules and procedures entitled “Collection of operational loss data”, are included in a dedicated section of the quarterly report by Risk Management.

From the regulatory standpoint, the Bank adopts the basic method (BIA – Basic Indicator Approach) specified by regulations to determine prudential capital requirements.

OTHER RISKS

In addition to the risks described above, the Bank is exposed to the following other material risks.

Legal risks

Appropriate provisions are recognised in accordance with international accounting standards to account for financial risks associated with legal proceedings involving the Bank. The amount of such provisions is estimated on the basis of multiple factors, primarily relating to the expected outcome of the case, and, in particular, the probability of an unfavourable outcome to the proceedings resulting in an adverse judgment for the Bank, and on the basis of factors useful in quantifying the amount that the Bank might be required to pay the counterparty in the event of an adverse judgment.

For each position, the projected outcome of the case (risk of an adverse judgment) is based on the legal issues at stake in the proceedings, assessed in light of case law, the evidence produced in the course of the proceedings and the status of the trial, and, on appeal, the outcome of the proceedings of the first instance, past experience and all other useful elements, including experts' opinions, that allow the foreseeable development of the dispute to be taken adequately into account.

The amount due in the event of an adverse outcome is expressed in absolute terms and includes the value estimated on the basis of the status of the proceedings, considering the amount requested by the counterparty, the technical estimate prepared internally on the basis of accounting evidence and/or evidence brought to light during the trial and, in particular, the amounted estimated by the court-appointed technical expert, where appointed, in addition to legal interest, calculated on the principal from the date of service of the introductory document, and any expenses to be reimbursed in the event of an adverse judgment.

Where it is not possible to determine a reliable estimate (the claimant has not quantified its compensation claim, or there are legal or factual uncertainties that would render any estimate unreliable), provisions are not recognised until it is possible to predict the outcome of the trial and arrive at a reliable estimate of the amount of the loss, if any.

At 31 December 2019 the Bank was a defendant in 43 law suits in which total damages of €6,618 thousand are sought, for which a total loss of €1,399 thousand is expected.

The cases mainly involve anatocism and bankruptcy claw-back compensation claims, as well as indemnity claims for losses on investments in financial instruments and other types of compensation claims, broken down as follows (in thousands of euros):

	N° of disuptes	Petitum	Provision
Investment services	17	1,413	321
Banking services	13	1,393	198
Disputes concerning interest in excess of the legal limit	5	293	32
Revocatory disputes	5	3,519	742
Other	3	-	107
Total	**43**	**6,618**	**1,399**

Tax dispute

On 20 December 2018 the Bank received three assessment notices from the Italian Revenue Agency - Regional Department for Friuli Venezia Giulia, in which the tax authority claimed:

a) unpaid taxes relating to the year 2013 in the total amount of €1,141 thousand;
b) improper offsetting of tax credits in tax period 2014 in the total amount of €428 thousand.

It should also be noted that, in respect of the irregularities relating solely to "value adjustments to loans" with a taxable amount of €14.8 million, the deduction from taxable income for the year 2013 was expressed at a rate of 1/5th pursuant to Article 106, paragraph 6, of the Consolidated Income Tax Act. Accordingly, the 4/5ths deductible in subsequent years entailed deductions in terms of IRES and IRAP taxes in the amount of €3.8 million.

On 18 February 2019 the Bank appealed, before the Provincial Tax Commission of Trieste, the three assessment notices in reference solely to the value adjustments to loans and debt securities in the trading book, both deemed non-deductible by the tax authority pursuant to the combined provisions of Articles 101, paragraph 5, 106, paragraph 3, and 109, paragraph 5, of the Consolidated Income Tax Act and the combined provisions of Articles 85, paragraph 1, letter e), 92 and 94 of the Consolidated Income Tax Act, resulting in greater income taxes claimed of €1.1 million. The Bank acquiesced to the remaining minor irregularities, and therefore paid the relevant greater taxes claimed for a total amount, inclusive of interest and penalties, of €80 thousand. On 10 April 2019 the Italian Revenue Agency presented its counter-arguments to all three appeals lodged by the Company, while also moving that they be joined into a single proceeding. At the reporting date,

the hearings for the discussion of the appeals before the Provincial Tax Commission of Trieste, on the docket for 31 March 2020, had been postponed due to the health emergency.
According to the Bank's conservative assessment, the risk of an unfavourable outcome to the above disputes, and thus the risk that the greater taxes and penalties (excluding interest) – estimated at €5 million and €5.5 million, respectively – will be upheld for tax periods 2013 and 2014, in the total amount of €11 million, may be qualified as "possible". Accordingly, in application of IAS 37, no provisions for risks and charges was recognised in the 2019 financial statements, except for the provision for expected legal fees only.

Investigation by the Public Prosecutor's Office of Udine
In the matter of the trial of Civibank for corporate criminal liability pursuant to Legislative Decree No. 231/2001 arising from the trigger offences of which former senior executives had been accused and relating to the investigation launched by the Public Prosecutor's Office of Udine in 2013, as previously reported, in 2019 the Criminal Court of Udine handed down a judgment fully acquitting Banca di Cividale S.p.A. and Banca Popolare di Cividale S.c.p.A., and hence CiviBank, on the grounds that there was no case to answer, of the administrative offences with which they had been charged, by operative judgment rendered during the public hearing held on 26 February 2019 and filed on 5 March 2019.
Following this judgment fully acquitting Civibank, even in the event of an appeal, the previous assessment not to recognise a provision for risks due to liability pursuant to Legislative Decree No. 231/2011 was further confirmed; in addition, the appeals subsequently lodged relate to headings of the above judgment of acquittal that do not apply to CiviBank.

ICT risk
ICT risk is the risk of incurring economic losses or loss of reputation and market share in connection with the use of information and communication technology (ICT). The analysis of ICT risk is a tool aimed at ensuring that the measures protecting ICT resources are effective and efficient and it is governed by the ICT Function Control Policy, as approved and brought into compliance with the applicable provisions of Bank of Italy Circular No. 285 of 17 December 2013. This document sets out the organisational, methodological and procedural structure for the process of analysing ICT risk and institutes the function of IT Outsourcing Liaison, assigned to the Head of the Operations Department. With effect from 9 October 2017, the Bank decided to outsource the management of the IT system to the new supplier Consorzio CSE, while continuing to adopt a full-outsourcing model. Accordingly, as a first priority, the risk analysis is conducted annually by the supplier on the basis of its own internal policies.

Excessive leverage risk
Excessive leverage risk is defined by prudential regulations as "the risk that a particularly high level of indebtedness with respect to equity may render the bank vulnerable, requiring the adoption of corrective measures to its industrial plan, including the sale of assets resulting in the recognition of losses that could also entail impairment of the remaining assets."
Excessive leverage risk affects the entirety of the financial statements, exposures resulting from the use of derivatives and off-balance sheet assets and is assumed in the conduct of core business. It is closely correlated with planning and capital management activity.
Prudential regulations establish that banks are to monitor the level and changes of their leverage ratios (a regulatory parameter), and the risk associated with leverage, as part of their Internal Capital Adequacy Assessment Process (ICAAP).
The process of managing leverage risk is defined and formalised in a specific regulation approved by the Board of Directors and the risk appetite is monitored quarterly by the Risk Management Service in the context of the Risk Appetite Framework (RAF).
At 31 December 2019 the leverage indicator was above the minimum threshold established in supervisory regulations.

Strategic risk
Strategic risk is defined as the current or prospective risk of a decrease in profits or capital arising from changes in the operating context or poor company decisions, the inadequate implementation of decisions, or insufficient reaction to changes in the competitive scenario. Exposure to strategic risk is not associated with specific operating activities, but rather the adequacy of the decisions made and the efficacy of implementation. The risk is particularly associated with the phases of determining and implementing company strategies represented by the formulation of the business plan, commercial planning, budgeting, management control and monitoring of the markets and competitive scenario, capital allocation and capital management.

The supervisory regulations (Bank of Italy Circular No. 285 of 17 December 2013, as amended) provide instructions of a general nature on corporate governance matters, providing an overall framework for conducting the strategic planning process and requiring that the strategic plan, RAF (Risk Appetite Framework), ICAAP, ILAAP, stress testing programme, budget and internal control system be consistent and integrated, also having regard to the development of the internal and external conditions in which the bank operates.

Compliance risk
Compliance risk is the risk of incurring legal or administrative penalties, significant financial losses or damages to reputation due to breaches of compulsory provisions (of laws or regulations) or self-imposed rules (e.g., bylaws, codes of conduct, governance codes).
Under the new supervisory provisions concerning the internal control system, the role of supervising compliance has been extended to all rules and procedures concerning company activity, though with different levels of commitment for the traditional, directly applicable areas and other specialistic areas, such as taxation, for which there are other forms of supervision and where the function is nonetheless tasked with assessing the suitability of such supervision.
In 2014 the Compliance function launched various audit processes concerning forms of specialised supervision, and specifically the adequacy of supervision and procedures aimed at preventing the risk of non-compliance extended to the following areas:
- ✓ tax law (bank side and customer side);
- ✓ privacy;
- ✓ workplace health and safety;
- ✓ market abuse;
- ✓ supervisory reporting; and
- ✓ Legislative Decree 231/01.

Considering the extent of compliance risk, the many factors that gave risk to it and its significant implications for various company processes, the Bank has a high level of exposure to this type of risk.
The Compliance Service also includes the Anti-Money Laundering function, which is responsible for the anti-money laundering compliance activities provided for in the order of the supervisory authority of 10 March 2011, in addition to providing support to the head of the Anti-Money Laundering Service with the process of reviewing suspect transaction reports.

Money-laundering risk
Money-laundering risk is the risk of suffering consequences in legal and reputational terms as a result of possible involvement in illegal transactions associated with money-laundering or financing for terrorism. In order to measure and assess that risk, the money-laundering risks inherent in the Bank's operational procedures pertaining to the following processes have been mapped:
- ✓ adequate customer verification;
- ✓ dealings in cash and bearer securities;
- ✓ records in the Consolidated Computer Archive; and
- ✓ the reporting of suspicious transactions.

Given the objective significance of money-laundering risk and the increasing complexity of the legislative framework of reference and resulting obligations, the Bank has gradually enhanced its safeguards in terms of rules, organisational measures, procedures, applications and training.

Reputational risk
Reputational risk is defined as "the current or prospective risk of a decline in operating result or capital should customers, counterparties, shareholders of the Bank, investors or supervisors take a negative view of the Bank." Due to its nature, this risk is not easily measurable. However, for management purposes, it may be subject to qualitative observation, assessment and mitigation processes. Consequently, management of this type of risk is based on a qualitative assessment aimed at directing the necessary prevention, mitigation and management actions. In addition to company bodies, all organisational units of both a business and operational support nature are involved in the process of managing reputational risk, each to the extent of its competence.
The first and most fundamental safeguard against reputational risk is the shared system of values, principles and rules of conduct on which to base behaviour common to all of the Bank's internal stakeholders (employees, directors, etc.). The system has been given explicit form in a Code of Ethics. The task of supervising compliance with the provisions of that Code is entrusted to the Legislative Decree 231/2001 Supervisory Board Control Committee. The internal rules and procedures concerning reputational risk were drawn up and

approved by the Board of Directors as part of the activities aimed at achieving compliance with the new supervisory provisions.

Residual risk
Residual risk is the risk that the recognised techniques for mitigating credit risk used by the bank prove less effective than expected. For a more thorough discussion of residual risk, refer to the section on risk mitigation techniques.

Related–party risk
Related-party risk is the risk that the proximity of certain parties to the Bank’s decision-making centres may compromise the objectivity and impartiality of decisions relating to the granting of loans and other transactions with such parties, with possible distortions of the resource-allocation process, exposure of the Bank to inadequately measured or managed risks and potential damages for depositors and shareholders.
In accordance with supervisory regulations, the Bank has adopted specific internal procedures and processes with the aim of ensuring ongoing compliance with, and monitoring of, the legal limits. There were no breaches of authorisation limits or alert levels during the year.

Property risk
This is the current or prospective risk of potential losses due to fluctuations in the value of the proprietary real estate portfolio, or to the reduction of the income generated by that portfolio.
The Bank assumes real estate risk to a very limited extent for the purposes of investment and protection of its credit claims.
Property, plant and equipment represent a very modest share of its total assets. In particular, the Bank's proprietary real estate portfolio (land and buildings) represents almost all of its property, plant and equipment and is mostly used in operations.
This risk is mitigated through management and maintenance measures aimed at safeguarding the functionality and value of the assets and is partially transferred through insurance policies covering owned properties. Real estate assets are managed by units of the Bank dedicated to this activity.

Chapter F – SHAREHOLDERS' EQUITY

Section 1 – Shareholders' equity

A. Qualitative disclosures

The capital policy adopted by Banca di Cividale S.c.p.A. is founded upon the following approaches:

a) compliance with regulatory requirements (regulatory approach);
b) appropriate monitoring of risks associated with banking operations (management approach); and
c) support for company development projects (strategic approach).

These approaches correspond to appropriate definitions of capital, specific objectives and particular corporate functions. From a regulatory point of view, the definition of capital is that set out in supervisory regulations for banks. Ongoing compliance with minimum capital requirements, which are monitored on a regular basis and considered a constraint during planning, is an essential precondition for operations.

From the point of view of risk management – one of the key functions in banking – capital is considered the main defence against possible unexpected losses generated by a variety of risks (credit, market and operational risks) that the Bank faces. The amount of capital is optimal if it is sufficient to absorb unexpected losses estimated for a specific confidence interval, thereby guaranteeing the continuity of operations over a specified time period.

From the corporate perspective, capital is a strategic factor of production that enables the Bank to pursue its entrepreneurial vocation, while at the same time preserving financial stability. As a cooperative bank with strong local roots, the Bank implements its capital policy primarily through the gradual expansion of the size and geographical spread of its shareholders.

B. Quantitative disclosures

B.1 Shareholders' equity: composition

	31/12/2019	31/12/2018	%
1. Share capital	50,913	50,913	0.0%
2. Share premium reserves	167,022	167,022	0.0%
3. Reserves	65,534	45,805	43.1%
- Retained earnings:	61,551	41,822	47.2%
a) legal reserve	22,596	22,392	0.9%
b) statutory reserve	42,923	41,084	4.5%
c) treasury shares	-	-	-
d) other	(3,968)	(21,654)	81.7%
- other	3,983	3,983	0.0%
4. Equity instruments	-	-	-
5. (Treasury shares)	(2,125)	(1,260)	-68.6%
6. Valuation reserves:	842	9,496	-91.1%
- Equities designated at fair value through other comprehensive income	1,182	10,142	-88.3%
- Hedges of Equities designated at fair value through other comprehensive income	-	-	-
income	271	(205)	232.2%
- Property and equipment	-	-	-
- Intangible assets	-	-	-
- Hedges of foreign investments	-	-	-
- Cash flow Hedges	-	-	-
- Hedging instruments (non-designated items)	-	-	-
- foreign exchange differences	-	-	-
- non-current assets held for sale and discontinued operations	-	-	-
- Financial liabilities designated at fair value through profit or loss (changes in own credit rating)	-	-	-
- Actuarial gains (losses) on defined benefit plans	(611)	(441)	-38.5%
- Share of valuation reserves connected with investments carried at equity	-	-	-
- Legally-required revaluations	-	-	-
7. Net income (loss) (+/-)	2,733	2,043	33.8%
Total	**284,920**	**274,018**	**4.0%**

B.2 Valuation reserves related to financial assets designated at fair value through other comprehensive income: composition

	31/12/2019		31/12/2018	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	438	(167)	479	(685)
2. Equities	2,692	(1,510)	10,142	0
3. Loans	-	-	-	-
Total	**3,130**	**(1,677)**	**10,621**	**(685)**

B.3 Valuation reserves related to financial assets designated at fair value through other comprehensive income: annual changes

	Debts securities	Equities	Loans
1. Opening balance	**(206)**	**10,142**	-
2. Increases	**517**	**1,446**	-
2.1. Fair value increases	453	1,446	-
2.2. Adjustments for credit risk	-	-	-
2.3. Reversal to the income statement of negative reserves from disposal	-	-	-
2.4. Transfer to other shareholders' equity items (equities)	-	-	-
2.5. Other increases	64	-	-
3. Decreases	**40**	**10,406**	-
3.1. Fair value decreases	-	563	-
3.2. Recoveries for credit risk	-	-	-
3.3. Reversal to the income statement of positive reserves from disposal	-	-	-
3.4. Transfer to other shareholders' equity items (equities)	-	9,843	-
3.5. Other decreases	40	-	-
4. Final balance	**271**	**1,182**	-

B.4 Valuation reserves related to defined-benefit plans: annual changes

Valuation reserves related to actuarial gains (losses) on defined-benefit plans amounted to -€611 thousand, a decrease of €170 thousand.

Section 2 – Own funds and regulatory ratios

See the information on own funds and capital adequacy provided in the public disclosure (“Pillar Three”).

Chapter G – BUSINESS COMBINATIONS

This section is not applicable to the financial statements of Banca di Cividale S.c.p.A.

Chapter H – TRANSACTIONS WITH RELATED PARTIES

1. Information concerning the compensation of key management personnel

The following table reports the compensation of the directors, executives and other key management personnel of the Bank. The compensation paid to directors and statutory auditors is set by specific resolutions of the shareholders' meeting.

	Amount
a) Short-term benefits *	2,532
b) Post-employement benefits	100
c) Other	-
Total	**2,632**

(*) The amount indicated includes the remuneration paid to directors of €466 thousand, to the Board of Statutory Auditors of €101 thousand and to the Supervisory Body of €26 thousand (including VAT and contributions).

2. Information on transactions with related parties

In accordance with IAS 24, as applied to the organisational and governance structures of Banca di Cividale S.c.p.A., the following natural persons and legal entities are considered to be related parties:

- ✓ subsidiaries, companies over which Banca di Cividale S.c.p.A. directly or indirectly exercises control, as defined in IAS 27;
- ✓ associated companies, companies over which Banca di Cividale S.c.p.A directly or indirectly exercises a significant influence, as defined in IAS 28;
- ✓ joint ventures, companies over which Banca di Cividale S.c.p.A. directly or indirectly exercises joint control, as defined in IAS 31;
- ✓ managers with strategic responsibilities and control bodies: the Directors, Statutory Auditors and General Manager of Banca di Cividale S.c.p.A.;

- ✓ other related parties, including:
- ✓ immediate family members (cohabitants, children, cohabitants' children, dependants of the person concerned or cohabitant) of Directors, Statutory Auditors or the General Manager of Banca di Cividale S.c.p.A.; and
- ✓ subsidiaries, joint ventures and companies subject to significant influence by the Directors, Statutory Auditors, and General Manager of Banca di Cividale S.c.p.A., in addition to their immediate family members, as defined above.

The effects of transactions with related parties as defined above on the balance sheet are presented in the following summary table.

	COMPANIES UNDER EXCLUSIVE CONTROL	ASSOCIATED COMPANIES	EXECUTIVES AND CONTROL BODIES	OTHER RELATED PARTIES	% incidence
Assets					
Loans to customers	***555***	***927***	***524***	***6,477***	***0.23%***
Board of Directors			65	6,012	0.16%
Board of Statutory Auditors			90	279	0.01%
Managers with strategic responsibilities			369	186	0.01%
Liabilities					
Due to customers	***-***	***17***	***1,310***	***8,663***	***0.31%***
Board of Directors			506	8,242	0.27%
Board of Statutory Auditors			63	205	0.01%
Managers with strategic responsibilities			741	216	0.03%
Income statement					
Net interest income	***7***	***13***	***(3)***	***96***	***0.19%***
Board of Directors			-	88	*0.15%*
Board of Statutory Auditors			1	5	*0.01%*
Managers with strategic responsibilities			(4)	3	***0.00%***
Net commission income	***1***	***5***	***18***	***207***	***0.71%***
Board of Directors			13	197	*0.65%*
Board of Statutory Auditors			1	6	*0.02%*
Managers with strategic responsibilities			4	4	*0.02%*
Administrative expenses	***-***	***-***	***1,476***	***-***	***3.52%***
Board of Directors (*)			466	-	1.11%
Board of Statutory Auditors			127	-	0.30%
Managers with strategic responsibilities			884	-	2.10%
Guarantees and commitments	***-***	***-***	***-***	***6,992***	***10.01%***
Board of Directors			-	6,992	*10.01%*
Board of Statutory Auditors			-	-	*0.00%*
Managers with strategic responsibilities			-	-	*0.00%*
Indirect funding	***-***	***-***	***2,183***	***1,354***	***0.31%***
Board of Directors			1,379	708	*0.19%*
Board of Statutory Auditors			34	57	*0.01%*
Managers with strategic responsibilities			770	589	*0.12%*

Transactions with other related parties fall within the course of normal banking operations and are ordinarily settled at arm's-length conditions for specific transactions or offered on any more favourable terms for which employees are eligible.
Banking transactions with groups controlled by the directors of the Company are approved in accordance with Article 136 of the Consolidated Banking Act and settled at arm's-length conditions for such transactions.
It should be noted that no transactions with related parties considered major transactions pursuant to the "Procedures for Related-Party Transactions" cited above were undertaken during the reporting period.

Chapter I – SHARE-BASED PAYMENTS

This section is not applicable to the financial statements of Banca di Cividale S.c.p.A.

Chapter L – SEGMENT REPORTING

Criteria for identifying and aggregating operating segments

In application of IFRS 8, operating segments for the purposes of segment reporting were identified on the basis of the following business segments:

- ✓ Retail and Corporate Bank, the segment dedicated to banking activity;
- ✓ Leasing, the segment dedicated to leasing activity.

The figures from the comparative period have been restated as appropriate.

Segment results – Income-statement data

RECLASSIFIED INCOME STATEMENT	31/12/2019			31/12/2018		
	LEASING	BANK	TOTAL	LEASING	BANK	TOTAL
Net interest income	6,125	54,347	60,472	5,515	54,915	60,430
Net commissions	(60)	32,611	32,551	(85)	30,107	30,022
Dividends	-	160	160	-	10,538	10,538
Net trading income	(1,836)	3,844	2,008	-	(739)	(739)
Other operating income (expenses)	284	300	584	316	341	657
Operating income	**4,513**	**91,261**	**95,774**	**5,746**	**95,162**	**100,907**
Personnel expenses	(464)	(41,530)	(41,994)	(401)	(40,756)	(41,157)
Other administrative expenses	(467)	(17,863)	(18,330)	(601)	(19,459)	(20,060)
Net impairment/write backs on property, plant and equipment and intangible assets	(316)	(4,562)	(4,878)	(278)	(2,427)	(2,705)
Operating cost	**(1,247)**	**(63,955)**	**(65,202)**	**(1,280)**	**(62,642)**	**(63,922)**
Income (loss) from operating	**3,266**	**27,306**	**30,572**	**4,466**	**32,520**	**36,985**
Charges/write-backs on impairment of loans	(400)	(25,447)	(25,847)	(2,737)	(21,299)	(24,036)
Charges/write-backs on impairment of other financial assets	-	697	697	-	(1,030)	(1,030)
Charges/write-backs on impairment of goodwill and equity investments	-	-	-	-	(2,190)	(2,190)
Goodwill impairment	-	(150)	(150)	-	67	67
Net provisions for risks and charges	-	1,926	1,926	-	(5,653)	(5,653)
Income (loss) before tax from continuing operations	**2,866**	**4,333**	**7,199**	**1,729**	**2,415**	**4,144**
Tax on income from continuing operations	(946)	(1,177)	(2,123)	(552)	919	367
Levies and other charges concerning the banking industry after tax	-	(2,342)	(2,342)	-	(2,468)	(2,468)
Net income	**1,920**	**813**	**2,733**	**1,177**	**866**	**2,043**

Segment results – Balance-sheet data

ASSETS	31/12/2019			31/12/2018		
	LEASING	BANK	TOTAL	LEASING	BANK	TOTAL
Financial assets measured at fair value through profit or loss	-	35,660	35,660	-	29,710	29,710
Financial assets measured at fair value through other comprehensive income	-	167,107	167,107	-	318,469	318,469
Financial assets measured at amortised cost	262,076	3,540,040	3,802,116	237,240	3,053,726	3,290,966
Due from banks	-	28,397	28,397	-	53,774	53,774
Loans to customers	262,076	2,556,187	2,818,263	237,240	2,421,631	2,658,871
Securities	-	955,456	955,456	-	578,320	578,320

LIABILITIES	31/12/2019			31/12/2018		
	LEASING	BANK	TOTAL	LEASING	BANK	TOTAL
Financial liabilities measured at amortised cost	-	3,964,054	3,964,054	-	3,507,783	3,507,783
Due to banks	-	1,266,666	1,266,666	-	928,844	928,844
Due to customers	-	2,685,040	2,685,040	-	2,509,157	2,509,157
Securities issued	-	12,348	12,348	-	69,782	69,782

Chapter M – LEASING

SECTION 1 – LESSEE

Qualitative information

The standard IFRS 16 applies to all lease contracts (or contracts that contain a lease) that grant the lessee the right to control the use of an identified asset for a specific period of time in return for consideration. The concept of control is attributable to all those (explicitly or implicitly) identifiable assets in a contract for which the lessee has the right to control the assets in question, i.e. to obtain substantially all the economic benefits of the use of the assets and decide their use.

The following categories meet this requirement: a) real estate; b) motor vehicles; and c) other types, which includes all IT lease contracts. Real estate lease contracts refer mainly to properties used as offices or bank branches and normally have a term of more than 12 months, with renewal and/or purchase options; motor vehicle lease contracts refer to the vehicle fleet and typically have a term of several years, without the exercise of renewal and/or purchase options; and IT equipment lease contracts have terms of several years and are subject to renewal and/or purchase options.

Software lease contracts are excluded from the scope of application of IFRS 16 and continue to be accounted for according to IAS 38. In addition, lease contracts with a lease term of 12 months or less (i.e., short term) and contracts for which the value of the underlying asset when new is €5,000 or less (i.e., low-value assets) are excluded.

Contractual term

The Standard requires lessees to determine the term of a lease on the basis of the non-cancellable period of the lease, to which are added a) the periods covered by an option to extend the lease, if the lessee is reasonably certain to exercise this option; and b) periods covered by the option to terminate the lease, if the lessee is reasonably certain not to exercise this option.

The lease term has been defined as the non-cancellable period, to which all periods covered by a renewal option or periods covered by a termination option, according to the reasonable certainty of exercise of these options, have been added. In particular: i) where the contract is in the non-modifiable period and there is no basis for presuming the exercise of a termination option, the lease term is identified as the term of the first renewal option (where contractually envisaged), on the basis of the reasonable certainty of its exercise; ii) where the contract is already in a renewal period and there is no basis for presuming the exercise of a termination option, the lease term is identified as the term of the outstanding renewal option or the term of the subsequent renewal option, on the basis of the reasonable certainty of its exercise; and iii) in the event of formalised contractual cancellation, or reasonable certainty of exercise of the contractual termination option, the lease term will coincide with the effective date of the actual cancellation/termination.

Quantitative disclosures

See Chapter B - Assets for information on the rights of use acquired with leases, Chapter B - Liabilities for information on lease liabilities and Chapter C for information on the interest expense on lease liabilities and other charges associated with the rights of use acquired with leases. At the reporting date the Bank did not have any commitments for lease contracts that will take effect in 2020.

SECTION 2 – LESSOR

Qualitative information

The Bank is a party to finance lease contracts. These contracts are accounted for by recognising a finance lease receivable in item 40 Financial assets measured at amortised cost, the relevant income calculated on an accrual basis in item 10 Interest income and similar revenues and provisions for expected credit losses in Item 130, Net charges on impairment due to credit risk.

Quantitative disclosures

Refer to Chapter B - Assets for information on lease financing and to Chapter C for information on interest income on lease financing and other income on finance lease transactions.

1 Balance sheet and income statement information

2 Finance leases

2.1 Classification of payments to be received by time brackets and reconciliation with lease financing - recognised as assets

Time bands	31/12/2019 Payments to be received	31/12/2018 Payments to be received
Up to 1 year	39,792	41,780
Between 1 and 2 years	33,597	24,305
Between 2 and 3 years	31,173	23,982
Between 3 and 4 years	28,933	21,954
Between 4 and 5 years	22,297	19,150
Over 5 years	118,488	109,546
Total lease payments to be received	**274,280**	**240,717**
Reconciliation with loans	0	
Not accrued gains (-)	42,366	
Unguaranteed residual value (-)	14,612	
Loans for leases	246,526	

The table shows the payments to be received for lease financing from customers, whether they refer to performing or non-performing exposures. In relation to performing exposures, the payments to be received refer solely to payments set to come due after the reporting date.
The figures at 31 December 2018 relating to lease transactions with customers, prepared according to the previous version of Bank of Italy Circular No. 262 (fifth update) are provided, although they are not fully comparable.

Cividale del Friuli, 11 March 2020
Banca di Cividale S.c.p.A.
The Board of Directors

Appendices

Information on government grants pursuant to Art. 1, paragraph 125, of Law No. 124 of 4 August 2017 ("Annual market and competition law")

It should firstly be stated that Art. 1, paragraphs 125 to 129, of Law No. 124 of 4 August 2017 (the "Annual Market and Competition Law", hereinafter also Law No. 124/2017), introduced various measures aimed at ensuring transparency in the public grant system.

In particular, the said Law provides, inter alia, that in the notes to their financial statements at and for the year ended 31 December 2019 – and in the consolidated notes, where applicable – enterprises must provide information regarding "subsidies, grants, paid positions and other economic advantages of any kind" (hereinafter, in the interest of brevity, "government grants") received from the government and other entities listed in Art. 1, paragraph 125 of the said Law. Failure to comply with this publication obligation entails the return of the sums received from the grantor.

In order to avoid the accumulation of irrelevant information, the publication obligation does not apply when the amount of the government grants is below the threshold of €10,000.

Despite the clarification provided by the Council of State in its opinion no. 1149 of 1 June 2018, the law in question raises some doubts as to interpretation and application, with particular regard to the scope of its application, for which reference has also been made to guidelines issued by the trade associations (Assonime).

In particular, in view of the criteria that inspire the law and the established guidelines, the disclosure obligations are not believed to extend to the following cases:

- ✓ consideration for services rendered by the enterprise within the framework of the provision of professional or other services or goods, or other activities constituting the enterprise's core business. In fact, such amounts are not related to public grants or support policies;
- ✓ tax relief available to all enterprises that meet certain conditions, on the basis of predetermined general criteria, which are also subject to specific declarations;
- ✓ the granting of loans with special terms to the enterprise's customers, since this involves the disbursement of third-party funds (e.g., grants towards the payment of interest by the government) and not the own resources of the bank, which acts as intermediary.

In addition, it should be noted that the National Register of Government Aid has been available from the Directorate General for Business Incentives of Italy's Ministry of Economic Development since August 2017. State aid and de minimis aid for all enterprises must be published in this Register by the entities that grant or manage the aid money in question. For the individual aid received by the Bank, see the section "Transparency of the Register", access to which is publicly available.

In consideration of the above, and in accordance with Art. 1, paragraph 125, of Law No. 124 of 4 August 2017, the following is an account of the amounts collected by the Bank during 2019 by way of "subsidies, grants, paid positions and other economic advantages of any kind".

Type of grants	Granting Authority	Amounts received in 2019
Aid for staff training (*)	FBA (Fondo Banche e Assicurazioni)	23,788
Contribution relief	INPS	
	Total	**23,788**

(*) This refers to aid for training applied for in previous years and paid in 2019. It should be noted that the grants listed in the National Register refer to grants with a grant date in or after October 2017, for which no disbursements were made in 2019.

It should also be noted that in accordance with the provisions of the law in question, the above table does not include economic advantages below the threshold of €10,000; this threshold is to be understood to refer to the total advantages received by the Bank from the same authority in 2019, regardless of whether the benefit was paid in a single act or a series of acts.

Shareholders and share performance: historical information

FINANCIAL YEAR	YEAR	BALANCE AT END OF YEAR						INCOME ALLOCATED TO THE SHAREHOLDERS	SHARES		
		SHAREHOLDERS	SHARES	SHARE CAPITAL AND RESERVES			NET INCOME		DIVIDENDS	NOMINAL VALUE	PRICE
				SHARE CAPITAL	RESERVES	TOTAL					
1	1887	216	1,357	33,925	110	34,035	1,276	-	-	25	-
5	1891	468	1,607	40,175	2,451	42,626	4,734	2,410	1.50	25	-
10	1896	798	1,936	48,400	19,456	67,856	6,131	2,904	1.50	25	-
15	1901	767	1,995	49,875	36,631	86,506	11,717	3,990	2.00	25	-
20	1906	649	5,347	133,675	16,209	149,884	14,330	6,683	1.25	25	-
25	1911	623	5,434	135,850	69,771	205,621	29,391	10,868	2.00	25	-
30	1916	606	5,458	136,450	96,491	232,941	20,669	9,551	1.75	25	-
35	1921	116	6,440	161,000	197,162	358,162	166,236	19,320	3.00	25	-
40	1926	190	6,753	338	267,251	604,901	82,155	20,259	3.00	50	-
45	1931	1,095	6,755	337,750	1,500,472	1,838,472	85,117	47,285	7.00	50	-
50	1936	1,022	6,755	337,750	1,310,436	1,648,186	60,626	33,775	5.00	50	-
55	1941	985	6,755	337,750	1,332,931	1,670,681	75,230	35,463	5.25	50	-
60	1946	1,008	6,755	337,750	1,711,204	2,048,954	76,164	40,530	6.00	50	-
65	1951	564	4,084	2,042,000	5,564,395	7,606,395	562,026	408,400	100.00	500	1,500
70	1956	685	17,991	8,995,500	27,481,784	36,477,284	4,179,478	2,518,740	140.00	500	2,000
75	1961	766	28,862	14,313,000	50,948,418	65,261,418	6,162,724	4,580,160	160.00	500	2,500
80	1966	811	52,210	26,105,000	109,282,367	135,387,367	11,034,445	8,353,600	160.00	500	3,000
85	1971	1,099	191,737	95,869,500	471,327,686	567,196,186	45,537,000	34,512,660	180.00	500	3,500
86	1972	1,141	26,875	108,437,500	552,843,506	661,281,006	53,674,995	40,831,000	190.00	500	3,500
87	1973	1,349	269,556	134,778,000	731,735,552	866,513,552	73,791,120	56,606,760	210.00	500	3,500
88	1974	1,415	394,255	197,127,500	1,176,987,612	1,374,115,112	132,757,890	102,506,300	260.00	500	4,000
89	1975	1,426	405,366	202,683,000	1,162,047,211	1,364,730,211	182,552,600	113,502,480	280.00	500	5,000
90	1976	1,373	471,195	235,597,500	1,754,649,114	1,990,247,114	257,662,700	169,630,200	360.00	500	6,000
91	1977	1,436	534,846	267,423,000	2,452,631,055	2,720,054,055	348,185,700	224,635,320	420.00	500	7,000
92	1978	1,477	594,676	297,338,000	3,004,937,110	3,302,275,110	445,773,800	303,284,760	510.00	500	8,500
93	1979	1,636	747,084	373,542,000	4,905,540,410	5,279,082,410	785,347,580	537,900,480	720.00	500	12,000
94	1980	1,990	1,028,417	514,208,500	9,061,346,120	9,575,554,620	1,355,743,850	863,870,280	840.00	500	14,000
95	1981	2,174	1,027,102	513,551,000	9,386,487,005	9,900,038,005	1,898,540,250	1,109,270,160	1,080.00	500	18,000
96	1982	2,427	2,065,656	1,032,828,000	16,846,160,124	17,878,988,124	2,885,151,000	1,735,151,040	840.00	500	14,000
97	1983	2,570	2,072,454	1,036,227,000	17,672,620,254	18,708,847,254	3,302,500,000	1,958,469,030	945.00	500	15,750
98	1984	2,674	2,062,142	1,031,071,000	18,379,150,754	19,410,221,754	3,807,750,000	2,165,249,100	1,050.00	500	17,500
99	1985	2,828	5,182,775	2,591,387,500	27,581,878,254	30,173,265,754	4,130,537,500	2,720,956,875	525.00	500	8,750
100	1986	3,137	5,186,519	2,593,259,500	28,567,413,919	31,160,673,419	6,018,402,100	3,215,641,780	620.00	500	9,500
101	1987	3,660	5,391,402	2,695,701,000	33,036,039,552	35,731,740,552	6,050,859,000	3,180,927,180	590.00	500	10,150
102	1988	4,242	5,742,967	2,871,483,500	39,272,308,522	42,143,792,022	6,890,919,945	3,618,069,210	630.00	500	10,850
103	1989	4,767	6,078,404	3,039,202,000	45,975,098,284	49,014,300,284	7,900,114,293	4,133,314,720	680.00	500	11,500
104	1990	5,290	6,420,059	3,210,029,500	53,490,059,950	56,700,089,450	8,700,000,000	4,686,643,070	730.00	500	12,200
105	1991	5,777	7,069,673	3,534,836,500	70,169,883,285	73,704,719,785	9,400,000,000	5,443,648,210	770.00	500	12,900
106	1992	5,870	7,245,997	3,622,998,500	75,999,169,935	79,622,168,435	6,700,000,000	5,579,417,690	770.00	500	13,500
Amounts in thousands of Lire											
107	1993	6,295	4,972,532	24,863	79,484	104,347	7,150	5,967	1,200	5,000	25,200
108	1994	6,880	5,493,731	27,469	91,586	119,054	6,300	4,944	900	5,000	26,000
109	1995	6,928	5,550,567	27,753	95,428	123,181	8,500	5,828	1,050	5,000	26,500
110	1996	6,896	5,619,808	28,099	101,450	129,549	9,000	6,463	1,150	5,000	27,500
111	1997	6,925	5,658,775	28,294	106,750	135,044	9,050	5,659	1,000	5,000	28,250
112	1998	7,274	5,792,802	28,964	116,158	145,122	12,050	6,951	1,200	5,000	29,000
113	1999	7,228	5,792,802	28,964	110,307	139,271	27,090	110,063	19,000	5,000	30,500
114	2000	7,167	5,792,802	28,964	28,814	57,778	16,900	5,793	1,000	5,000	30,500
115	2001	8,653	6,362,711	36,960	51,744	88,704	7,670	6,160	968	5,809	35,008
Amounts in thousands of Euro											
116	2002	9,257	8,284,320	24,853	62,815	87,668	5,200	4,275	0.516	3.00	18.50
117	2003	9,357	8,331,320	24,994	65,162	90,156	5,930	4,299	0.516	3.00	18.75
118	2004	9,277	8,331,320	24,994	67,316	92,310	6,825	4,582	0.550	3.00	19.25
119	2005	9,748	9,400,000	28,200	93,366	121,566	12,127	5,170	0.700	3.00	20.00
First time adoption of the new international accounting standards IAS-IFRS											
120	2006	9,766	11,750,000	35,250	120,525	155,775	7,448	5,758	0.600	3.00	20.25
121	2007	10,223	14,934,824	44,804	182,336	227,140	9,650	7,972	0.600	3.00	21.75
122	2008	10,070	14,934,824	44,804	183,846	228,650	11,640	8,961	0.600	3.00	23.00
123	2009	10,574	15,484,145	46,452	197,608	244,060	10,500	6,968	0.450	3.00	23.50
124	2010	11,719	16,634,078	49,902	225,217	275,119	10,100	7,485	0.450	3.00	24.00
125	2011	11,905	16,929,341	50,788	223,549	274,337	11,630	7,618	0.450	3.00	24.50
126	2012	12,309	16,927,763	50,783	244,885	295,668	14,103	5,925	0.350	3.00	24.50
127	2013	12,994	17,022,649	51,068	249,959	301,027	(33,850)	-	-	3.00	24.50
128	2014	14,544	16,971,085	50,913	221,070	271,983	5,803	-	-	3.00	24.50
129	2015	15,250	16,971,085	50,913	238,604	289,517	24,053	5,091	0.300	3.00	19.60
130	2016	15,106	16,971,085	50,913	251,354	302,267	1,233	-	-	3.00	19.60
131	2017	14,916	16,971,085	50,913	249,886	300,799	753	-	-	3.00	15.00
132	2018	14,727	16,971,085	50,913	221,062	271,975	2,043	-	-	3.00	14.00

Statement of property, plant and equipment subject to monetary revaluation

Site	Historical cost	Currency revaluations	Impairments	Carrying amount
ATTIMIS - Via Cividale	224	305	358	171
BUTTRIO - Via Div. Julia	125	871	583	413
CIVIDALE - Piazza Duomo	770	10,233	4,988	6,014
CIVIDALE - Via Cavour	1226	762	1,199	789
GORIZIA - Corso verdi	914	133	391	656
GRADO - Via Marina	399	89	209	279
MANZANO - Via della Stazione	929	53	359	623
PALMANOVA - Piazza Grande	547	73	260	360
PAVIA DI UDINE - Via Persereano	264	203	203	264
PORDENONE - Corso Garibaldi	717	92	324	485
POVOLETTO - Piazza Libertà	393	623	564	452
PRATA DI PORDENONE - Fraz. Puja - Via Dante	208	10	80	138
REMANZACCO - Piazza P. Diacono	402	1,199	748	853
S. GIOVANNI AL NATISONE - Via L. Da Vinci	486	1,872	1,192	1,166
S. LEONARDO - Via Scrutto	181	218	261	138
S. VITO AL TAGLIAMENTO - Viale del Mattino	635	17	209	443
SACILE - Viale Lacchin	497	66	166	397
SAN GIORGIO DI NOGARO - Via Europa Unita	276	21	102	195
SPILIMBERGO - Corso Roma	320	73	168	225
TAVAGNACCO - Via Udine	1048	360	699	709
UDINE - Piazzale XXIV Luglio	1292	173	620	846
UDINE - Via Marsala	545	9	245	309
CIVIDALE - Corso Mazzini 10/12	858	72	415	515

Fees for services rendered by the independent auditors pursuant to Article 149-duodecies of Consob Regulation No. 11971/1999

Type of service	Fees paid in 2019
Services provided to the Banca Popolare di Cividale Scpa	**213**
Independent auditors: KPMG	
- Auditing services	100
- Inspection services for the purpose of issuing certification	113
- Other services	-

Reconciliation of the income statement and reclassified income statement

Recalssified income statement	Income Statement	31/12/2019	31/12/2018
Net interest income	30 - Net interest income	60,472	60,430
	90 - Fair value adjustments in hedge accounting	-	-
Total Net interest income		**60,472**	**60,430**
Net commisions	**60 - Net commissions**	**32,551**	**30,022**
Dividends	70 - Dividends and similar income	160	10,538
Total Dividends		**160**	**10,538**
Net trading income	80 - Net trading income	276	564
	100 - Profit (loss) on disposal or repurchase of:	**1,670**	**(143)**
	a) financial assets measured at amortised cost	362	(823)
	b) financial assets measured at fair value through other comprehensive income	1,296	569
	c) financial liabilities	12	111
	110 - Profits (Losses) on other financial assets and liabilities measured at fair value through profit or loss	**62**	**(1,160)**
	a) financial assets and liabilities designated at fair value	-	-
	b) other financial assets mandatorily measured at fair value	62	(1,160)
Total Gains (losses) from purchase/sale of loans and financial assets		**2,008**	**(739)**
Other operating income/expenses (net of recovered expenses)	200 - Other operating income (expenses)	8,228	8,040
	200 (partial) - Other operating income (expenses) - Recovery of indirect taxes	(7,644)	(7,383)
Total Other operating income/expenses (net of recovered expenses)		**584**	**657**
Income (loss) from operating		**95,774**	**100,907**
Personnel expenses	160 a) personnel expenses	(41,994)	(41,157)
Other administrative expenses (net of recovered expenses)	160 b) other administrative expenses	(29,427)	(31,081)
	of which: Levies and other charges concerning the banking industry	3,452	3,637
	200 (partial) - Other operating income (expenses) - Recovery of indirect taxes	7,644	7,383
Total other administrative expenses (net of recovered expenses)		**(18,330)**	**(20,060)**
Net impairment/write backs on property, plant and equipment and intangible assets (excluding goodwill)	180 - Net impairment/write-backs on property, plant and equipment	(4,815)	(2,646)
	190 - Net impairment/write-backs on intangible assets	(63)	(58)
Total Net impairment/write backs on property, plant and equipment and intangible assets (excluding goodwill)		**(4,878)**	**(2,705)**
OPERATING COST		**(65,202)**	**(63,922)**
INCOME (LOSS) FROM OPERATING		**30,572**	**36,985**
Charges/write-backs on impairment of loans	130 - Charges/write-backs on impairment of loans	**(25,847)**	**(24,025)**
a) measured at amortised cost	a) measured at amortised cost	(25,847)	(24,025)
Charges/write-backs on impairment of other financial assets	130 - Charges/write-backs on impairment of other financial assets	**697**	**(1,041)**
a) measured at amortised cost	a) measured at amortised cost	327	(1,030)
b) measured at fair value through other comprehensive income	b) measured at fair value through other comprehensive income	370	(11)
Goodwill impairment	240 - Goodwill impairment	-	**(2,190)**
Profit (loss) on equity investments	220 - Profit (loss) on equity investments	**(79)**	-
Profit (loss) on disposal of investments	250 - Profit (loss) on disposal of investments	**(70)**	**67**
Net provisions for risks and charges	170 - Net provisions for risks and charges	**1,926**	**(5,653)**
	a) commitments and guarantees given	825	(21)
	b) other net provisions	1,102	(5,632)
Income (loss) before tax from continuing operations		**7,199**	**4,143**
Tax on income from continuing operations	270 - Tax on income from continuing operations	**(4,466)**	**(2,101)**
	of which: taxes on levies and other charges concerning the banking industry	(2,123)	367
Levies and other charges concerning the banking industry after tax	160 b) other administrative expenses - Charges concerning the banking industry	(2,342)	(2,468)
	of which: taxes on levies and other charges concerning the banking industry		
Net income		**2,733**	**2,043**

Reconciliation of the balance sheet and reclassified balance sheet

RECLASSIFIED BALANCE SHEET - Assets	Balance sheet - Assets	31/12/2019	31/12/2018
Cash and cash equivalents	10 - Cash and cash equivalents	**118,579**	**29,747**
Financial assets measured at fair value through profit or loss	20 - Financial assets measured at fair value through profit or loss	**35,660**	**29,710**
	a) financial assets held for trading	1,023	300
	b) financial assets designated at fair value	-	-
	c) other financial assets mandatorily measured at fair value	34,637	29,410
Financial assets measured at fair value through other comprehensive income	30 - Financial assets measured at fair value through other comprehensive income	**167,107**	**318,469**
Financial assets measured at amortised cost	40 - Financial assets measured at amortised cost	**3,802,116**	**3,290,966**
a) Due from banks	a) due from banks	46,916	75,226
b) Loans to customers	b) loans to customers	3,755,200	3,215,740
Investments in associates and companies subject to joint	70 - Equity investments	**3,190**	**3,769**
Property, plant and equipment and intangible assets		**89,561**	**76,612**
	80 - Property and equipment	89,441	76,459
	90 - Intangible assets	119	153
Other assets		**121,627**	**130,122**
	100 - Tax assets	71,247	74,706
	120 - Other assets	50,380	55,416
Total assets		**4,337,840**	**3,879,397**

RECLASSIFIED BALANCE SHEET - Liabilities	Balance sheet - Liabilities and shareholders' equity	31/12/2019	31/12/2018
Financial liabilities measured at amortised cost	10 - Financial liabilities measured at amortised cost	**3,979,634**	**3,507,783**
a) Due to banks	a) Due to banks	717,883	672,401
b) Due to customers	b) Due to customers	3,249,404	2,765,600
c) Securities issued	c) Securities issued	12,348	69,782
Financial liabilities held for trading	20 - Financial liabilities held for trading	**125**	**168**
Other liabilities		**64,850**	**84,836**
	60 - Tax liabilities	2,379	3,544
	a) current	1,765	2,286
	b) deferred	614	1,259
	80 - Other liabilities	62,471	81,292
Specific provisions		**8,310**	**12,591**
	90 - Employee termination benefits	4,990	4,794
	100 - Provisions for risk and charges:	3,320	7,797
	a) commitments and guarantees given	556	1,381
	b) quiescenza e obblighi simili	-	-
	c) other provisions for risks and charges	2,764	6,416
Shareholders' equity		**233,398**	**222,322**
	110 - Valuation reserves	842	9,496
	140 - Reserves	65,534	45,805
	150 - Share premiums	167,022	167,022
	160 - Share capital	50,913	50,913
	170 - Treasury shares (-)	(2,125)	(1,260)
	180 - Net income (loss) (+/-)	2,733	2,043
Total liabilities		**4,337,840**	**3,879,397**

Country-by-country reporting

In accordance with Circular No. 285 of 17 December 2013 (Supervisory Provisions for Banks), fourth update of 17 June 2014, Banca di Cividale publishes the following information concerning its place of business in Italy:

a) Name of the local company and nature of its business

Name:

Banca di Cividale S.c.p.A., with office in Cividale del Friuli at Via Sen. Guglielmo Pelizzo n. 8/1, tax code and Udine Companies Register no. 0249360306, registration in the Bank of Italy register no. 5758.8.0, Register of Banking Groups no. 05484.1

Nature of its business:

Financial intermediation (financial services for businesses, trading and sale, retail intermediation, commercial banking services, retail banking services, payment and settlement, fiduciary management, asset management and leasing)

The Bank's customers traditionally consist of families, craftsmen, professionals and small and medium enterprises.

Amounts as at 31/12/2019	
b) Sales (1)	95,190
c) Number of full-time equivalents (2)	368
d) Profit or loss before taxes (3)	3,746
e) Income taxes (4)	(1,013)
f) Public grants received (5)	16

(1) "Sales" are defined as operating revenues (item 120 of the consolidated income statement) (cf. Circular 262).
(2) "Number of full-time equivalents" is determined as the total hours worked overall by all employees, excluding overtime, divided by the total annual number of hours to be worked by a full-time employee by contract.
(3) "Profit or loss before taxes" refers to item 260 of the income statement, pursuant to Circular 262;
(4) "Income taxes" are defined as the sum of the taxes presented in item 270 of the income statement, pursuant to Circular 262;
(5) The item "Public grants received" must include grants received directly from public administrations. This item does not include transactions undertaken by central banks for financial stability purposes or transactions with the aim of facilitating the monetary policy transmission mechanism. Similarly, any transactions part of government aid schemes approved by the European Commission are not to be taken into consideration;