CREDITO FONDIARIO

2019

GROUP ANNUAL REPORT

YOUR INVESTMENT
AND SERVICING
PARTNER

CONTENTS

Contents	**1**
Corporate bodies and management	**2**
Introduction	**3**
Directors' report	**5**
Basis of consolidation	5
Consolidation scope	5
Key events of the year	7
Key figures	10
Operations	10
Events after the reporting date and outlook	18
Consolidated financial statements	**21**
Statement of comprehensive income	23
Statement of cash flows - (indirect method)	27
Nota integrativa	**30**
Part A: Accounting policies	31
Part B: Notes to the statement of financial position	65
Part C: Notes to the income statement	93
Part D: Comprehensive income	106
Part E - Risks and hedging policies	107
Part F - Equity	146
Part G: Business combinations	148
Part H: Related party transactions	148
Part I: Share-based payments	154
Part L: Segment reporting	154
Part M - Leases	154
Disclosure on the assets earmarked for a specific business	**157**
Independent auditors' report pursuant to article 14 of legislative decree no. 39 of 27 January 2010	**161**

CORPORATE BODIES AND MANAGEMENT

Board of directors

Chairman and Director:	Panfilo TARANTELLI
Deputy Chairman:	Vittorio GRIMALDI
Directors:	Guido LOMBARDO
	Arabella CAPORELLO
	Sergio ASCOLANI
	Davide CROFF
	Massimo RUGGIERI
	Salvatore BAIAMONTE
	Gioia Maria GHEZZI

Board of Statutory Auditors

Chairman:	Antonio MELE
Standing Statutory Auditors:	Franco VEZZANI
	Giuseppina PISANTI
Statutory Auditors:	Paolo CARBONE
	Fabio Maria VENEGONI

Management

General Manager:	Iacopo DE FRANCISCO
Chief Investment Officer:	Guido LOMBARDO
Chief Business Officer and Deputy General Manager:	Mirko BRIOZZO
Chief Financial Officer:	Viviana ASCANI
Chief Servicing Officer:	Vincenzo LENTO
Chief Operating Officer:	Alberto DE MAGGI

INTRODUCTION

As required by Legislative decree no. 38 of 28 February 2005, the consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and related interpretations of the International Financial Reporting Interpretations Committee (IFRIC) endorsed by the European Commission as per Regulation (EC) 1606 of 19 July 2002.

They also comply with the requirements contained in Bank of Italy's Circular no. 262/2005 as subsequently amended.

The consolidated financial statements comprise a statement of financial position, an income statement, a statement of comprehensive income, a statement of changes in equity, a statement of cash flows and these notes. They are accompanied by a directors' report.

Reference should be made to the separate financial statements of the parent, Credito Fondiario, for any information not provided herein.

This is an English translation of the original Italian document "Bilancio Consolidato 2019". In cases of conflict between the English language document and the Italian document, the interpretation of the Italian language document prevails. The Italian original is available on "http://www.creditofondiario.eu" www.creditofondiario.eu.

DIRECTORS' REPORT

Basis of consolidation

In accordance with IFRS 10, the group has checked whether it controls its investees and other entities it works with to define its consolidation scope. Specifically, it checked:
• The power to direct the relevant activities of the investee;
• Exposure, or rights, to variable returns from involvement with the investee;
• The ability to use power over the investee to affect the amount of its returns.

Pursuant to IFRS 10, special purpose entities are treated as subsidiaries when the parent concurrently is:
• Significantly exposed to variable returns due to its investment in the investee, the provision of financing or the supply of guarantees;
• Able to direct the significant activities, including on a de facto basis.

Therefore, as well as Credito Fondiario S.p.A., the consolidation scope includes CF Liberty Servicing, Be Credit Management and the SPVs over which the parent has control. Investments in certain SPVs (Restart SPV S.r.l. and Italian Credit Recycle S.r.l.), of which the parent has subscribed 47.5% of the securitisation notes, fall under IFRS 11 (joint control) and their profit or loss for the year is consolidated for the portion attributable to the group under net interest income (expense).

Consolidation scope

At the reporting date, the group decided to improve the presentation of its business by changing the way it consolidates its SPVs, i.e., it recognised the loans/portfolios underlying the ABS, together with the related accrued interest and costs. At the previous reporting date, it had used a simplified method by converting the ABS included in the parent's separate financial statements into loans/portfolios, consistently with the approach used by the former parent Tages Holding S.p.A..

This change led to the restatement of the group's equity at 31 December 2018, which increased it by €7.2 million (net of tax), including €3.7 million for 2018. The current consolidation method entails, inter alia:
• The determination of the IRR on the basis of the GDP net solely of upfront costs and credit collection costs. This approach is in line with the requirements of IFRS 9 for POCI financial assets (most exposures are impaired when purchased or, in any case, purchased at a discount), used to calculate the portfolio's amortised cost;
• The recognition of the portfolio's initially carrying amount on the basis of the actual cash flows (purchase price net of collections plus the securitisations' structuring costs)[1];
• Recalculation of the frequency of the collections on a monthly rather than a quarterly basis;
• Measurement of the ABS subscribed by third parties and any deferred purchase price ("DPP") included in the securitisations at amortised cost.

In addition, the portfolios of the jointly-controlled Restart and ICR have been measured using the equity method with the presentation of the related net gain or loss in the caption "Financial assets at amortised cost".
Pursuant to IAS 8, this is a change in accounting policy made to better present the group's actual operations to third parties. Accordingly, the group restated the 2018 comparative figures presented in these consolidated financial statements as if the change had taken place on 1 January 2018 so that the consolidated financial statements and the tables in the notes thereto are comparable.

(1) The ABS subscription prices were used previously as a base.

In order to show this change, the "Financial performance and position" section includes the reclassified statement of financial position and income statement with comparative restated 2018 balances as well as the 2018 balances approved by the parent's board of directors on 19 March 2019.

List of consolidated companies

Group company	Shareholder	Investment %	Consolidation method
C F Liberty Servicing S.p.A.	Credito Fondiario S.p.A.	70% of capital	Line-by-line
Be Credit Management S.p.A.	Credito Fondiario S.p.A.	35% of capital	Line-by-line
Sallustio SPV S.r.l.	Credito Fondiario S.p.A.	60% of the SPV and 100% of the junior notes Line	Line-by-line
Elmo SPV S.r.l.	Credito Fondiario S.p.A.	60% of the SPV and 100% of the junior notes Line	Line-by-line
Novus SPV S.r.l.	Credito Fondiario S.p.A.	60% of the SPV and 100% of the junior notes Line	Line-by-line
New Levante SPV S.r.l.	Credito Fondiario S.p.A.	60% of the SPV and 100% of the junior notes Line	Line-by-line
Ponente SPV S.r.l.	Credito Fondiario S.p.A.	60% of the SPV and 100% of the junior notes Line	Line-by-line
Cosmo SPV S.r.l.	Credito Fondiario S.p.A.	60% of the SPV and 100% of the junior notes Line	Line-by-line
Convento S.P.V. S.r.l.	Credito Fondiario S.p.A.	60% of the SPV and 100% of the junior notes Line	Line-by-line
Sesto SPV S.r.l.	Credito Fondiario S.p.A.	60% of the SPV and 100% of the junior notes Line	Line-by-line
Lucullo SPV S.r.l.	Credito Fondiario S.p.A.	60% of the SPV and 100% of the junior notes Line	Line-by-line
Resloc SPV S.r.l.	Credito Fondiario S.p.A.	60% of the SPV and 100% of the junior notes Line	Line-by-line
Bramito SPV S.r.l.	Credito Fondiario S.p.A.	60% of the SPV and 100% of the junior notes Line	Line-by-line
Artemide SPV S.r.l.	Credito Fondiario S.p.A.	60% of the SPV and 91% of the junior notes	Line-by-line
Vette SPV S.r.l.	Credito Fondiario S.p.A.	60% of the SPV and 100% of the junior notes	Line-by-line
LeaseCo One S.r.l.	Credito Fondiario S.p.A.	100% SPV	Line-by-line

List of equity-accounted investees

Group company	Shareholder	Investment %	Consolidation method
Italian credit Recycle SPV S.r.l.	Credito Fondiario S.p.A.	47.5% of the junior notes	Equity
Restart SPV S.r.l.	Credito Fondiario S.p.A.	47.5% of the junior notes	Equity

Key events of the year

The group made a profit of €40.6 million for the year, including €40.3 million attributable to the owners of the parent and €0.3 million to minority interests. The profit mostly consists of the profit of €36 million recognised by the parent.

On 31 May 2019, the parent finalised its acquisition of 70% of CF Liberty Servicing S.p.A. (formerly First Servicing S.p.A., "CFLS") for a consideration of €100 million.

This transaction was part of the framework agreement signed by Credito Fondiario, Elliott and Banca Popolare di Milano ("BBPM") on 10 December 2018.

CFLS is authorised to carry out credit collection activities pursuant to article 115 of the Consolidated Public Security Act and received a loan recovery unit with 103 employees from BBPM.
It signed a special servicing agreement with BBPM to manage 80% of its new NPEs over the next ten years. CFLS also took over as special servicer from Credito Fondiario for the Leviticus SPV S.r.l. securitisation comprising NPEs transferred from BBPM.

Credito Fondiario and BBPM signed a shareholders' agreement to cover the governance of CFLS and their involvement in its boards of directors and statutory auditors.

After it acquired this company and with effect from 1 June 2019, the bank became the parent of a banking group while Bank of Italy authorised the related changes to its by-laws to reflect its new status on 28 May 2019.

For the purposes of the consolidated financial statements, the parent performed a PPA procedure in line with IFRS 3 to allocate the consideration paid to the assets acquired and the liabilities assumed measured at their acquisition-date fair value. They included intangible assets not recognised in the acquiree's statement of financial statement, if any, while the difference was allocated to goodwill.

The PPA procedure identified two intangible assets with finite lives, i.e., the framework servicing agreement with Banco BPM and the sub servicing agreement with Leviticus SPV S.r.l., as well as an intangible asset with an indefinite life (goodwill).

The group used the multi-period excess earning method (MEEM) to measure the intangible assets identified during the PPA procedure. The method comprises the following stages:
1. Estimating the gross cash flows generated by the intangible asset being valued by using forward-looking data over the asset's estimated useful life. These cash flows do not include the effects of the acquiror's specific synergies;
2. Adjusting the gross cash flows to reflect:
   a. a normal amount of supporting asset charges;
   b. the tax expense;
   c. the cost of the capital employed;
   d. any other supporting asset charges;
3. Calculating the present value of the net cash flows of the intangible asset;
4. Calculating the tax benefit related to amortisation of the intangible asset.

Changes in the financial assets used to determine the fair value of the intangible asset consisting of the sub servicing agreement were estimated considering the gross carrying amount of the portfolio under management at 31 May 2019 (€7 billion) and the recovery curve differentiated by cluster.

In order to calculate the fair value of the intangible asset consisting of the framework servicing agreement, the group considered the gross carrying amount of the portfolio at 31 May 2019 (€1.7 billion) and the NPEs to be received over the next ten years as per the contract terms. Once again, recovery curves differentiated by cluster were used to determine the changes in the financial assets.

In accordance with IAS 12, the group calculated the deferred tax liabilities arising on the intangible assets using a tax rate of 27.9%.

IFRS 3 provides for two different treatments of goodwill, when the acquisition is for a stake of less than 100%:
• *Full goodwill method;*
• *Partial goodwill method.*

The parent elected to use the partial goodwill method, in line with generally accepted market practices. Accordingly, it calculated goodwill as the difference between the consideration paid by an acquirer to obtain control over the acquiree and its share of the fair value of the net identifiable assets. Minority interests are recognised on a pro quota basis using the fair value of the unidentified assets.

As a result, the parent identified intangible assets with a finite life of €60.9 million, minority interests of €18.3 million and goodwill of €57.2 million. These figures substantially match those estimated during the approval of the Liberty deal.

Acquisition of investments in securitisation vehicles as per Law no. 130/99 and the creation of a VAT group

During the year, CF acquired 60% interests in a number of securitisation vehicles as per Law no. 130/99 in which it had already invested in their securitisations directly or indirectly through its controlling shareholder.
The parent subsequently resolved to set up a VAT group in accordance with the provisions of article 70-bis and subsequent articles of Presidential decree no. 633/72, which includes itself, CF Liberty Servicing as well as the securitisation vehicles.
Specifically, these vehicles are Lucullo SPV S.r.l., Ponente SPV S.r.l., NEW Levante SPV S.r.l., Bramito SPV S.r.l., Cosmo SPV S.r.l., Convento SPV S.r.l., Artemide SPV S.r.l., Novus Italia 1 SPV S.r.l., Elmo SPV S.r.l., Sallustio SPV S.r.l., Sesto SPV S.r.l., Vette SPV S.r.l. and Leviticus SPV S.r.l..

At 31 December 2019, Acqua SPV and Leviticus SPV were not included in the consolidation scope as the parent did not control (as per the definition of IFRS 10) the segregated portfolio of the latter vehicle and as Acqua SPV S.r.l. has not commenced a securitisation. Moreover, their consolidation would not have materially changed the group's financial performance.

Acquisition of Leaseco One S.r.l.

In 2019, the parent subscribed 100% of Leaseco One S.r.l., set up in accordance with article 7.1 of Law no. 130/99 for the management and sale of the assets underlying the leases acquired by Vette SPV S.r.l.. Leaseco One S.r.l. is included in the consolidation scope although its segregated assets are not given that they service the portfolio of Vette SPV S.r.l. which is consolidated.

Ownership structure and the reverse merger

In October 2018, Tiber Investments a.à r.l. (a Luxembourg-based subsidiary of the funds managed by Elliott Management Corporation) obtained control of Credito Fondiario, acquiring a 69.48% stake that can be increased up to 80% as per the agreements summarised below.
Elliott, an institutional investor leading the US market for over 40 years with assets under management of USD35 billion, is a key partner and investor in CF through Tiber Investments s.à r.l..

In 2019, Tiber Investments s.à r.l. injected €120 million into the parent when it acquired the investment in CFLS.
The reverse merger of CF Holding S.p.A. (the "merged company") into the parent (the "merging bank") became effective on 1 December 2019 (the "effective date").
Before the reverse merger took place, CF Holding S.p.A. had a 27.15% investment in CF (10,230,000 shares) as well as some net assets with the parent, mainly tax assets.

The reverse merger took place in line with the proposal approved by the parent's board of directors (the "reverse merger proposal") and authorised by Bank of Italy on 7 March 2019 and 28 May 2019, respectively.
Its objective is to streamline the parent's ownership structure by eliminating the intermediate investor CF Holding S.p.A..

The reverse merger proposal established that the share exchange ratio would be calculated considering the merged company's two assets, i.e., its investment in CF and the other net assets held at the effective date, estimated to be worth €669,622 at the proposal date ("adjusted asset surplus at the merger date").

As a result, the exchange ratio was calculated as follows:
• With respect to the merged company's investment in CF, the exchange ratio was to be equal to roughly 0.065 shares of the merged companies for each share of the merging bank making up the CF investment. This ratio led to the allocation to the shareholders of CF Holding S.p.A. of a number of CF shares exactly equal to the number of shares held by the merging company in C before the merger (i.e., 10,230,000 shares);
• With respect to the merged company's assets (the adjusted asset surplus at the merger date), the exchange ratio was estimated to be equal to 104,221 new CF shares while any other assets held by the merging company at the merger date were not included in the exchange ratio calculation and were assigned to CF free of charge.

Therefore, at the effective date, CF directly awarded its shares held by CF Holding S.p.A. to its then shareholders in proportion to their investments and subsequently increased its share capital by €104,221 (with a share premium of €565,401) issuing 104,221 new shares to the merged company's shareholders in proportion to their investments therein. With respect to the adjusted asset surplus of €97,958 at the merger date, CF increased the share premium by the same amount. No cash payments were made.

For accounting purposes, the reverse merger is a contribution in kind by a minority investor which leads to an increase in equity equal to the carrying amount of the contributed assets. Accordingly, the reverse merger increased equity by €767,200 (€104,221 for share capital and €662,979 for the share premium) equal to the carrying amount of the net assets transferred to CF as a result of the reverse merger (excluding the CF investment).

Key figures

The following table presents the group's key figures at 31 December 2019:

KEY FIGURES	
Loan assets under management / servicing (nominal amount)	Euro 51.2 billion
Proprietary investment portfolio (nominal amount)	Euro 7 billion
Proprietary investment portfolio (carrying amount)	Euro 1,159 million
Retail savings (Esagon account)	Euro 693.2 million
Equity	Euro 378.9 million
Total capital ratio	18.09%
Employees	377

The disclosure required by article 89 of Directive 2013/36/EU of the European Parliament and of the Council (CRD IV) is published on the parent's website (www.creditofondiario.eu/it/).

Operations

The Credito Fondiario Group is the only long-standing debt purchaser and debt servicer in Italy with a business model in line with those of the international players. It offers advanced investment solutions to investors in financial assets classified as bad loans, UTP exposures and other illiquid loan assets. The group has been very active in the servicing sector in recent years and placed third in the ranking of master servicers by assets under management (AUM) in the first half of 2019[2].

At year end, the group's investments are categorised into stages:

(€'000)

	Performing		Non-performing	Totale
	Stage 1	Stage 2	Stage 3	
POCI exposures purchased through securitisation vehicles (consolidated vehicles)	71,536	13,286	640,216	725,038
Unconsolidated ABS	188,971	-	-	188,971
POCI exposures purchased directly by the parent	-	-	28,496	28,496
Loans disbursed by the parent	20,845	1,483	4,968	27,296
Debt instruments	135,034	-	-	135,034
Treasury investments	30,344	-	-	30,344
Trade receivables and other assets	23,400	-	-	23,400
Total investments	**470,130**	**14,769**	**673,680**	**1,158,579**

POCI[3] exposures purchased through securisation vehicles are recognised in the consolidated financial statements through the 13 SPVs included in the consolidation scope with their 15 securisation portfolios.
Exposures purchased by the group either through the securitisation vehicles or directly by the parent are recognised at a discount compared to the loans' outstanding nominal amount. They are recognised at their recoverable amount net of the credit collection costs discounted using the internal rate of return (IRR) valid when the exposures are purchased.

(2) Source: PwC – The Italian NPL market, December 2019.
(3) When it applied the "simplified" approach, the group determined the IRR as the difference between the portfolio's gross disposition proceeds ("GDP") set out in the relevant business plans, net of credit collection costs, upfront costs, any servicing fees and commission expense and all other costs pre-deducted from the securities' interest payment flows.

Assets under management at 31 December 2019

Assets under management are set out below:

	No. of exposures	Original amount of exposures
Performing loans (PLs)	1,754	Euro 134 million
Non-performing loans (NPLs)	888,410	Euro 49,034 million
Commercial mortgage-backed securities (CMBS)	5	Euro 133 million
Trade receivables	299,117	Euro 233 million
Industrial loans	8	Euro 389 million
NPLs of real estate funds	113	Euro 66 million
Single names	10	Euro 57 million
Leases	18,455	Euro 1,032 million
Tax assets	189	Euro 90 million
Total	**1,208,061**	**Euro 51.2 billion**

The group is one of the largest and most experienced servicers in Italy, with assets under management of approximately €51.2 billion.

The large growth in assets under management has meant the group's fee and commission income increased, especially on its special servicing engagements (€29.9 million).

Credito Fondiario has a primary, master and special servicer rating from Standard & Poor's and Fitch:

Agency	Special Servicer	Master Servicer	Primary Servicer
Fitch	RSS2/CSS2	RMS2/CM52/ABMS2	RPS2/CPS2
Standard & Poor's	Average	Above Average	Above Average

The parent obtained its special servicer rating in the first half of 2018, when it also improved its other ratings. Accordingly, it is now one of the best quality servicers in Italy.

Funding strategy

Through the parent, the group has adopted a funding diversification strategy aimed at achieving the best possible cost-risk balance. Accordingly, it has access to a wide variety of sources of funds and can create a funding fix to avail of the best long-term market conditions.

The parent strategically tends to match its sources of funds with its core lending commitments. Its main source of funds consists of retail customers' deposits, but, at the same time, it has access to other sources, including the interbank market and the repurchase agreement market, in addition to its committed credit facilities. Accordingly, its funding is diversified by product, investor and maturity.

This diversification is essential to ensure the sound and prudent management of liquidity risk.

Generally speaking, the parent's funding strategy is based on:
• Short-term structural stability, in line with the conversion of maturities by the parent;
• Optimised cost of funding while concurrently ensuring diversified sources of funding, reference markets and tools;
• A sufficient volume of high quality highly liquid assets, that can be sold to the markets in difficult times and that are eligible as collateral with central banks to meet any overnight funding requirements;
• Financing the parent's growth through strategic fund-raising activities, consistently with its funding profile structure;
• Compliance with the regulatory metrics provided for in the risk appetite statement;
• Mitigation of liquidity risk by applying market best practices and complying with regulations; specifically, this objective is achieved as a result of:
- the creation of capital cushions;
- a risk and operating limit system;
- diversified sources and channels of funding, counterparties and maturities.

Since its set up, CF Liberty Servicing S.p.A. has availed of the parent's services for its treasury and payment management activities. The parent has also granted it a revolving credit line of €12 million.
The group's total funding amounts to €1,096 million at the reporting date.

At year end, the group had the following sources of funds:
• Repurchase agreements with banks of €141.9 million;
• Interbank credit facilities of €80 million;
• Stable retail deposits of €693.2 million;
• Securities issued of €110.5 million.

The debt to equity ratio, the disclosure of which is required by IAS 1.13, is 273% at year end and the group does not have resources that are not recognised in its statement of financial position in accordance with the IFRS.

Consolidated Financial Statement

(€'000)

		31/12/2019	31/12/2018 revised	31/12/2018
10.	Interest and similar income	73,931	71,461	45,273
20.	Interest and similar expense	(20,274)	(15,040)	(14,469)
30.	**Net interest income**	**53,657**	**56,422**	**30,804**
40.	Fee and commission income	44,033	23,124	23,997
50.	Fee and commission expense	(5,379)	(1,784)	(1,784)
60.	**Net fee and commission income**	**38,654**	**21,340**	**22,213**
80.	Net trading income (expense)	553	(25)	(25)
100.	Net gain from sales or repurchases of:	9	-	-
	b) financial assets at fair value through other comprehensive income	*9*	-	-
110.	Net gain on other financial assets and liabilities at fair value through profit or loss	1,645	11,353	4,792
	b) other financial assets mandatorily measured at fair value	*1,645*	*11,353*	*2,792*
120.	**Operating Income**	**94,517**	**89,090**	**57,784**
130.	Net impairment losses/gains for credit risk associated with:	(9,237)	(22,340)	(2,886)
	a) financial assets at amortised cost	*(9,242)*	*(22,340)*	*(2,893)*
	b) financial assets at fair value through other comprehensive income	*5*	*0*	*7*
150.	**Net financial income**	**85,281**	**66,749**	**54,898**
190.	Administrative expenses:	(65,923)	(48,695)	(46,395)
	a) personnel expense	*(39,025)*	*(25,971)*	*(25,889)*
	b) other administrative expenses	*(26,899)*	*(22,723)*	*(20,506)*
200.	Net accruals to provisions for risks and charges	(635)	(125)	(125)
	b) other	(635)	*(125)*	*(125)*
210.	Depreciation and net impairment losses on property, equipment and investment property	(1,692)	(315)	(315)
220.	Amortisation and net impairment losses on intangible assets	(10,450)	(1,784)	(1,784)
230.	Other operating income, expences	24,207	1,953	3,375
240.	**Operating costs**	**(54,494)**	**(48,966)**	**(45,244)**
290.	**Profit (Loss) Before Tax from continuing operations**	**30,787**	**17,784**	**9,655**
300.	Income taxes	9,789	11,672	16,090
310.	**Profit (Loss) After Tax from continuing operations**	**40,576**	**29,456**	**25,745**
330.	**Profit for the year**	**40,576**	**29,456**	**25,745**
340.	Profit (Loss) Minority Profit (loss) of the year	323	(17)	(17)
350.	**Parent Company's Profit (loss) of the year**	**40,253**	**29,473**	**25,762**

The group made a profit of €40.6 million for the year, including €40.3 million attributable to the owners of the parent and €0.3 million to minority interests, compared to a profit of €29.5 million for 2018.

Its pre-tax profit comes to €30.8 million and includes the parent's pre-tax profit of €36 million, that of CF Liberty Servicing S.p.A. (€5.4 million) and Be Credit Management S.p.A. (€71 thousand).

Net interest income amounts to €53.6 million. Interest income comes to €73.9 million compared to €71.4 million in 2019. The increase is due to the larger average principal of the investments in exposures purchased through the securisation vehicles with interest rates equal to the securisation rate. Interest income benefits from the higher return on the exposures, calculated using the portfolio IRR rather than the IRR of the notes issued by the vehicles like in the parent's separate financial statements. Interest expense of €20.3 million mostly relates to the Esagon on-line deposits (€13.8 million) as well as other sources of funds, such as repurchase agreements (€2.5 million) and other financing (€2.8 million) as well as interest of €163 thousand on the notes issued by the vehicles subscribed by third parties.

Net fee and commission income amounts to €38.7 million compared to €21.3 million for 2018. Fee and commission income of €44 million mostly relates to that earned on special servicing (€29.9 million) while fee and commission expense includes €2.1 million for outsourced credit collection services. In addition to the €34.1 million contributed by the parent to the net fee and commission income, this caption includes €13.4 million from CF Liberty Servicing and €0.2 million from Be Credit Management, net of the intragroup fee of roughly €9.8 million.

Operating Income amounts to €94.5 million compared to €89 million for 2018.

Impairment losses of €9.2 million on financial assets at amortised cost mainly relate to the exposures purchased through the securitisation vehicles.

Personnel expense amounts to €39 million (€26 million in 2018). Part of the increase (€5.3 million) is due to the inclusion of CF Liberty Servicing in the consolidation scope during the year, while the remainder relates to the higher employee numbers.

Other administrative expenses increased to €26.9 million, a small increase on the previous year (€22.7 million), €2.2 million of which relates to CF Liberty Servicing.

The group made **net accruals** of €0.6 million to the **provisions for risks and charges** for legal disputes.

Amortisation, depreciation and net impairment losses on property, equipment and investment property and intangible assets amount to €12.1 million compared to €2.1 million for 2018. The increase is a result of the impairment loss recognised on the Gerica intangible asset (€3.7 million), amortisation of the CF Liberty Servicing intangible asset (€3.7 million) and depreciation of right-of-use assets under IFRS 16 (€1.2 million).

Other operating income, net of €24.2 million mostly consists of the compensation of €24.5 million paid by Banca Carige (described earlier).

The group's **pre-tax profit** amounts to €30.8 million.

It recognised net deferred taxes of €20.8 million. Its **profit** for the year amounts to €40.6 million, including €40.3 million attributable to the owners of the parent and €323 thousand to minority interests.

Financial position and key profitability indicators

Profitability indicators	2019	2018
ROA (Gross profit/Total assets)	1.94%	1.65%
RORAC	14.80%	12.03%
EBITDA €/000	63,203	34,922

Balance Sheet

(€'000)

	Assets	31/12/2019	31/12/2018 revised	31/12/2018
10.	Cash and cash equivalents	72,875	58,929	58,929
20.	Financial assets at fair value through profit or loss	163,012	130,840	107,707
	a) held for trading	*729*	*325*	*325*
	c) other financial assets mandatorily measured at fair value	*162,283*	*130,515*	*107,382*
30.	Financial assets at fair value through other comprehensive income	3,514	6,516	6,516
40.	Financial assets at amortised cost	1,114,427	775,200	750,594
	a) loans and receivables with banks	*118,132*	*97,314*	*62,118*
	b) loans and receivables with customers	*996,296*	*677,886*	*688,476*
90.	Property, equipment and investment property	9,299	1,313	1,313
100.	Intangible assets	164,103	31,820	31,820
	including: goodwill	*67,408*	*10,206*	*10,206*
110.	Tax assets	38,871	21,014	21,012
	a) current	*6,543*	*3,090*	*3,088*
	b) deferred	*32,328*	*17,924*	*17,924*
130.	Other assets including:	17,901	53,130	52,689
	- contributed to the assets earmarked for a specific business: "Cube Gardenia"	*100*	*100*	*100*
	- contributed to the assets earmarked for a specific business: "Este"	*50*	*50*	*50*
	- contributed to the assets earmarked for a specific business: "Gimly - New Levante "	*50*	*-*	*-*
	Total assets	**1,584,002**	**1,078,764**	**1,030,581**

(€'000)

		31/12/2019	31/12/2018 revised	31/12/2018
10.	Financial liabilities at amortised cost	1,096,494	820,220	794,541
	a) due to banks	*245,654*	*256,942*	*231,263*
	b) due to customers	*740,337*	*563,278*	*563,278*
	c) securities issued	*110,503*	-	-
60.	Tax liabilities	35,767	8,234	238
	a) current	*3,098*	*30*	*30*
	b) deferred	*32,670*	*8,204*	*208*
80.	Other liabilities	48,235	27,676	20,345
90.	Post-employment benefits	4,079	2,343	2,342
100.	Provisions for risks and charges:	1,858	1,203	1,203
	c) other provisions	*1,858*	*1,203*	*1,203*
120.	Valuation reserves	(92)	(72)	(72)
150.	Reserves	160,935	12,520	9,167
160.	Share premium	139,982	139,319	139,319
170.	Share capital	37,785	37,681	37,681
190.	Minority shareholder's equity (+/-)	18,705	166	54
200.	Profit for the year (+/-)	40,253	29,473	25,762
	Total liabilities and equity	**1,584,002**	**1,078,764**	**1,030,581**

Total assets amount to €1,584 million at year end compared to €808.8 million at 31 December 2018 (+43%).

Investments ("Financial assets mandatorily measured at fair value through profit or loss" and "Loans and receivables with customers") come to €1,158.6 million and include:
• Loans and receivables with customers (POCI) of €725.0 million purchased through the securitisation vehicles;
• ABS of €189.0 million managed by the non-consolidated group companies;
• Loans of €55.8 million disbursed or purchased by the parent (including the Manuli exposure of €11.8 million, bank loans of €18.4 million and leases of €19.8 million);
• Government bonds of €135 million held by the parent;
• Investments of liquidity in current accounts and term deposits of €30.3 million;
• Trade receivables and other assets of €23.4 million.

The increase in investments is mostly due to the new transactions such as Artemide (€30.4 million), Cosmo (€17.7 million), Vette (€213.7 million) and Convento (€40.2 million).

Intangible assets increased by €164.1 million during the year and mainly comprise:
• Goodwill related to the Gerica transaction (€9.3 million) and the related intangible asset (€14.9 million);
• Goodwill of €0.8 million arising on the Be Credit Management acquisition;
• Goodwill arising on the CF Liberty acquisition (€57.2 million) and the related intangible asset (€80.8 million);
• Goodwill of €0.1 million recognised by Be Credit Management S.p.A.,
• Software of €1 million.

Deferred tax assets of €32.3 million at year end mostly relate to carryforward tax losses (€29.4 million) and ACE (€0.6 million). The parent had already recognised deferred tax assets of €16.4 million in 2018 (€13.7 million on carryforward tax losses and €2.7 million on ACE) while in 2019 it used €7 million of such assets, including €6.3 million related to the carryforward tax losses and €0.7 million to ACE. At year end, it recognised another €22 million for carryfoward tax losses and reversed €1.2 million for ACE.
The other deferred tax assets include those recognised in accordance with Law no. 214/11 (€1.5 million) and for the reverse merger with CFH (€0.6 million) described earlier in this report.

The group mostly funded its business activities using the Esagon product. At year end, on-line deposits amounted to €693.2 million. Other sources of funding are:
• Repurchase agreements of €142 million;
• Interbank credit facilities of €79.8 million.

The group vehicles issued securities of €110.5 million that have not been subscribed by group companies.

Equity amounts to €397.6 million and includes the profit of €40.6 million. It comprises €378.9 million attributable to the parent company and €18.7 million to minority interests. The increase on the previous year end is due to the capital injection of €120 million made by Tiber Investments s.à r.l..

Reconciliation between equity and the profit for the year of the parent with those of the group

(€'000)

	Equity	Profit for the year
As per the separate financial statements	**362,696**	**35,974**
CF Liberty Servicing S.p.A.	3,803	3,705
Be Credit Management S.p.A.	115	32
Consolidated vehicles	7,624	4,754
Variation/elimination of securitisation vehicles from the consolidation scope	8,502	(769)
Variation/elimination of Be Credit Management S.p.A. from the consolidation scope	(611)	(424)
Variation/elimination of CF Liberty Servicing S.p.A. from the consolidation scope	15,439	2,696
As per the consolidated financial statements (including minory interests)	**397,568**	**45,968**
Minory interests	**18,705**	**323**
As per the consolidated financial statements (Minority shareholder's equity)	**378,863**	**45,645**

Equity attributable to minority interests of €323 thousand refers to Be Credit Management S.p.A. (€21 thousand) and CF Liberty Servicing S.p.A. (€302 thousand).

Specifically, the profit for the year of €3,705 thousand recognised by CF Liberty Servicing S.p.A. is offset by amortisation of €2,696 thousand of the intangible asset recognised with the subsidiary's acquisition. Therefore, its profit for the year recognised for consolidation purposes is €1,008 thousand, including 30% attributable to minority interests.

Research & development

The group did not carry out research and development activities.

Other information

• Related party transactions are presented in part H of the notes to the consolidated financial statements;
• The consolidated companies do not hold treasury shares;
• Disclosures about the group' objectives and policies for the taking on, management and hedging of financial risks are provided in part E of the notes to the consolidated financial statements (Risks and hedging policies);
• The consolidated companies do not have branches;
• The consolidated companies have not entered into derivatives.

Outlook and going concern

Over the next twelve months, the parent will continue to evaluate further investment and servicing opportunities. The directors have prepared the consolidated financial statements at 31 December 2018 on a going concern basis as there are no doubts about the group's ability to continue as a going concern in the foreseeable future and for well beyond 12 months from the reporting date.

Events after the reporting date and outlook

In early 2020, the parent subscribed notes of €11 million issued by Cosmo 2 SPV.

On 20 March 2017, the European Central Bank published its Guidance to banks on non-performing loans, stating the importance of the timely provisioning and write off of non-performing exposures. It subsequently issued an addendum on 15 March 2018, which was updated in August 2018. The Guidance establishes that exposures granted after 26 April 2019 and classified as non-performing shall have different minimum loss coverages depending on whether they are secured or unsecured. It requires banks to be more highly capitalised. Credito Fondiario has commenced a series of checks to minimise the impact of the new regulation on its business model.

The group is also evaluating whether to streamline its investments by combining its portfolios and issuing new ABS with a rating for the senior notes.

No adjusting events after the reporting period (as per the definition of IAS 10.8) took place in the period from the reporting date to the date of approval of these consolidated financial statements that would have required the group to adjust the amounts recognised in its consolidated financial statements.

However, at the date of preparation of these consolidated financial statements, the group is monitoring the development of certain instability triggers such as the Covid-19 public health emergency (the "Coronavirus"), which initially affected the economy of China in the first few weeks of 2020. Since the start of February, the virus has spread throughout the rest of the world.

At the date of approval of these consolidated financial statements, Italy is the second most badly hit country in the world after China. Its northern regions, which drive Italy's economy, have been the worst affected. The Italian government has been forced to introduce drastic measures to contain the virus' spread, including the shutdown of all businesses, schools and universities, public offices and has banned most movement in the country.

At the date of approval of these consolidated financial statements, it is difficult to quantify and assess the economic effects of the Coronavirus although possible effects on the parent's business model can reasonably be expected to be linked to the slowdown (or shutdown) of the courts with possible impacts on credit collection times (from 3 to 6 months), the government concession of grace periods for loans with possible delays to already-agreed repayment plans, a deceleration in the national and international economy with a possible fallout on the realisable value of the assets given as guarantee for the loans and a slowdown in the economy with a possible growth in bank NPEs.

The group is assessing the possible negative impact on its investments due to decreases and delays in the collections for its own portfolios and those it manages on behalf of third parties.

However, the scenario could prospect a positive impact for the group, given the increase in NPEs to be managed in future years as part of the existing forward flow contracts and the related possible increase in the volume of NPEs to be transferred in Italy. This may trigger a decrease in prices.

At the date of approval of these consolidated financial statements, all the group's employees are working from home. They are all operational. There are no particular or specific safety concerns related to the group's employees.

At the date of this report, the parent's directors do not believe the group's liquidity will be significantly affected by the current situation, including in respect of funding from retail customers and access to institutional credit lines. The European Central Bank is expected to introduce a monetary policy favourable to the EU banks with the injection of liquidity.

The above factors are non-adjusting events after the reporting period pursuant to IAS 10.21 as, although the Coronavirus was already present in China at the reporting date, the existence of an international emergency was only announced at the end of January 2020. At the date of preparation of these consolidated financial statements, it is not possible to foresee its outcome or its effect on the economy. Therefore, its impact on the group's financial position and financial performance in the first quarter of 2020 cannot be quantified.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

(€'000)

	Assets	31/12/2019	31/12/2018
10.	Cash and cash equivalents	72,875	58,929
20.	Financial assets at fair value through profit or loss	163,012	130,840
	a) held for trading	*729*	*325*
	b) designated at fair value;		
	c) other financial assets mandatorily measured at fair value	*162,283*	*130,515*
30.	Financial assets at fair value through other comprehensive income	3,514	6,516
40.	Financial assets at amortised cost	1,114,427	775,200
	a) loans and receivables with banks	*118,132*	*97,314*
	b) loans and receivables with customers	*996,296*	*677,886*
50.	Hedging derivatives	-	-
60.	Fair value gains or losses on macro-hedged financial assets (+/-)	-	-
70.	Equity investments	-	-
90.	Property, equipment and investment property	9,299	1,313
100.	Intangible assets, including:	164,103	31,820
	- goodwill	*67,408*	*10,206*
110.	Tax assets	38,871	21,014
	a) current	*6,543*	*3,090*
	b) deferred	*32,328*	*17,924*
130.	Other, including:	17,901	53,130
	- contributed to the assets earmarked for a specific business: "Cube Gardenia"	*100*	*100*
	- contributed to the assets earmarked for a specific business: "Este"	*50*	*50*
	- contributed to the assets earmarked for a specific business: "Gimly - New Levante"	*50*	-
	Total assets	**1,584,002**	**1,078,764**

CONTINUED: CONSOLIDATED BALANCE SHEET

(€'000)

	Liabilities and equity	31/12/2019	31/12/2018
10.	Financial liabilities at amortised cost	1,096,494	820,220
	a) due to banks	*245,654*	*256,942*
	b) due to customers	*740,337*	*563,278*
	c) securities issued	*110,503*	-
20.	Financial liabilities held for trading	-	-
30.	Financial liabilities at fair value	-	-
40.	Hedging derivatives	-	-
50.	Fair value gains or losses on macro-hedged financial liabilities (+/-)	-	-
60.	Tax liabilities	35,767	8,234
	a) current	3,098	30
	b) deferred	32,670	8,204
80.	Other liabilities	48,235	27,676
90.	Post-employment benefits	4,079	2,343
100.	Provisions for risks and charges:	1,858	1,203
	a) commitments and guarantees given	-	-
	b) pension and similar provisions	-	-
	c) other provisions	*1,858*	*1,203*
120.	Valuation reserves	(92)	(72)
150.	Reserves	160,935	12,520
160.	Share premium	139,982	139,319
170.	Share capital	37,785	37,681
190.	Minority shareholder's equity (+/-)	18,705	166
200.	Profit for the year (+/-)	40,253	29,473
	Total liabilities and equity	**1,584,002**	**1,078,764**

CONSOLIDATED INCOME STATEMENT

(€'000)

		31/12/2019	31/12/2018
10.	Interest and similar income	73,931	71,461
	including: interest calculated using the effective interest method	73,846	70,361
20.	Interest and similar expense	(20,274)	(15,040)
30.	**Net interest income**	**53,657**	**56,422**
40.	Fee and commission income	44,033	23,124
50.	Fee and commission expense	(5,379)	(1,784)
60.	**Net fee and commission income**	**38,654**	**21,340**
70.	Dividends and similar income	-	-
80.	Net trading income (expense)	553	(25)
90.	Net hedging income (expense)	-	
100.	Net gain from sales or repurchases of:	9	-
	a) financial assets at amortised cost	-	
	b) financial assets at fair value through other comprehensive income	-	-
	c) financial liabilities	*9*	
110.	Net gain on other financial assets and liabilities at fair value through profit or loss	1,645	11,353
	a) financial assets and liabilities designated at fair value	-	-
	b) other financial assets mandatorily measured at fair value	*1,645*	*11,353*
120.	**Operating Income**	**94,517**	**89,090**
130.	Net impairment losses for credit risk associated with:	(9,237)	(22,340)
	a) financial assets at amortised cost	*(9,242)*	*(22,340)*
	b) financial assets at fair value through other comprehensive income	*5*	-
150.	**Net financial income**	**85,281**	**66,749**
190.	Administrative expenses:	(65,923)	(48,695)
	a) personnel expense	*(39,025)*	*(25,971)*
	b) other administrative expenses	*(26,899)*	*(22,723)*
200.	Net accruals to provisions for risks and charges	(635)	(125)
	b) other	*(635)*	*(125)*
210.	Depreciation and net impairment losses on property, equipment and investment property	(1,692)	(315)
220.	Amortisation and net impairment losses on intangible assets	(10,450)	(1,784)
230.	Other operating income, expences	24,207	1,953
240.	**Operating costs**	**(54,494)**	**(48,966)**
290.	**Profit (Loss) Before Tax from continuing operations**	**30,787**	**17,784**
300.	Income taxes	9,789	11,672
310.	**Post-tax profit from continuing operations**	**40,576**	**29,456**
330.	**Profit for the year**	**40,576**	**29,456**
340.	Profit (Loss) Minority Profit (loss) of the year	323	(17)
350.	**Parent Company's Profit (loss) of the year**	**40,253**	**29,473**

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

(€'000)

	Voci	31/12/2019	31/12/2018
10.	**Profit for the year**	**40,576**	**29,456**
	Other comprehensive expense, net of tax, that will not be reclassified to profit or loss:	**(73)**	**(8)**
70.	Defined benefit plans	*(73)*	*(8)*
	Other comprehensive expense, net of tax, that will be reclassified to profit or loss:	**38**	**(121)**
140.	Financial assets (other than equity instruments) at fair value through other comprehensive income	38	(121)
170.	**Other comprehensive expense, net of tax**	**(35)**	**(129)**
180.	**Comprehensive income (captions 10 + 170)**	**(40,541)**	**(29,326)**
190.	Comprehensive Income (expense) attribuitable to minority interest	308	(17)
200.	**Comprehensive Income (expense) attribuitable to Parent Company**	**40,233**	**29,343**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

(€'000)

	Balance at 31.12.2018	Change to opening balances	Balance at 1.1.2019	Allocation of prior year profit		Changes of the year									Equity at 31.12.2019	Equity att. to the parent company at 31.12.2019	Equity att. to minority interests at 31.12.2019
							Equity transactions										
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Repurchase of own shares	Extraordinary dividend distribution	Change in equity instruments	Derivatives on treasury shares	Stock options	Change in equity investments	2019 comprehensive income			
Share capital:																	
a) ordinary shares	37,864	-	37,864	-	-	-	104	-	-	-	-	-	(8)	-	37,960	37,785	175
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium	139,319	-	139,319	-	-	-	663	-	-	-	-	-	-	-	139,982	139,982	-
Reserves:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
a) income-related	(2,385)	-	(2,385)	29,456	-	-	-	-	-	-	-	-	18,136	-	45,206	26,984	18,223
b) other	14,906	-	14,906	-	-	120,000	-	-	-	-	-	(956)	-	-	133,950	133,950	-
Valuation reserves	(72)	-	(72)	-	-	-	-	-	-	-	-	-	-	(36)	(108)	(92)	(16)
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit for the year	29,456	-	29,456	(29,456)	-	-	-	-	-	-	-	-	-	40,576	40,576	40,253	323
Total equity	**219,088**	**-**	**219,088**	**-**	**-**	**120,000**	**767**	**-**	**-**	**-**	**-**	**(956)**	**18,128**	**40,541**	**397,568**	**378,862**	**18,705**
Parent Company shareholders' equity	218,922	-	218,922	-	-	120,000	767	-	-	-	-	(956)	(104)	40.233	-	378.862	-
Minority shareholders' equity	166	-	166	-	-	-	-	-	-	-	-	-	18,232	308	-	-	18,705

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

(€'000)

	Balance at 31.12.2017	Change to opening balances	Balance at 1.1.2018	Allocation of prior year profit		Changes of the year									Equity at 31.12.2018	Equity att. to the parent company at 31.12.2018	Equity att. to minority interests at 31.12.2018
							Equity transactions										
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Repurchase of own shares	Extraordinary dividend distribution	Change in equity instruments	Derivatives on treasury shares	Stock options	Change in equity investments	2018 comprehensive income			
Share capital:																	
a) ordinary shares	27,564	72	27,636	-	-	-	10,117	-	-	-	-	-	112	-	37,864	37,681	184
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium	84,436	-	84,436	-	-	-	54,883	-	-	-	-	-	-	-	139,319	139,319	-
Reserves:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
a) income-related	2,019	1,333	3,353	-	-	(5,738)	-	-	-	-	-	-	-	-	(2,385)	(2,385)	-
b) other	80,034	-	80,034	(1,084)	-	-	(65,000)	-	-	-	-	956	-	-	14,906	14,906	-
Valuation reserves	(5,451)	(172)	(5,623)	-	-	5,839	-	-	-	-	-	-	-	(288)	(72)	(72)	-
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit for the year	(1,084)	-	(1,084)	1,084	-	-	-	-	-	-	-	-	-	29,456	29,456	29,473	(17)
Total equity	**187,519**	**1,233**	**188,752**	**-**	**-**	**101**	**-**	**-**	**-**	**-**	**-**	**956**	**112**	**29,168**	**219,088**	**218,922**	**166**
Parent Company shareholders' equity	187,519	1,161	188,680	-	-	101	-	-	-	-	-	956	-	29,185	-	218,922	-
Minority shareholders' equity	-	72	72	-	-	-	-	-	-	-	-	-	112	(17)	-	-	166

CONSOLIDATED STATEMENT OF CASH FLOWS - (indirect method)

(€'000)

A. OPERATING ACTIVITIES	31/12/2019	31/12/2018
1. Operations	**50,716**	**31,700**
- profit for the year (+/-)	40,576	29,456
- net losses on financial assets held for trading and other financial assets/ liabilities at fair value through other comprehensive income (-/+)	(2,198)	(11,328)
- gains/losses on hedging transactions (-/+)	-	-
- net impairment gains for credit risk (+/-)	9,237	22,340
- amortisation, depreciation and net impairment losses on property, equipment and investment property and intangible assets (+/-)	12,142	2,099
- net accruals to provisions for risks and charges and other costs/revenue (+/-)	635	125
- unsettled taxes and tax assets (+/-)	(9,789)	(11,672)
- net impairment losses/reversals of impairment losses on non-current assets held for sale and disposal groups, net of tax (+/-)	-	-
- other adjustments (+/-)	113	680
2.Cash flows used for financial assets	**(342,056)**	**(352,806)**
- financial assets held for trading	-	350
- financial assets at fair value through profit or loss	-	-
- other assets mandatorily measured at fair value	(29,974)	189,037
- financial assets at fair value through other comprehensive income	3,002	25,809
- financial assets at amortised cost	(348,464)	(506,963)
- other assets	33,380	(61,040)
3. Cash flows generated by financial liabilities	**295,878**	**407,422**
- financial liabilities at amortised cost	276,274	403,773
- financial liabilities held for trading	-	-
- financial liabilities at fair value	-	-
- other liabilities	19,604	3,649
Net cash flows generated by operating activities	**4,538**	**86,316**

(continued) - CONSOLIDATED STATEMENT OF CASH FLOWS - (indirect method)

(€'000)

B. INVESTING ACTIVITIES	31/12/2019	31/12/2018
1. Cash flows generated by	**-**	**-**
- sales of equity investments	-	-
- dividends from equity investments	-	-
- sales of property, equipment and investment property	-	-
- sales of intangible assets	-	-
- sales of business units	-	-
2. Cash flows used to acquire	**(110,591)**	**(32,561)**
- equity investments	-	-
- property, equipment and investment property	(9,677)	(711)
- intangible assets	(100,914)	(850)
- business units	-	(31.000)
Net cash flows used in investing activities	**(110,591)**	**(32,561)**

C. FINANCING ACTIVITIES	31/12/2019	31/12/2018
- issue/repurchase of treasury shares	-	-
- issue/purchase of equity instruments	120,000	-
- dividend and other distributions	-	-
Net cash flows generated by financing activities	**120,000**	**-**
NET CASH FLOWS FOR THE YEAR	**13,946**	**53,755**

Key: (+) generated (-) used

RECONCILIATION

(€'000)

Financial statements captions	31/12/2019	31/12/2018
Opening cash and cash equivalents	58,929	5,174
Total net cash flows for the year	13,946	53,755
Cash and cash equivalents: exchange rate gains (losses)	-	-
Closing cash and cash equivalents	**72,875**	**58,929**

With respect to the additional disclosures required after publication of Regulation (EU) 2017/1990 which partly amended IAS 7 "Statement of cash flows", the group does not have liabilities arising from financing activities and, therefore, paragraphs from 44A to 44E and paragraph 60 are not applicable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Part A - Accounting policies

Part B - Notes to the statement of financial position

Part C - Notes to the income statement

Part D - Comprehensive income

Part E - Risks and hedging policies

Part F - Equity

Part G - Business combinations

Part H - Related party transactions

Part I - Share-based payments

Part L - Segment reporting

Part M - Leases

Part A: Accounting policies

A.1 – GENERAL PART

Section 1 – Statement of compliance with IFRS

As required by Legislative decree no. 38 of 28 February 2005, the consolidated financial statements as at and for the year ended 31 December 2019 were prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and related interpretations of the International Financial Reporting Interpretations Committee (IFRIC) endorsed by the European Union as per the procedure set out by article 6 of Regulation (EC) 1606 of 19 July 2002. They also comply with the layout and compilation requirements contained in Circular no. 262 of 22 December 2005 (fifth revision of 22 December 2017), issued by Bank of Italy as part of its powers granted by article 43 of Legislative decree no. 136/2015.

The accounting policies applied to prepare these consolidated financial statements differ from those adopted for the consolidated financial statements at 31 December 2018 with reference to the classification, recognition, measurement and derecognition of financial assets and liabilities and the recognition of revenue and costs. The changes are essentially due to the mandatory application of IFRS 16 from 1 January 2019.

IFRS 16 was issued in January 2016 and replaces IAS 17, SIC 15, SIC 27 and IFRIC 4. It establishes different criteria to determine whether a contract is a lease. The new definition provides that a lease contract exists when a customer controls the use of an identified asset. This definition hinges on the concept of control as set out in IFRS 10 and IFRS 15.

In 2018, the parent completed the integrated analysis of all the areas affected by the new standard: planning and organisation, accounting and reporting, IT and training. It identified 16 leases that are potentially within the scope of IFRS 16 in December and performed specific analyses using the relevant check list. Once this stage was completed, it was able to define the accounting treatment of the assets and measure the related effects.

At initial application, the group has elected to adopt (like the other operators in the banking sector) the cumulative catch-up approach (IFRS 16.C5.b), which means that equity at 1 January 2019 is not affected as the approach provides for recognition of a right-of-use asset equal to the lease liability adjusted by any deferred or accrued income related to the lease recognised immediately before the date of initial application.

The restatement of comparative figures is not required.

The right-of-use asset calculation model gave a total of €13 million at 1 January 2019.

The following table summarises the effects of the transition to IFRS 16:

(€'000)

	01/01/2019
Right-of-use assets: property	13,148
Lease liabilities	13,148
Undiscounted lease liabilities	15,149

In 2019, the group revised the lease term of a number of buildings which are no longer likely to be extended beyond their original term. Moreover, the lease of the Milan office premises terminated on 31 December 2019. As a result, the right-of-use assets, net of accumulated depreciation, amount to €7 million at the reporting date, 98% of which refers to leases of office premises.

In the light of the above, these consolidated financial statements set out the group's new accounting policies and an analysis of the main captions.

First application/recently adopted standards

New standards or amendments issued by the IASB and endorsed by the European Union to be mandatorily adopted for periods starting on or after 1 January 2019 are as follows:

Name	Issue date	Effective date	Endorsement date	EU regulation and publication date
IFRS 16 – Leases	January 2016	1° January 2019	31 October 2017	(UE) 2017/1986 9 November 2017
Prepayment features with negative compensation (Amendments to IFRS 9)	October 2017	1° January 2019	22 March 2018	(UE) 2018/498 26 March 2018
IFRIC 23 "Uncertainty over income tax treatments"	June2017	1° January 2019	23 October 2018	(UE) 2018/1595 24 October 2018
Long-term interests in associates and joint ventures (Amendments to IAS 28)	October 2017	1° January 2019	8 February 2019	(UE) 2019/237 11 February 2019
Plan amendment, curtailment or settlement (Amendments to IAS 19)	February 2018	1° January 2019	13 March 2019	(UE) 2019/402 14 March 2019
Annual improvements to IFRSs – 2015-2017 cycle	December 2017	1° January 2019	14 March 2019	(UE) 2019/412 15 March 2019

The standards and related IFRIC applicable starting from periods that begin after 1 January 2019 (endorsed by the EU at 23 January 2020) are as follows:

Name	Issue date	Effective date	Endorsement date	EU regulation and publication date
Amendments to references to the conceptual framework in IFRS standards	March 2018	1° January 2020	29 November 2019	(UE) 2019/2075 6 December 2019
Definition of material (Amendments to IAS 1 and IAS 8)	October 2018	1° January 2020	29 November 2019	(UE) 2019/2014 10 December 2019
Interest rate benchmark reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	September 2019	1° January 2020	15 January 2020	(UE) 2020/34 16 January 2020

The standards and related IFRIC applicable starting from periods that begin after 1 January 2019 (NOT yet endorsed by the EU up to 23 January 2020) are as follows (they will only become applicable after being endorsed by the EU):

Name	Issue date by the IASB	Effective date set by the IASB	Expected date of endorsement by the EU
Standards			
IFRS 14 Regulatory Deferral Accounts	January 2014	**(Note 1)**	**(Note 1)**
IFRS 17 Insurance Contracts	May 2017	1° January 2021 **(Note 2)**	TBD
Amendments			
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	September 2014	Differita fino al completamento del progetto IASB sull'equity method	Rinviata in attesa della conclusione del progetto IASB sull'equity method
Definition of business (Amendments to IFRS 3)	October 2018	1° January 2020	March 2020
Classification of Liabilities as Current or Non-current (Amendments to IAS 1)	January 2020	1° January 2022	TBD

(Note 1) IFRS 14 became effective on 1 January 2016, but the European Commission decided to suspend the endorsement process and to wait for the new standard on rate-regulated activities.

(Note 2) In 2019, the IASB published an exposure draft on proposed amendments to IFRS 17 and the deferral of its effective date to 1 January 2022. At the reporting date, the IASB had not yet definitively approved the proposed amendments to IFRS 17.

The consolidated financial statements show the figures as at and for the year ended 31 December 2019 and the following comparative information:
• Statement of financial position at 31 December 2018;
• Income statement for the year ended 31 December 2018;
• Statement of comprehensive income for the year ended 31 December 2018;
• Statement of changes in equity for the year ended 31 December 2018;
• Statement of cash flows for the year ended 31 December 2018;

Section 2 – Basis of preparation

The consolidated financial statements consist of a statement of financial position, an income statement, a statement of comprehensive income, a statement of changes in equity, a statement of cash flows (prepared using the indirect method) and these notes, drawn up in accordance with the formats and technical layouts defined by Bank of Italy. They are accompanied by a directors' report in which the directors comment on the group's performance and financial position, as required by the IFRS.

Pursuant to article 5 of Legislative decree no. 38/2005, the consolidated financial statements were prepared in Euros as the reporting currency. The amounts in the consolidated financial statements are presented in Euros while the amounts in the notes and the directors' report are in thousands of Euros, unless specified otherwise.

The group prepared the consolidated financial statements in line with the general principles set out in IAS 1:
a) Going concern: assets, liabilities and off-statement of financial position items are measured on a going concern basis as management is reasonably certain that the group will continue to operate for least 12 months after the reporting date. No additional work to support this assumption was necessary given the disclosures in the consolidated financial statements and the directors' report.
b) Accruals basis of accounting: except in the statement of cash flows, expenses and revenue are recognised on an accruals and matching basis.
c) Consistency of presentation: the presentation and classification criteria of the captions are consistent from one period to another to ensure comparable information, unless their modification is required by a standard or an interpretation or an improvement in the materiality and reliability of the caption's presentation becomes necessary. In the case of a change in accounting policy, the new policy is applied retroactively, as far as possible, and the nature, reason for and amount of the captions affected by the change are indicated as well as the effects on the group's financial position, results of operations and cash flows. Captions are presented and classified in line with Bank of Italy's instructions for banks' financial statements in Circular no. 262 of 22 December 2005 and subsequent amendments.
d) Materiality and aggregation: in line with Bank of Italy's instructions for banks' financial statements, the various classes of similar items are presented separately, if material. Different items, if material, are presented separately.
e) Offsetting: except when required or allowed by the IFRS or Bank of Italy's instructions for banks' financial statements, assets and liabilities and expenses and revenue are not offset.
f) Comparative information: comparative information from the previous year for all amounts reported in the current year's consolidated financial statements is disclosed, including qualitative when deemed useful, except when IFRS permit or require otherwise. The information is analysed and illustrated and all the additional disclosures deemed necessary to provide a true and fair view of the group's financial position, financial performance and cash flows are presented. The different national and international regulations are considered, when possible, as are the Bank of Italy instructions about financial statements when preparing the schedules.
g) Departures: if, in exceptional cases, application of the requirements of the IFRS is not compatible with a true and fair view of the group's financial position, financial performance and cash flows, it is not applied. The notes explain the reasons for the departure from the standards and its effect on the group's financial position, financial performance and cash flows. No departures were made in these consolidated financial statements.

Section 3 – Basis of consolidation

1. Investments in subsidiaries

The consolidated financial statements include the separate financial statements of Credito Fondiario and the financial statements of the companies it controls, regardless of whether it has an equity investment therein.

Control exists solely if and only if the investor has all of the following:
• The power to direct the relevant activities of the investee;
• Exposure to variable returns from its involvement with the investee;
• The ability to use its power over the investee to affect the amount of the investor's returns.

Jointly controlled entities are those over which control is shared by the parent with other non-consolidated parties.

The following entities are included in the consolidation scope:

	Head office and Registered office	Type of relationship (1)	Investment		Voting rights % (2)
			Investor	%	
CF Liberty Servicing S.p.A.	Rome	1	Credito Fondiario S.p.A.	70%	70%
Be Credit Management S.p.A.	Rome	3	Credito Fondiario S.p.A.	35%	35%
LeaseCo One S.r.l.	Rome	1	Credito Fondiario S.p.A.	100%	100%
Sallustio SPV S.r.l.	Rome	4	Credito Fondiario S.p.A.	60%	60%
Elmo SPV S.r.l.	Rome	4	Credito Fondiario S.p.A.	60%	60%
Novus SPV S.r.l.	Rome	4	Credito Fondiario S.p.A.	60%	60%
New Levante SPV S.r.l.	Rome	4	Credito Fondiario S.p.A.	60%	60%
Ponente SPV S.r.l.	Rome	4	Credito Fondiario S.p.A.	60%	60%
Cosmo SPV S.r.l.	Rome	4	Credito Fondiario S.p.A..	60%	60%
Convento SPV S.r.l.	Rome	4	Credito Fondiario S.p.A.	60%	60%
Sesto SPV S.r.l.	Rome	4	Credito Fondiario S.p.A.	60%	60%
Lucullo SPV S.r.l.	Rome	4	Credito Fondiario S.p.A.	60%	60%
Resloc SPV S.r.l.	Rome	4	Credito Fondiario S.p.A.	60%	60%
Bramito SPV S.r.l.	Rome	4	Credito Fondiario S.p.A.	60%	60%
Artemide SPV S.r.l.	Rome	4	Credito Fondiario S.p.A.	60%	60%
Vette SPV S.r.l.	Rome	4	Credito Fondiario S.p.A.	60%	60%

Key
(1) Type of relationship:
1= majority of the voting rights at general meetings;
2= dominant influence at general meetings;
3= owners' agreements;
4= other forms of control;
5= common management as per article 39.1 of Legislative decree no. 136/215
6= common management as per article 39.2 of Legislative decree no. 136/215
(2) Voting rights at general meetings, distinguishing between effective and potential

2. Key judgements and assumptions to identify the consolidation scope

IFRS 10 governs consolidated financial statements and defines the requirements for the identification of the consolidation scope.

According to IFRS 10, an investor controls an investee if and only if the investor has all the following:
• The power to direct the relevant activities of the investee;
• Exposure, or rights, to variable returns from its involvement with the investee;
• The ability to use its power over the investee to affect the amount of the investor's returns.

Control exists when all three conditions above are concurrently met.

An investee is subject to significant influence when the parent, directly or indirectly, has at least 20% of its voting rights (including "potential" voting rights) or, if it has a smaller percentage of voting rights, when it has the power to participate in deciding operating and financing policies due to special legal relationships such as shareholder agreements.

An investee is jointly controlled when control is shared by the parent, directly or through other group companies, and one or more parties based on an agreement or when decisions about significant matters have to be taken by all the parties holding control.

The parent controls an investee when it is directly or indirectly exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

An investor, regardless of the nature of its involvement with an entity (the investee), shall determine whether it is a parent by assessing whether it controls the investee.

The IFRS 10 requirements for the assessment of whether an investor controls an investee apply to all types of equity investments (companies, vehicles, investment funds/OEICs, etc.).

An investee is included in the Credito Fondiario Group's consolidation scope when:
• The parent has the majority of the voting rights at general meetings (de jure control);
• The parent's vote is necessary by virtue of shareholder agreements to take significant decisions (this is the case of the subsidiary BE Credit Management S.p.A.);
• The parent's control over a structured entity is due to factors other than voting or similar rights.

Specifically, the in-scope structured entities are as follows:
1. Sallustio SPV S.r.l.;
2. Elmo SPV S.r.l.;
3. Novus SPV S.r.l.;
4. New Levante SPV S.r.l.;
5. Ponente SPV S.r.l.;
6. Cosmo SPV S.r.l.;
7. Convento SPV S.r.l.;
8. Sesto SPV S.r.l.;
9. Lucullo SPV S.r.l.;
10. Resloc SPV S.r.l.;
11. Bramito SPV S.r.l.;
12. Artemide SPV S.r.l.;
13. Vette SPV S.r.l.

Except for Resloc SPV S.r.l., the parent owns 60% of the above vehicles' quota capital and 100% (91% in the case of Artemide SPV S.r.l.) of the junior notes they issued as part of securitisation transactions.

3. Investments in subsidiaries with significant minority interests

3.1 Minority interests, their voting rights and dividends

	Minority interests %	Voting rights %	Dividends
CF Liberty Servicing S.p.A.	30%	30%	-
Be Credit Management S.p.A.	65%	65%	-

(1) Voting rights at general meetings.

3.2 Equity investments with significant minority interests: breakdown

	Total assets	Cash and cash equivalents	Financial assets	Property, equipment, investment property and intangible assets	Financial liabilities	Equity	Net interest income (expense)	Total income	Operating costs	Pre-tax profit from continuing operations	Post-tax profit from continuing operations	Post-tax profit (loss) from discontinued operations	Profit for the year (1)	Other comprehensive expense, net of tax (2)	Comprehensive income (3) = (1) + (2)
CF Liverty Servicing S.p.A.	19,429	-	14,296	1,348	7,597	3,899	(74)	13,329	(7,931)	5,397	3,705	-	3,705	(52)	3,653
Be Credit Management S.p.A..	955	1	770	162	373	115	1	939	(878)	71	40	-	40	-	40

4. Significant restrictions

There are no significant restrictions to report (IFRS 12.13).

5. Other information

The consolidated financial statements include the separate financial statements of the parent (Credito Fondiario S.p.A.) and the financial statements of the companies it controls. Accordingly, they include the financial statements of those SPVs that the parent effectively controls, regardless of whether it has an equity investment therein.

Investments in subsidiaries are consolidated, whereas minority interests are measured using the equity method.

The group measures the securitised portfolios of Italian Credit Recycle SPV S.r.l.. and Restart SPV S.r.l., over which the parent exercises joint control, using the equity method. It holds 47.5% of the notes as does another investor. Based on the investors' arrangements, any decisions involving relevant activities shall be taken with the favourable vote of the two main noteholders.

At the reporting date, the group decided to improve the presentation of its business by changing the way it consolidates its SPVs, i.e., it recognised the loans/portfolios underlying the ABS, together with the related accrued interest and costs. At the previous reporting date, it had used a simplified method by converting the ABS included in the parent's separate financial statements into loans/portfolios, consistently with the approach used by the former parent, Tages Holding S.p.A..

The change led to the restatement of the group's equity at 31 December 2018, which increased by €7,176 thousand (net of tax).

The comparative figures include the effect of the changes, which affected both the 2018 income statement (€3,711 thousand) and equity at 31 December 2018 (total of €7,176 thousand, as mentioned earlier).

The differences are mainly due to:
• The determination of the IRR on the basis of GDP net solely of up front costs and credit collection costs. This approach is in line with the requirements of IFRS 9 for POCI financial assets (most exposures are impaired when purchased or, in any case, purchased at a discount), used to calculate the portfolio's amortised cost[4];
• The recognition of the portfolio's initial carrying amount on the basis of the actual cash flows (purchase price net of collections plus the securitisations' structuring costs)[5];
• Recalculation of the frequency of the collections on a monthly rather than a quarterly basis;
• Measurement of the ABS subscribed by third parties and any deferred purchase price ("DPP") included in the securitisations at amortised cost.

The portfolios of the jointly-controlled vehicles (Restart and ICR) have been measured using the equity method with the presentation of the related net gain or loss in the caption "Financial assets at amortised cost".

Pursuant to IAS 8, this is a change in accounting policies made to better present the group's actual operations to third parties. Accordingly, the group restated the 2018 comparative figures, as shown in the "Financial performance and position" section of the directors' report.

There are no significant restrictions to report (IFRS 12.3).

Section 4 – Events after the reporting date

No events have taken place since the reporting date that would have required changes to the approved data, the results or additional information to be provided, in addition to that described in the Events after the reporting date and outlook section of the directors' report about Covid-19. Specifically, no significant events have taken place in the period from the reporting date to the date of publication of the consolidated financial statements that would have affected the group's financial position, financial performance and cash flows. This considers the prudent management of risks, the qualitative and quantitative aspects of which are detailed in Part E of these notes and capital adequacy in Part F.

Reference should be made to the "Events after the reporting date and outlook" section of the directors' report for further information.

Section 5 – Other issues

Use of accounting estimates

Application of the IFRS to prepare consolidated financial statements requires management to make accounting estimates for some asset and liability captions that are considered reasonable and realistic based on the information available when the estimate is made. The estimates affect the carrying amount of the assets and liabilities and the disclosure about contingent assets and liabilities at the reporting date as well as the revenue and costs for the reporting period.

Changes in the conditions underlying the judgements, assumptions and estimates may affect subsequent period results.

The main areas for which judgements are required by management are:
• Calculation of impairment losses or gains on financial assets at amortised cost, which include the portfolios purchased directly by the parent and the SPVs;
• Use of valuation models to calculate the fair value of financial instruments not quoted on active markets;

(4) When it applied the "simplified" approach, the group determined the 'IRR as the difference between the portfolio's gross disposition proceeds ("GDP") set out in the relevant business plans, net of credit collection costs, up front costs, any servicing fees and commission expense and all other costs pre-deducted from the securities' interest payment flows.
(5) The ABS subscription prices were used previously as a base.

• Calculation of employee benefits and provisions for risks and charges;
• Estimates and assumptions about the recoverability of deferred tax assets.

The descriptions of the accounting policies applied to the main financial statements captions provide the information necessary to identify the main assumptions and judgements adopted by management to prepare the consolidated financial statements.

Assets earmarked for a specific business

On 26 April and 16 June 2017 and 19 September 2018, the board of directors resolved to set aside three groups of assets earmarked for a specific business, "Cube – Gardenia", "Este – Restart and "Este - Gimli".

The groups were set aside pursuant to article 2447-bis and following articles of the Italian Civil Code specifically to purchase en bloc, as per article 58 of the Consolidated Banking Act, the contracts deriving from the securitised leases and the underlying assets.

The groups of assets financed the purchase with special loans in accordance with article 2447-decies of the Italian Civil Code.

As the group has not set aside its assets and liabilities for the creation of these three groups of assets, which instead have been created by the purchase of assets and leases with the taking on of third party loans, it has not presented these assets and transactions in a separate column in its statement of financial position.

In addition, the parent provided the assets earmarked for a specific business with funds of €100 thousand (Cube Gardenia) and €50 thousand (Este Restart and Gimli – New Levante) to provide them with initial liquidity. These endowment funds are presented as "of which" under other assets. Given the contractual terms of the two transactions, the group is not exposed to any risks or benefits as the assets earmarked for a specific business were set aside to service the loans and leases of the securitisation vehicles which carried out the securitisations.

Independent auditors

KPMG S.p.A. performed the statutory audit of the group's consolidated financial statements as per the shareholders' resolution of 10 December 2013.
Pursuant to article 17.1 of Decree no. 39/2010, the audit engagement has a nine-year term (from 31 December 2013 to 31 December 2021).

Approval of the consolidated financial statements

On 25 March 2020, the directors approved the draft consolidated financial statements and their presentation to the shareholders within the terms provided for by article 2429 of the Italian Civil Code. For the purposes of IAS 10.17, the preparation date of these consolidated financial statements is 25 March 2020, i.e., when the board of directors approved them.

A.2 - MAIN FINANCIAL STATEMENTS CAPTIONS

The accounting policies adopted to prepare the consolidated financial statements are set out below.

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

Recognition

Debt and equity instruments are initially recognised at the settlement date, loans at the disbursement date and derivatives at the date they are entered into.

Upon initial recognition, financial assets at fair value through profit or loss are measured at fair value without considering transaction costs or revenue.

Classification

This category includes financial assets other than those classified at fair value through other comprehensive income or at amortised cost. Specifically, this caption includes:
- financial assets held for trading, which are mainly debt and equity instruments and derivatives held for trading with positive fair values;
- those financial assets that, upon initial recognition and if the relevant requirements are met, are designated as measured at fair value. Indeed, an entity may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency;
- those assets that are mandatorily measured at fair value, because they do not meet the requirements for their measurement at amortised cost or at fair value through other comprehensive income. The contractual terms of these financial assets give rise to cash flows that are not solely payments of principal and interest on the principal amount outstanding (i.e., they did not pass the SPPI test) or the asset is not held with a business model whose objective is to hold financial assets in order to collect contractual cash flows (hold to collect model) or whose objective is achieved by both collecting contractual cash flows and selling financial assets (hold to collect and sell model).

Therefore, this caption includes the following:
- the debt instruments and loans included in another/trading business model (therefore, not a hold to collect or hold to collect and sell model) or that do not pass the SPPI test. The latter include the ABS in which the group invested under a hold to collect business model and which are measured at fair value since they did not pass the SPPI test;
- the equity instruments that do not qualify as investments in subsidiaries, associates and joint ventures and are held for trading or that at initial recognition are not designated as measured at fair value through other comprehensive income;
- OEIC units.

This caption also includes the derivatives recognised as other assets held for trading which are presented as assets if their fair value is positive or liabilities if their fair value is negative. They may be offset if relating to transactions with the same counterparty and only if the group currently has a legally enforceable right to set off the recognised amounts and intends to settle them on a net basis.

Derivatives include those embedded in compound financial instruments, whose host contract is a financial liability, that have been recognised separately since:
- they have economic characteristics and risks that are not closely related to those of the host;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative;
- the hybrid instruments that host them are not measured at fair value through profit or loss.

Under the IFRS 9 general reclassification rules for financial assets (except for equity instruments, whose reclassification is not allowed), an entity is required to reclassify financial assets if it changes its business model for managing those financial assets. Such changes are expected to be very infrequent. In these cases, an entity reclassifies a financial asset out of the fair value through profit or loss measurement category and into one of the other two categories provided for by IFRS 9 (financial assets at amortised cost or financial assets at fair value through other comprehensive income). The transferred asset is measured at its fair value at the reclassification date and the entity shall apply the reclassification prospectively from the reclassification date. The effective interest rate is determined on the basis of the fair value of the asset at the reclassification date, which is treated as the date of initial recognition for its assignment to the various risk stages for impairment purposes.

Measurement

After initial recognition, financial assets at fair value through profit or loss are measured at fair value and the resulting gain or loss is recognised in profit or loss.

Reference should be made to the "Fair value" section for information on fair value measurement.

Derecognition

These financial assets are derecognised only if their sale has entailed the substantial transfer of all the related risks and rewards. If a significant part of the risks and rewards of the transferred financial asset is retained, they continue to be recognised even when title has legally been transferred.

If it is not possible to ascertain the substantial transfer of risks and rewards of title, the group derecognises the financial assets if it no longer has control thereover. If the group has retained control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset, measured as its exposure to changes in the fair value of the assets sold and variability in their future cash flows.

Transferred financial assets are derecognised when the group retains the contractual right to receive the cash flows but assumes a concurrent obligation to pay the cash flows without material delay to one or more recipients.

Recognition of costs and revenue

Interest income, calculated using the IRR for ABS, is recognised as "Interest and similar income" in the income statement.

Gains and losses and fair value gains and losses compared to the instruments' acquisition cost are recognised under income statement caption "110. Net gain on other financial assets and liabilities at fair value through profit or loss".

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

Recognition

Debt and equity instruments are initially recognised at the settlement date and loans at the disbursement date.

Upon initial recognition, the assets are measured at fair value, including directly attributable transaction costs or revenue.

Classification

A financial asset shall be classified in this category if both of the following conditions are met:
- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (hold to collect and sell model), and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI test passed).

This category also includes equity instruments other than those held for trading which the group has designated as measured at fair value through other comprehensive income upon initial recognition.

Under the IFRS 9 general reclassification rules for financial assets (except for equity instruments, whose reclassification is not allowed), an entity is required to reclassify financial assets if it changes its business model for managing those financial assets.

Such changes are expected to be very infrequent. In these cases, an entity reclassifies a financial asset out of the fair value through other comprehensive income measurement category and into one of the other two categories provided for by IFRS 9 (financial assets at amortised cost or financial assets at fair value through profit or loss).

The transferred asset is measured at its fair value at the reclassification date and the entity shall apply the reclassification prospectively from the reclassification date. If an asset is reclassified out of this category and into the amortised cost measurement category, the cumulative gain or loss previously recognised in the fair value reserve is removed from equity and adjusted against the fair value of the financial asset at the reclassification date. If an asset is reclassified out of this category and into the fair value through profit or loss measurement category, the cumulative gain or loss previously recognised in the fair value reserve is reclassified from equity to profit or loss.

Measurement

After initial recognition, a gain or loss on a financial asset measured at fair value through other comprehensive income is recognised in a specific equity reserve, except for those arising from the application of amortised cost, impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognised. When the financial asset is derecognised, in part or in its entirety, the cumulative gain or loss previously recognised in the fair value reserve is reclassified, in part or in its entirety, from equity to profit or loss.

The equity instruments that the group has elected to classify in this category are measured at fair value and any cumulative gain or loss recognised in OIC (statement of comprehensive income) cannot be subsequently transferred to profit or loss, even when the instrument is disposed of. Only dividends on such investments are recognised in profit or loss.

Reference should be made to the "Fair value" section for information on fair value measurement.

Like for assets measured at amortised cost, the group assesses whether the credit risk of its financial assets measured at fair value through other comprehensive income (either debt instruments or loan assets) has increased significantly, in accordance with the impairment requirements of IFRS 9. If this is the case, the group recognises the expected credit loss accordingly. Specifically, it recognises a 12-month expected credit loss on its financial instruments classified at stage 1 (i.e., financial assets that are not originated credit-impaired and financial assets whose credit risk has not increased significantly since initial recognition) upon initial recognition and at each subsequent reporting date. It recognises a lifetime expected credit loss on its financial instruments classified at stage 2 (performing financial assets, whose credit risk increased significantly since initial recognition) and stage 3 (credit-impaired financial assets). Conversely, equity instruments are not subject to impairment testing.

Derecognition

These financial assets are derecognised only if their sale has entailed the substantial transfer of all the related risks and rewards. If a significant part of the risks and rewards of the transferred financial asset is retained, they continue to be recognised even when title has legally been transferred.

If it is not possible to ascertain the substantial transfer of risks and rewards of title, the group derecognises the financial assets if it no longer has control thereover. If the group has retained control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset, measured as its exposure to changes in the fair value of the assets sold and variability in their future cash flows.

Transferred financial assets are derecognised when the group retains the contractual right to receive the cash flows but assumes a concurrent obligation to pay the cash flows without material delay to one or more recipients. If it is not possible to ascertain the substantial transfer of risks and rewards of title, the group derecognises the financial assets if it no longer has control thereover. If the group has retained control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset, measured as its exposure to changes in the fair value of the assets sold and variability in their future cash flows.

Recognition of costs and revenue

Gains and losses on the assets' sale are recognised in caption "100. Gains/losses from sales or repurchases of: b) financial assets at fair value through other comprehensive income" in the income statement. Fair value gains and losses are recognised directly in equity (caption "110. Valuation reserves") and reclassified to the income statement (caption "100. Gains/losses from sales or repurchases of: b) financial assets at fair value through other comprehensive income") when realised due to their sale or when impairment losses are recognised. In this case, they are recognised in caption "130. Net impairment losses/gains for credit risk associated with: b) financial assets at fair value through other comprehensive income". This caption shows the net impairment gains or losses solely for debt instruments as impairment gains or losses on quoted equity instruments are recognised directly in equity (fair value reserve) while impairment gains cannot be recognised for unquoted equity instruments.

3 - Financial assets at amortised cost

Recognition

Debt instruments are initially recognised at the settlement date, while loans are recognised at the disbursement date. Upon initial recognition, the assets are measured at fair value, including directly attributable transaction costs or revenue.

The disbursement date of loans is usually the agreement signing date. If they are not the same, when signing the agreement, the group recognises a commitment to grant funds which is extinguished when the loan is disbursed. They are recognised at their fair value, which equals the amount disbursed, or their subscription price including transaction costs or revenue attributable to the individual loan and determinable from the transaction start date, even when they are disbursed subsequently.

The initially recognised amount does not include costs that, despite having the above characteristics, are to be reimbursed by the counterparty or are administrative costs.

Classification

A financial asset (in particular, loans and debt instruments) shall be classified in this category if both of the following conditions are met:
- the financial asset is held within a business model whose objective is achieved by collecting contractual cash flows (hold to collect model), and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI test passed).

Specifically, the following are recognised in this caption:
- loans and receivables with banks that meet the requirements set out above;
- loans and receivables with customers that meet the requirements set out above;
- debt instruments that meet the requirements set out above.

This caption also includes trade receivables arising from the provision of financial services, as defined by the Italian Consolidated Banking Act and the Italian Consolidated Finance Act (e.g., from the distribution of financial products and from servicing).

Under the IFRS 9 general reclassification rules for financial assets, an entity is required to reclassify financial assets if it changes its business model for managing those financial assets. Such changes are expected to be very infrequent. In these cases, an entity reclassifies a financial asset out of the fair value at amortised cost measurement category and into one of the other two categories provided for by IFRS 9 (financial assets at fair value through other comprehensive income or financial assets at fair value through profit or loss). The transferred asset is measured at its fair value at the reclassification date and the entity shall apply the reclassification prospectively from the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and fair value is recognised in profit or loss, if the asset is reclassified out of this category and into the fair value through profit or loss measurement category, whereas it is recognised in the fair value reserve in equity if the asset is reclassified into the fair value through other comprehensive income category.

Measurement

After initial recognition, these financial assets are subsequently measured at amortised cost using the effective interest method. Under this method, the asset is recognised at its initial carrying amount decreased by principal repayments and adjusted by accumulated amortisation (calculated using the effective interest method) of the difference between the carrying amount at initial recognition and at maturity (generally due to the cost/revenue directly allocated to the individual asset) and by the loss allowance, if any. The effective interest rate is the rate that exactly discounts estimated future cash flows (principal and interest) to the disbursed amount, including directly attributable costs and revenue. This accounting method allows the distribution of the costs and revenue directly attributable to a financial asset over its expected residual life.

The amortised cost method is not used for assets measured at historical cost as discounting these loans has no material impact considering their short term, and assets without a set maturity or on demand.

Impairment is strictly related to the exposures' credit staging, i.e., their classification in one of the three stages provided for by IFRS 9, the last of which (stage 3) includes credit-impaired financial assets and the other two (stages 1 and 2) include performing financial assets.

The expected credit losses on these assets are recognised in profit or loss as follows:
- upon initial recognition, the 12-month expected credit losses;
- upon subsequent measurements, if the credit risk has not increased significantly since initial recognition, the 12-month expected credit losses;
- upon subsequent measurements, if the credit risk has increased significantly since initial recognition, the life-time expected credit losses;
- upon subsequent measurements, if, after the credit risk increased significantly since initial recognition, the increase is no longer significant, the amount that accounts for the change from a life-time expected credit loss to a 12-month expected credit loss.

If they are performing, these financial assets are subject to an individual impairment assessment according to their risk parameters: probability of default (PD), loss given default (LGD) and exposure at default (EAD).

If, in addition to a significant increase in credit risk, there is also objective evidence of impairment, the amount of the loss is measured as the difference between the carrying amount of the asset – classified as "credit-impaired", like all the other relationships with the same counterparty – and the present value of the estimated future cash flows, discounted using the original effective interest rate. The amount of the loss to be recognised in profit or loss is calculated based on an individual measurement or a collective measurement by group of similar assets and, then, individually allocated to each position, considering forward-looking information and possible alternative recovery scenarios as detailed in the "Impairment of financial assets" section.

Credit-impaired assets include financial assets classified as bad, unlikely-to-pay or overdrawn/past due by over ninety days according to the rules issued by Bank of Italy, in line with the IFRS and EU supervisory regulations.

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

The original effective rate of each asset remains unchanged over time even when it is restructured with a variation of the contractual interest rate and when the asset, in practice, no longer bears contractual interest.

When the reasons for impairment are no longer valid, the impairment loss is reversed through profit or loss. The reversal cannot exceed the amortised cost the asset would have had if it had not been impaired.

Impairment gains due to the passage of time are recognised in net interest income.

In some cases, during the lifetime of these financial assets, and of loans in particular, the original contractual terms may be subsequently modified by the parties to the contract. When the contractual terms are modified during the lifetime of an instrument, the group assesses whether the original asset should continue to be recognised in the statement of financial position or whether, instead, it should be derecognised and a new financial asset needs to be recognised.

In general, modifications to a financial asset lead to its derecognition and the recognition of a new asset when they are "substantial". The assessment of the "substantial nature" of the modification is made using both qualitative and quantitative information. In some cases, without resorting to complex analyses, it is clear that the characteristics and/or contractual cash flows of a particular asset are substantially modified while, in other cases, further analyses (including quantitative analyses) are necessary to assess the effects of the modifications and check whether or not to derecognise the asset and recognise a new financial instrument.

The qualitative and quantitative analyses aimed at defining the "substantial nature" of contractual changes made to a financial asset must, therefore, consider:
• The purposes for which the modifications were made: e.g., renegotiations for commercial reasons and forbearance measures due to financial difficulties of the counterparty:
- the former, aimed at "retaining" the customer, involve a borrower that does not have financial difficulties. This category includes all renegotiations aimed at aligning the cost of the debt to market conditions. These transactions involve a change in the original terms of the contract, usually requested by the borrower and relating to aspects concerning the cost of the debt, with a consequent economic benefit for the borrower. In general, whenever a group company carries out a renegotiation to avoid losing its customer, that renegotiation should be considered as substantial because, if it were not carried out, the customer could borrow from another intermediary and the group would incur a decrease in expected future revenue;
- the latter, carried out for "reasons of credit risk" (forbearance measures), relate to the group's attempt to maximise the recovery of the cash flows of the original loan. The underlying risks and rewards, following the modifications, are not normally substantially transferred and, consequently, the accounting treatment that provides the most relevant information for the consolidated financial statements users (apart from the triggers discussed below) is "modification accounting" – which involves the recognition through profit or loss of the difference between the carrying amount and the present value of the modified cash flows discounted at the original interest rate – rather than derecognition;
• The existence of specific triggers that affect the contractual characteristics and/or cash flows of the financial instrument (such as, for example, a change in currency or a modification of the type of risk the financial instrument is exposed to, when correlated to equity and commodity parameters), which are expected to lead to derecognition due to their impact (expected to be significant) on the original contractual cash flows.

Derecognition

These financial assets are derecognised only if their sale has entailed the substantial transfer of all the related risks and rewards. If a significant part of the risks and rewards of the transferred financial asset is retained, they continue to be recognised even when title has legally been transferred.

If it is not possible to ascertain the substantial transfer of risks and rewards of title, the group derecognises the financial assets if it no longer has control thereover. If the group has retained control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset, measured as its exposure to changes in the fair value of the assets sold and variability in their future cash flows.

Transferred financial assets are derecognised when the group retains the contractual right to receive the cash flows but assumes a concurrent obligation to pay the cash flows without material delay to one or more recipients.

Recognition of costs and revenue

Interest income, calculated using the nominal interest rate or the IRR for ABS, is recognised as "Interest and similar income" in the income statement. Default interest is recognised in profit or loss when collected.

Impairment gains are recognised in caption "130. Net impairment losses/gains on loans for credit risk associated with: a) financial assets at amortised cost".

If the amount of the impairment loss decreases in subsequent years and the decrease is objectively related to an event that took place after recognition of the impairment loss, the impairment loss is reversed directly or through the release of the allowance to profit or loss.

If the assets are derecognised, any resulting losses are recognised in profit or loss, net of the related allowance.

4 – Equity investments

Recognition, classification and measurement

This caption includes investments in associates.
An entity is an associate, i.e., subject to significant influence, when the group has at least 20% of its voting rights (including "potential" voting rights) or, if it has a smaller percentage of voting rights, when the group has the power to participate in deciding operating and financing policies due to special legal relationships such as shareholder agreements. The group has investments of more than 20% in entities that are not considered to be subject to significant influence, as it solely has equity rights to a portion of the return on investments, does not participate in operating decisions and can only exercise limited governance rights to protect its interest.

Investments in associates are measured at cost less any impairment losses.

If there is an indication that an equity investment is impaired, its recoverable amount is estimated, considering the present value of the future cash flows that the equity investment may generate, including its sales price.

If the recoverable amount is lower than its carrying amount, the difference is recognised in profit or loss.

When the reasons for the impairment loss are no longer valid due to an event that took place subsequently to its recognition, the impairment loss is reversed through profit or loss.

Derecognition

Equity investments are derecognised when the group's contractual rights to cash flows therefrom expire or when they are sold, transferring substantially all the related risks and rewards.

5 - Property, equipment and investment property

Recognition

Property, equipment and investment property are initially recognised at cost, which comprises the asset's purchase price, trade discounts and rebates, non-refundable purchase taxes (e.g., non-deductible VAT and registration taxes) and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Classification

Property, equipment, machinery and other assets used in operations are covered by IAS 16 while investment property (land and buildings) fall under the scope of IAS 40.

The category comprises right-of-use assets covered by IFRS 16 as well as leasehold improvement costs.

IFRS 16 was issued in January 2016 and replaces IAS 17, SIC 15, SIC 27 and IFRIC 4. It establishes the criteria to determine whether a contract is a lease. The new definition provides that a lease contract exists when a customer controls the use of an identified asset. This definition hinges on the concept of control as set out in IFRS 10 and IFRS 15.

Property, plant and equipment are recognised as assets when:
1. it is probable that future economic benefits associated with the item will flow to the group;
2. the cost of the item can be measured reliably.

When a lease gives the group control over the use of the underlying asset, property is recognised as a right-of-use asset at the present value of the lease payments.

Measurement

Subsequent costs, related to an asset already recognised, are added to its carrying amount when it is probable that they will increase the future economic benefits in excess of the normal output of the asset as originally estimated. All other costs are expensed when incurred.

After recognition as an asset, an item of property, equipment and investment property is recognised at its cost less any accumulated depreciation and any accumulated impairment losses. Impairment tests are performed once a year.

Derecognition

Property, equipment and investment property are derecognised on disposal or retirement or termination of the lease and no future economic benefits are expected from their use or disposal.

Recognition of costs and revenue

The depreciable amount of an asset is allocated on a systematic basis over its useful life. The useful life of an asset is defined considering its use to the group. When expectations differ significantly from previous estimates, the depreciation charge for the current and subsequent periods is adjusted.

Right-of-use assets are depreciated on a straight-line basis over the lease term or the asset's useful life, if shorter.

Impairment losses are recognised if an item of property and equipment or investment property has undergone impairment pursuant to IAS 36. The impairment loss is fully or partially reversed if the reasons therefor are no longer valid in subsequent periods and the reversal is recognised under non-recurring income.

6 - Intangible assets

Recognition

Intangible assets are recognised at cost, adjusted for any transaction costs, only if it is probable that the future economic benefits associated with the asset will flow to the group and the asset's cost may be determined reliably. If these conditions are not met, the cost of the asset is recognised in profit or loss when incurred.

Classification

Intangible assets include goodwill, covered by IFRS 3, and other intangible assets which fall under the scope of IAS 38.

An intangible asset is recognised as such solely when it is a resource that is:
• Non-monetary;
• Identifiable;
• Without physical substance;
• Held for use in the production or supply of goods or services, lease to third parties or for administrative purposes;
• Controlled by the group;
• From which future economic benefits are expected to flow to the group.

Measurement

The cost of assets with finite useful lives is amortised on a straight-line or diminishing balance basis depending on how the economic benefits are expected to flow to the group. Assets with indefinite useful lives are not amortised, but are regularly tested for impairment.

If there is any indication that an asset may be impaired, the asset's recoverable amount is estimated. The impairment loss, which is recognised in profit or loss, is equal to the difference between the asset's carrying amount and recoverable amount.

In particular, intangible assets include:
- technology related intangible assets, such as software, which are amortised on the basis of their expected technological obsolescence and over a maximum period of seven years. In particular, the costs incurred internally for the development of software projects are recognised under intangible assets only when all the following conditions are met: i) the cost attributable to the intangible asset during its development stage can be measured reliably, ii) there is the intention, the availability of financial resources and the technical ability to make the intangible asset available for use or sale, iii) the future economic benefits to be generated by the asset can be demonstrated. Software development capitalised costs only comprise the costs directly attributable to the development stage. They are amortised systematically over the estimated useful life of the relevant product/service so as to reflect the pattern in which the asset's future economic benefits are expected to be consumed by the group from the beginning of production over the product's estimated life;
- customer related intangible assets arising from business combinations, which consist of asset management relations and insurance portfolios. Such assets have a finite life and are initially measured by discounting the expected cash flows from ongoing relations at the date of the business combination over their residual, contractual or estimated, life using a rate representing the time value of money and the asset's specific risks. Asset management relations that do not have a set maturity are amortised on a straight-line basis over the period when the expected economic benefits are greater while relations from insurance contracts with a set maturity are amortised on a diminishing balance basis over the policy's residual term;
- marketing related intangible assets, i.e., the brands obtained as part of business combinations. These assets have an indefinite useful life since they are deemed to contribute to the group's cash flows for an indefinite period of time.

Lastly, intangible assets include goodwill.

Goodwill may be recognised as part of business combinations when the positive difference between the consideration transferred plus the fair value of any minority interests and the fair value of the acquired assets and liabilities represents the acquiree's future income-generating potential.

If this difference is negative (negative goodwill) or if the positive difference is not justified by the acquiree's future income-generating potential, it is immediately recognised in profit or loss.

Once a year (or whenever there is indication of impairment losses), goodwill is tested for impairment. This requires the identification of the cash-generating unit to which goodwill is allocated. Any impairment losses are determined on the basis of the difference between the carrying amount of goodwill and its recoverable amount, if lower. The recoverable amount is the higher of the fair value less costs to sell of the cash-generating unit and its value in use. Any resulting impairment losses are recognised in profit or loss.

Derecognition

Intangible assets are derecognised on disposal and if no future economic benefits are expected therefrom.

Recognition of costs and revenue

The depreciable amount of an intangible asset is allocated on a systematic basis over its useful life. The useful life of an asset is defined considering its use to the group. When expectations differ significantly from previous estimates, the amortisation charge for the current and subsequent periods is adjusted.

Impairment losses are recognised if an intangible asset has undergone impairment pursuant to IAS 36. The impairment loss is fully or partially reversed if the reasons therefore are no longer valid in subsequent periods and the reversal is recognised under non-recurring income.

7 - Current and deferred taxes

Recognition

Current and deferred taxes, calculated in accordance with the Italian tax legislation, are recognised as an expense on an accruals basis, in line with the costs and revenue generating them. They show the tax income (expense) for the reporting period. Under the liability method, they include:
a) current tax assets, the amount of income taxes recoverable in respect of the taxable profit (tax loss) for the period;
b) current tax liabilities, the amount of income taxes payable in respect of the taxable profit (tax loss) for the period;
c) deferred tax assets, the amount of income taxes recoverable in future periods in respect of deductible temporary differences (mainly expenses deductible in the future from taxable profit (tax loss) under the ruling tax laws);
d) deferred tax liabilities, the amount of income taxes payable in future periods in respect of taxable temporary differences (mainly deferred tax on revenue or advance deductions of expenses when determining taxable profit (tax loss) of future periods under the ruling tax laws).

Classification

Current tax assets and liabilities show the group's tax position vis-à-vis the tax authorities. Current tax liabilities include the tax liability for the reporting period while the current tax assets comprise payments on account and other tax assets for withholdings or other prior year tax assets which the group intends to use for offsetting purposes in subsequent periods.

Deferred tax assets and liabilities are classified as non-current assets and liabilities pursuant to IAS 1.56.

Therefore, deferred taxes are presented under non-current liabilities as "Deferred tax liabilities" when they are liabilities, i.e., are related to items that will become taxable in future periods, otherwise they are recognised as "Deferred tax assets" under non-current assets when they relate to items that will be deductible in future periods.

Deferred taxes are recognised under equity if they relate to transactions that affect equity.

Measurement

Corporate income tax (IRES) and the regional tax on production activities (IRAP) are calculated using a realistic estimate of the positive and negative items of the reporting period using the enacted tax rates.

Deferred tax assets are only recognised when it is probable that the group will have sufficient taxable profit in the same period as the reversal of the deductible temporary differences. Deferred tax liabilities are always recognised.

Current and deferred taxes are offset only when the group has the legally enforceable right to set off the recognised amount and intends to do so.

Recognition of costs and revenue

The balancing entry of tax assets and liabilities (current and deferred) is the caption "Income tax" in the income statement. When the current or deferred taxes to be recognised relate to transactions, the results of which are recognised directly in equity, the related tax assets and liabilities are also recognised in equity.

8 - Financial liabilities at amortised cost

Recognition

The group commences recognising these financial liabilities at the contract's execution date, which normally coincides with when the cash is received or the debt instruments are issued.

The financial liabilities are initially recognised at their fair value, which usually equals the cash received or the issue price, increased by any transaction costs that are directly attributable to the acquisition or issue of the financial liabilities. Internal administrative costs are excluded.

Classification

Due to banks and to customers and securities issued may comprise the various forms of the group's funding (interbank and with customers), repurchase agreements and certificates of deposit, bonds and other securities issued, net of any portions redeemed.

This caption also includes the group's lease liabilities recognised as a lessee in finance leases.

Measurement

After initial recognition, financial liabilities are measured at amortised cost using the effective interest method. Current liabilities, where the time value of money is immaterial, are recognised at the amount received.

Derecognition

Financial liabilities are derecognised when they expire or are extinguished. They are derecognised even when the group has repurchased a portion of previously issued bonds. The difference between the financial liability's carrying amount and the consideration paid is recognised in profit or loss.

Replacements on the market of repurchased securities issued by the group are considered new issues and recognised at the new placing price.

Recognition of costs and revenue

Interest expense, calculated using the nominal interest rate, is recognised as "Interest and similar expense" in the income statement.

9 - Provisions for risks and charges

Recognition

Provisions for risks and charges include accruals for legal or labour obligations or for disputes (including tax) arising as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made.

A provision is recognised when and only when:
• The group has a present obligation (legal or constructive) as a result of a past event;
• It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
• A reliable estimate can be made of the amount of the obligation.

Classification

If the recognition criteria are met, the group recognises the provision under "Provisions for risks and charges" (caption 120).

The provisions include accruals made to cover:
• The group's legal disputes, especially risks related to claw-back claims, operational risks on services provided on behalf of third parties and all other operational risks arising in conjunction with complaints received from customers;
• All other accruals for specific expense and/or risks for which the group has voluntarily or under contract agreed to cover even though they have not yet been specifically formalised at the reporting date.

Measurement

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period and that takes risks and uncertainties that inevitably surround many events and circumstances into account.

Provisions for liabilities expected to be settled after one year are recognised at their present value.

Derecognition

A provision is reversed to profit or loss if it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or at the time of its settlement.

Recognition of costs and revenue

When the effect of the time value of money is material, the provision is discounted using current market rates. The provision and increase in the provision due to the passage of time are recognised in profit or loss.

The accrual to the restructuring provision covers significant reorganisations that have a material effect on the group's nature and strategies. It mainly covers the related consultancy fees.

Accruals made to the provisions for risks and charges are recognised in the income statement caption "Net accruals to provisions for risks and charges".

10 - Other information

Treasury shares

The parent and the other group companies do not have treasury shares.

Prepayments and accrued income, deferred income and accrued expenses

These captions which include income and expense related to the reporting period accrued on assets and liabilities are recognised as an adjustment to the assets and liabilities to which they refer.

Classification of financial assets

The classification of the financial assets into the three categories established by the standard depends on two classification drivers: the business model used to manage the financial instruments and the contractual cash flow characteristics of the financial assets (or SPPI test).

The classification of the financial assets derives from the combined effect of the two drivers mentioned above, as described below:
- financial assets at amortised cost: assets that pass the SPPI test and come under the hold to collect (HTC) business model;
- financial assets at fair value through other comprehensive income (FVOCI): assets that pass the SPPI test and come under the hold to collect and sell (HTCS) business model;
- financial assets at fair value through profit or loss (FVTPL): this is a residual category, which includes financial instruments that cannot be classified in the previous categories based on the results of the business model assessment or the test of the contractual cash flow characteristics (SPPI test not passed).

SPPI test

In addition to the analysis of the business model, a financial asset may be classified as at amortised cost or at FVOCI if its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI test). Loans and debt instruments, in particular, should be subjected to this test.

The SPPI test should be carried out on each financial instrument upon initial recognition.

After initial recognition, and as long as it is maintained in the statement of financial position, the asset is no longer subjected to the SPPI test. If a financial asset is derecognised and a new financial asset is recognised, the SPPI test must be performed on the new asset.

For the application of the SPPI test, IFRS 9 provides the following definitions:
- principal: the fair value of the financial asset at initial recognition. This may change over the life of the financial asset, for example if there are repayments of part of the principal;
- interest: the consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time. It can also include consideration for other basic lending risks and costs and a profit margin.
In assessing whether the contractual cash flows of a financial asset can be defined as SPPI, IFRS 9 refers to the general concept of a "basic lending arrangement", which is independent of the legal form of the asset. When contract terms introduce exposure to risks or volatility in the contractual cash flows that is inconsistent with the definition of a basic lending arrangement, such as exposure to changes in share or commodity prices, the contractual cash flows do not meet the definition of SPPI. The application of the classification driver based on contractual cash flows sometimes requires a judgement and, consequently, the establishment of internal application policies.

When assessing a modified time value of money element – for example, when the interest rate of the financial asset is reset periodically, but the frequency of the reset or the frequency of payment of the coupons does not reflect the nature of the interest rate (such as when the interest rate is reset monthly on the basis of a one-year rate) or when the interest rate is reset regularly on the basis of an average of particularly short or medium-to-long term rates – an entity should assess, using both quantitative and qualitative information, whether the contractual cash flows still meet the definition of SPPI (benchmark cash flows test). If the test shows that the (undiscounted) contractual cash flows are "significantly different" from the (also undiscounted) cash flows of a benchmark instrument (i.e., without the modified time value element), the contractual cash flows cannot be considered to meet the definition of SPPI.

The standard requires specific analyses ("look through tests") to be performed and these are therefore also conducted on multiple contractually linked instruments (CLIs) that create concentrations of credit risk for debt repayment and on non-recourse assets, for example when a loan can only be enforced on specified assets of the debtor or on the cash flows from specified assets.

The presence of contractual clauses that may change the frequency or amount of the contractual cash flows must also be considered to determine whether those cash flows meet the SPPI requirements (e.g., prepayment options, the possibility of deferring contractually agreed cash flows, embedded derivative instruments, subordinated instruments, etc.).

However, as envisaged by IFRS 9, a contractual cash flow characteristic does not affect the classification of the financial asset if it could have only a de minimis effect on the contractual cash flows of the financial asset (in each reporting period and cumulatively). Similarly, if a cash flow characteristic is not genuine, i.e., if it affects the instrument's contractual cash flows only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur, it does not affect the classification of the financial asset.

The decision-making trees, which are included in the parent's management tool, have been developed internally with the assistance of a leading consultancy company (for both debt instruments and loans). They capture any non-SPPI compliant elements and take into account the IFRS 9 guidance, in addition to the group's own interpretation of the standard.

Business model

IFRS 9 identifies three cases relating to the way in which cash flows and sales of financial assets are managed:
- hold to collect (HTC): this is a business model whose objective is achieved by collecting the contractual cash flows of the financial assets included in the portfolios associated to it. The inclusion of the portfolio of financial assets in this business model does not necessarily result in the inability to sell the instruments, but the frequency, value and timing of sales in prior periods, the reasons for the sales, and the expectations about future sales, need to be considered;

- hold to collect and sell (HTCS): this is a mixed business model whose objective is achieved by collecting the contractual cash flows of the financial assets in portfolio and (also) through the sale of the financial assets, which is an integral part of the strategy. Both activities (collection of contractual cash flows and sale) are indispensable to achieve the business model's objective. Accordingly, sales are more frequent and significant than for an HTC business model and are an integral part of the strategies pursued;
- others/trading: this is a residual category that includes both financial assets held for trading and financial assets managed with a business model that does not come under the previous categories (hold to collect and hold to collect and sell). In general, this classification applies to a portfolio of financial assets whose management and performance are measured based on fair value.

The business model reflects the way in which financial assets are managed to generate cash flows for the benefit of the entity and is defined by senior management with the appropriate involvement of the business structures.

It is defined by considering the way in which financial assets are managed and, as a consequence, the extent to which the portfolio's cash flows derive from the collection of contractual flows, from the sale of the financial assets, or from both. This assessment is not performed on the basis of scenarios that the entity does not reasonably expect to occur, such as the so-called "worst case" or "stress case" scenarios. For example, if an entity expects that it will sell a particular portfolio of financial assets only in a stress case scenario, that scenario does not affect the entity's assessment of the business model for those assets if the entity reasonably expects that such a scenario will not occur.

The business model does not depend on management's intentions regarding an individual financial instrument, but refers to the way in which groups of financial assets are managed in order to achieve a specific business objective.

In summary, the business model:
- reflects the way in which financial assets are managed to generate cash flows;
- is defined by senior management, with the appropriate involvement of the business structures;
- must be observable by considering the way the financial assets are managed.

In operational terms, the assessment of the business model is carried out in line with the group's organisation, the specialisation of the business functions, the risk cascading model and the assignment of delegated powers (limits).

All relevant factors available at the date of the assessment are used in the assessment of the business model. The above information includes the strategy, the risks and their management, the remuneration policies, the reporting, and the amount of the sales. In the analysis of the business model, the elements investigated must be consistent with each other and, in particular, with the strategy pursued. Evidence of activities not in line with the strategy must be analysed and duly justified.

In this regard, and in relation to the business models under which the financial assets are held, a specific business model assessment policy – approved by the competent governance levels – defines and sets out the components of the business model in relation to the financial assets included in the portfolios managed as part of the operations of the group's business structures.

For the HTC portfolios, the group has set limits for frequent but not significant sales to be considered eligible (individually or in aggregate, or for infrequent sales even if their amount is significant) and the parameters have also been established for identifying sales as being consistent with that business model because they relate to an increase in credit risk.

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition decreased by principal repayments and adjusted by accumulated amortisation (calculated using the effective interest method) of the difference between the carrying amount at initial recognition and at maturity (generally due to the cost/revenue directly allocated to the individual asset) and by the loss allowance, if any.

The effective interest rate is the rate that exactly discounts future cash payments or receipts through the expected life of the financial instrument or through the subsequent date for recalculation of the price to the present value of the financial asset or financial liability. In the calculation of the present value, the effective interest rate is applied to the flow of future cash receipts or payments through the entire useful life of the financial asset or liability or for a shorter period when certain conditions are met (for example, reviews of market interest rates).

After initial recognition, amortised cost enables allocation of revenue and costs directly by decreasing or increasing the instrument's carrying amount over its entire expected life via the amortisation process. Amortised cost is calculated differently depending on whether the financial assets/liabilities have fixed or variable rates and – in this last case – whether the rate volatility is known beforehand.

Amortised cost measurement is applied to financial assets at amortised cost and at fair value through other comprehensive income or profit or loss, as well as financial liabilities at amortised cost.

Financial assets and liabilities traded at market conditions are initially recognised at fair value, which normally is equal to the amount disbursed or paid including, for instruments measured at amortised cost, transaction costs and any directly attributable fees.

As specified by IFRS 9, in some cases, a financial asset is considered credit-impaired at initial recognition because the credit risk is very high and, in the case of a purchase, it is purchased at a deep discount (with respect to the initial disbursement amount). If these financial assets, based on the application of the classification drivers (SPPI test and business model), are classified as assets measured at amortised cost or at fair value through other comprehensive income, they are classified as purchased or originated credit-impaired (POCI) assets and are subject to special impairment requirements. In addition, a credit-adjusted effective interest rate is calculated at the initial recognition of POCI assets, which requires the inclusion of the initial expected credit losses in the cash flow estimates. This credit-adjusted effective interest rate is used for the application of the amortised cost and the consequent calculation of interest.

The amortised cost method is not used for financial assets and liabilities with a short term, without a set maturity and on demand as discounting these loans has no material impact.

Impairment

Impairment of financial assets

Pursuant to IFRS 9, at each reporting date, financial assets other than those measured at fair value through profit or loss are tested for impairment to assess whether there is any evidence that their carrying amount may not be fully recoverable. A similar analysis is performed for commitments to disburse funds and guarantees issued that must be tested for impairment under IFRS 9.

If there is indication of impairment, these financial assets - as well as any other assets pertaining to the same counterparty - are considered credit-impaired and are included in stage 3. For these exposures, which are classified – in accordance with Bank of Italy Circular no. 262/2005 – as bad, unlikely-to-pay and overdrawn/past due by more than ninety days, the group recognises a loss allowance equal to their lifetime expected credit losses.

Impairment of performing financial assets

When there is no indication of impairment (performing financial instruments), the group checks whether there is evidence that the credit risk of the individual exposures has increased significantly since initial recognition. This check, in terms of classification (or, more precisely, staging) and measurement, has the following consequences:
- where this evidence exists, the financial assets are included in stage 2. In this case, in compliance with the IFRS and despite the absence of indication of impairment, the group recognises a loss allowance equal to their lifetime expected credit losses. At each subsequent reporting date, the group reviews the loss allowance, both to periodically check its adequacy with the continuously updated loss estimates and to take account – if the evidence of "significantly increased" credit risk is no longer present – of the change in the forecast period for the calculation of the expected credit loss;
- where this evidence does not exist, the financial assets are included in stage 1. In this case, in compliance with

the IFRS and despite the absence of indication of impairment, the group recognises a loss allowance equal to their 12-month expected credit losses. At each subsequent reporting date, the group reviews the credit allowance, both to periodically check its adequacy with the continuously updated loss estimates and to take account – if the evidence of "significantly increased" credit risk emerges – of the change in the forecast period for the calculation of the expected credit loss.

In accordance with IFRS 9 and effective implementation by the group, the following factors constitute the key elements to be taken into account for the measurement of financial assets and, in particular, the identification of the "significant increase" in credit risk (a necessary and sufficient condition for the classification of the asset as stage 2):

• ABS not measured at fair value through profit or loss:
- net collections since inception of the securitisation 20% lower than those forecast in the business plan;
- a 3-notch decrease in the external rating of listed securities, if this decrease does not directly lead to classification as stage 3 (junk grade);
- business plan reviewed by the portfolio management and acquisition department downward by over 20% of "net recoveries", if the new business plan does not lead to the write-off of the junior and mezzanine securities measured at fair value that are part of the same transaction, if any. In this case, the affected financial assets are directly transferred to stage 3;
- business plan reviewed by extending the recovery timing by over three years, if the new business plan does not lead to the write-off of the junior and mezzanine securities measured at fair value that are part of the same transaction, if any. In this case, the affected financial assets are directly transferred to stage 3.

• Other securities:
- a 3-notch decrease in the external rating down to BBB+, a 2-notch decrease from BBB to BBB- and a 1-notch decrease, as long as it does not directly lead to classification as stage 3 (junk grade);
- analytical risk assessment of the instrument (issuer risk, country risk, etc.).

• Loans and receivables with customers (loans, personal loans granted to employees, subsidies and lease assets):
- a past due amount that - subject to the materiality thresholds identified by the regulations - has been as such for at least 30 days. In this case, the credit risk is presumed to have "significantly increased" and the exposure is, therefore, transferred to stage 2 (if it was previously included in stage 1);
- forbearance measures, which lead to the rebuttable presumption that credit risk has "significantly increased" since initial recognition and to the exposure's reclassification;

• Loans and receivables with banks:
- a 3-notch decrease in the counterparty's external rating or, if not available, in the counterparty's country's rating, down to BBB+, a 2-notch decrease from BBB to BBB- and a 1-notch decrease, as long as it does not directly lead to classification as stage 3 (junk grade);
- analytical risk assessment of the counterparty (issuer risk, country risk, etc.).
Once the allocation to the various credit risk stages has been established, the expected credit losses (ECL) are determined at individual transaction or securities tranche level, based on the PD, LGD and EAD parameters.

Impairment of credit-impaired financial assets

All credit-impaired exposures are classified as stage 3, including those past due by over 90 days, regardless of the amount. Moreover, stage 3 includes all tranches associated with securities in default.

The group only reclassifies assets from stage 1 directly to stage 3 in exceptional cases, i.e., when their credit standing deteriorates dramatically and default is evident before receiving an interim report on credit rating. The group's business model envisages investments in POCI assets, which are therefore directly classified as stage 3 upon initial recognition.

The group assesses its credit-impaired exposures analytically using specific models depending on the nature of the assessed asset.

In particular, its POCI assets have specific impairment characteristics. Since initial recognition and over their entire life, the group recognises a loss allowance equal to their lifetime ECL. Therefore, at each reporting date, the group recognises any impairment gains or losses as may be necessary to adjust their lifetime ECL in profit or loss. Based on the above, the POCI assets are initially classified as stage 3, provided that they may be subsequently reclassified as performing exposures, nonetheless adjusted by a loss allowance equal to their lifetime ECL.

Business combinations

Business combinations are governed by IFRS 3.

The transfer of control over an entity (or an integrated set of activities and assets that is capable of being conducted and managed as a single business) is considered a business combination.

To this end, control is deemed to have been transferred when the investor is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

IFRS 3 requires that an acquirer be identified in any business combination. The acquirer is identified as the combining entity that obtains control of the other combining entities or businesses. If a controlling entity cannot be identified, following the definition of control described above, as, for example, in the case of the exchange of equity investments, the identification of the acquirer considers other factors such as: the entity which has a significantly higher fair value, the entity which pays a cash consideration or the entity which issues new shares.

The acquisition, and therefore the initial consolidation of the acquiree, is recognised on the date on which the acquirer effectively obtains control over the acquired entity or businesses. When the combination occurs in a single exchange, the date of the exchange usually coincides with the acquisition date, provided that there are no agreements stipulating the transfer of control prior to the date of the exchange.

The consideration transferred as part of a business combination is equal to the sum of the acquisition-date fair values of the assets transferred, the liabilities incurred or assumed and the equity instruments issued by the acquirer in return for control.

In transactions which entail cash consideration (or when payment occurs via cash-equivalent financial instruments), the transaction price is the agreed consideration. When settlement does not occur in the short-term, the fair value of any deferred component is calculated by discounting the amounts payable to their present value; when payment occurs via an instrument other than cash, therefore via the issue of financial instruments, the price is equal to the fair value of such instruments net of the costs directly attributable to their issue. The "Fair value" section provides information on the fair value measurement of financial instruments. In the case of shares listed on active markets, the fair value is the acquisition-date quoted market price or, should that not be available, the latest price available.

The acquisition-date consideration transferred includes any contingent consideration based on future events, if provided for by the combination agreement and only if it is probable, can be measured reliably and realised within one year of acquisition of control. Instead, any compensation for impairment losses on the assets used as consideration is not included in the purchase price since it is already considered either in the fair value of equity instruments or as a reduction in the premium or an increase in the discount on the initial issue of debt instruments. Acquisition-related costs are those incurred by the acquirer to carry out the business combination, including, for example, professional fees paid to independent auditors, experts, legal advisors, costs for appraisals and audits of financial statements, preparation of information documents required by the law, as well as advisory fees incurred to identify potential targets, if the contract provides for the payment of success fees, as well as debt or equity securities' registration and issue costs.

The acquirer must account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with one exception. The costs to issue debt or equity securities are recognised in accordance with IAS 32 and IFRS 9.

Business combinations are recognised using the "acquisition method" whereby identifiable assets acquired (including any intangible assets which had not been previously recognised by the acquiree) or liabilities assumed (including contingent liabilities) are recognised at their acquisition-date fair value.

Any excess between the consideration transferred (being the fair value of transferred assets, liabilities incurred and equity instruments issued by the acquirer), increased by any minority interests (determined as above) as well as the fair value of any equity interest already held by the acquirer, and the fair value of acquired assets and liabilities is recognised as goodwill. Conversely, when the fair value of acquired assets and liabilities exceeds the sum of the consideration transferred, minority interests and the fair value of any equity interest already held, the difference is recognised in profit or loss.

Business combinations may be recognised provisionally by the end of the reporting period in which the combination occurs, to be finalised within one year of the acquisition date.

Revenue and cost recognition

Revenue is the gross flow of economic benefits generated by an entity's ordinary operations. It is recognised when control of the goods or services is transferred to the customer in an amount that reflects the consideration to which the entity expects to be entitled. Specifically, revenue is recognised using the model that can:
• Identify the contract, defined as an agreement that creates enforceable obligations;
• Identify the performance obligations in the contract;
• Determine the transaction price, i.e., the amount of consideration in a contract to which an entity expects to be entitled in exchange for transferring promised goods and/or services to a customer;
• Allocate the transaction price to the performance obligations on the basis of the relative stand-alone selling prices of each distinct good or service;
• Recognise revenue when (or as) the entity satisfies a performance obligation.

Revenue can be recognised at a point in time when the entity satisfies a performance obligation by transferring the promised good or service to a customer, or over time as the entity satisfies the performance obligation by transferring the promised good or service. Specifically:

a) interest is recognised on a pro rata basis, using the contractual interest rate or the effective interest rate when the amortised cost model is applied. Interest income (or expense) includes differentials or positive (negative) margins, accrued until the reporting date, on financial derivatives:
• Hedging assets and liabilities that generate interest;
• Classified in the trading portfolio in the statement of financial position, but linked to financial assets and/or liabilities at fair value through profit or loss (fair value option);
• Linked to assets or liabilities of the trading portfolio which entail the payment of differentials or margins on more than one due date;
b) any contractually provided for default interest is recognised only when actually collected;
c) dividends are recognised in profit or loss when their distribution is approved;
d) commissions on revenue from services contractually provided for are recognised when the services are rendered. Commissions included in amortised cost to calculate the effective interest rate are recognised as interest;
e) income and expense from the trading of financial instruments is recognised when the sale is executed and is the difference between the transaction price paid or collected and the instrument's carrying amount;
f) gains on the sale of non-financial assets are recognised when the sale is executed, unless the parent has substantially retained the risks and rewards of ownership.

Costs are recognised in profit or loss on an accruals basis. Costs to obtain and fulfil a contract with a customer are recognised in profit or loss in the period in which the related revenue is recognised.

Post-employment benefits

The Italian post-employment benefits are classified as:
– defined contribution plans for the benefits accrued after 1 January 2007 (when the pension reform implemented by Legislative decree no. 252 of 5 December 2005 was enacted) when the employee has opted to transfer them to a supplementary pension fund or to the INPS (the Italian social security institution) treasury fund. The group's liability is recognised under personnel expense and is calculated considering the benefits due without applying actuarial methods;
– defined benefit plans for the benefits vested up to 31 December 2006. They are recognised at their actuarial value using the projected unit credit method, without considering the pro rata past service cost as the benefits related to the current service cost have mostly vested and its revaluation is not expected to give rise to significant employee benefits in the future.

The discount rate used is determined by reference to market yields at the reporting date on high quality corporate bonds consistent with the term of the post-employment benefit obligations, weighted to reflect the percentage of the amount paid and advanced, for each due date, compared to the total amount to be paid and advanced before final settlement of the entire obligation. The plan servicing costs are recognised as personnel expense while the actuarial gains and losses are recognised in other comprehensive income (expense) as required by IAS 19.

A.4 – FAIR VALUE

This section includes the disclosures on fair value required by IFRS 13.

Qualitative information

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The transaction is a normal transaction between independent parties that have a reasonable understanding of the market conditions and significant facts about the asset or liability. Fundamental to the definition of fair value is the assumption that the entity is able to operate normally and does not need to urgently liquidate or significantly decrease a position. The fair value of an instrument reflects its credit quality as it includes the counterparty or issuer default risk among other things.

The fair value of financial instruments is determined using a hierarchy based on the origin, type and quality of the information used. This hierarchy gives maximum priority to quoted prices (unadjusted) in active markets and less priority to unobservable inputs. There are three different levels:
- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3: inputs for the asset or liability that are not based on observable market data.

These valuation approaches are applied hierarchically. Therefore, if a quoted price on an active market is available, the Level 1 approach must be applied. In addition, the valuation technique applied must maximise the use of factors observable on the market and, therefore, rely as little as possible on subjective parameters or "private information".

In the case of financial instruments that are not quoted on active markets, the level in the fair value hierarchy within which the fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The valuation techniques used to determine fair value are calibrated regularly and validated using variable inputs observable on the market to ensure that they represent the actual market conditions and to identify any weaknesses.

The fair value hierarchy was included in IFRS 7 solely for disclosure purposes and not for measurement purposes. Therefore, the financial assets and liabilities are measured in accordance with IFRS 13.

Level 1
A financial instrument is quoted on an active market when its price is:
- readily and promptly available from stock exchanges, brokers, intermediaries, information providers, etc.;
- significant, i.e., representative of effective market transactions that take place regularly in normal trading.

In order to be considered as Level 1, the price shall be unadjusted, that is not adjusted by applying a valuation adjustment. Otherwise, the fair value measurement of the financial instrument will fall into Level 2.

Level 2
A financial instrument is included in Level 2 when all the significant inputs (other than quoted prices included in Level 1) used to measure it are observable directly or indirectly on the market.

The Level 2 inputs are:
- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in markets that are not active;
- inputs other than quoted prices that are observable for the financial asset or liability (risk free rate curve, credit spread, volatility, etc.);
- inputs that mainly derive from or are corroborated (through correlation or other techniques) by observable market data (market-corroborated inputs).

An input is observable when it reflects the assumptions that a market participant would use when pricing a financial asset or liability using market data provided by independent sources.

If a fair value measurement uses observable data, which require significant adjustment using unobservable inputs, the measurement is categorised within Level 3 of the fair value hierarchy.

Level 3
Level 3 includes financial instruments, whose fair value is estimated using a valuation technique that uses inputs that are not observable on the market, not even indirectly. Specifically, inclusion in Level 3 takes place when at least one of the significant inputs used to measure the instrument is unobservable.

This categorisation takes place when the inputs used reflect the entity's assumptions, developed on the basis of the available information.

A.4.1. Levels 2 and 3: valuation techniques and inputs used

The fair value of financial instruments is determined using prices on financial markets for instruments quoted on active markets or internal valuation models for other financial instruments.

If a quoted price on an active market is unavailable or the market is not operating regularly, fair value is measured using valuation techniques to establish a price for a hypothetical independent transaction, driven by normal market considerations. These techniques include:
- reference to market values that are indirectly related to the instruments being valued and inferred from products with a similar risk profile and return;
- valuations made using, including partially, non-market inputs calculated using estimates and assumptions.

A.4.2. Valuation processes and sensitivity
Valuation processes and sensitivity

Assets other than short-term exposures classified as Level 3 include the ABS at fair value through profit or loss and financial assets at amortised cost.

The group measured the ABS using the present value approach of the income method, estimating the future cash flows and a suitable discount rate that reflects the time value of money and the risk premium. The cash flows were estimated considering the securisations' business plans adjusted to consider risks of the portfolios' non-performance compared to the original forecasts. The discount rate used was the risk free rate, increased by the risk premium.

The fair value measurement of residential property loans also involved discounting the expected cash flows from the loans using an adjusted risk free rate.

A.4.3. Fair value hierarchy

The group did not transfer any financial assets or liabilities from one level to another during the year.

A.4.4. Other information

The group did not apply the exception provided for by IFRS 13.48 (fair value based on the net exposure) for financial assets and liabilities that offset the market or counterparty risk. A.4.1. Levels 2 and 3: valuation techniques and inputs used
The fair value of financial instruments is determined using prices on financial markets for instruments quoted on active markets or internal valuation models for other financial instruments.

If a quoted price on an active market is unavailable or the market is not operating regularly, fair value is measured using valuation techniques to establish a price for a hypothetical independent transaction, driven by normal market considerations. These techniques include:
- reference to market values that are indirectly related to the instruments being valued and inferred from products with a similar risk profile and return;
- valuations made using, including partially, non-market inputs calculated using estimates and assumptions.

Quantitative disclosure

A.4.5. Fair value hierarchy

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

(€'000)

	31/12/2019			31/12/2018		
	L1	L2	L3	L1	L2	L3
1. Financial assets at fair value through profit or loss	-	-	-	-	-	-
a) held for trading	-	-	729	-	-	325
b) designated at fair value	-	-	-	-	-	-
c) mandatorily measured at fair value	-	-	162,283	-	-	130,515
2. Financial assets at fair value through other comprehensive income	3,514	-	-	6,516	-	-
3. Hedging derivatives	-	-	-	-	-	-
4. Property, equipment and investment property	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	**3,514**	**-**	**163,012**	**6,516**	**-**	**130,840**
1. Financial liabilities held for trading	-	-	-	-	-	-
2. Financial liabilities at fair value through profit or loss	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**

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

A.4.5.2. Changes in assets measured at fair value on a recurring basis (Level 3)

(€'000)

	Financial assets at fair value through profit or loss				Financial assets at fair value through other comprehensive income	Hedging derivatives	Property, equipment and investment property	Intangible assets
	Total	Including: a) held for trading	Including: b) designated at fair value	Including: c) mandatorily measured at fair value				
1. Opening balance	**130,840**	**325**	**-**	**130,515**	**6,516**	**-**	**-**	**-**
2. Increases	**74,202**	**404**		**73,798**				
2.1 Purchases	52,389	-	-	52,389	-	-	-	-
2.2 Gains recognised in:	-	-	-	-	-	-	-	-
2.2.1 Profit or loss	8,480	404	-	8,076	-	-	-	-
- including gains	8,480	404	-	8,076	-	-	-	-
2.2.2 Equity	-	X	X	X	5	-	-	-
2.3 Transfers from other levels	-	-	-	-	-	-	-	-
2.4 Other increases	13,333	-	-	13,333	-	-	-	-
3. Decreases	**(42,030)**			**(42,030)**	**(3,007)**			
3.1 Sales	-	-	-	-	(3,007)	-	-	-
3.2 Repayments	(35,588)	-	-	(35,588)	-	-	-	-
3.3 Losses recognised in:	-	-	-	-	-	-	-	-
3.3.1 Profit or loss	(6,442)	-	-	(6,442)	-	-	-	-
- including losses	(6,442)	-	-	(6,442)	-	-	-	-
3.3.2 Equity	-	X	X	X				
3.4 Transfers to other levels	-	-	-	-	-	-	-	-
3.5 Other decreases	-	-	-	-	-	-	-	-
4. Closing balance	**163,012**	**729**	**-**	**162,283**	**3,514**	**-**	**-**	**-**

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

(€'000)

	31/12/2019				31/12/2018			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Financial assets at amortised cost	1,114,427	135,779	-	861,096	775,200	136.705	-	540,745
2. Investment property	-	-	-	-	-	-	-	-
3. Non-current assets held for sale and disposal groups	-	-	-	-	-	-	-	-
Total	**1,114,427**	**135,779**	**-**	**861,096**	**775,200**	**136.705**	**-**	**540,745**
1. Financial liabilities at amortised cost	1,096,494	-	-	1,187,586	820,220	-	-	820,220
2. Liabilities associated with disposal groups	-	-	-	-	-	-	-	-
Totale	**1,096,494**	**-**	**-**	**1,187,586**	**820,220**	**-**	**-**	**820,220**

Key:
CA= Carrying Amount
L1= Level 1
L2= Level 2
L3= Level 3

A.5 – INFORMATION ON "DAY ONE PROFIT/LOSS"

The carrying amount of financial instruments equals their fair value at the reporting date. With respect to financial instruments not measured at fair value through profit or loss, their fair value is considered to equal their price collected or paid at the recognition date.

Any difference between the amount collected or paid for financial instruments measured at fair value through profit or loss and classified as Level 3 may be recognised in the relevant income statement caption, generating a day one profit or loss (DOP). The difference is recognised in profit or loss only if it is due to changes in factors on which the market participants based their assumptions when setting the price (including the time effect). When the instrument has a set maturity date and a model that monitors changes in the factors is not immediately available, the group may recognise the DOP in profit or loss over the financial instrument's term.

The group has not recognised a day one profit or loss on financial instruments as set out in IFRS 7.28 and the sections in the other related standards.

Part B: Notes to the statement of financial position

Assets

Section 1

Cash and cash equivalents – Caption 10

1.1 Cash and cash equivalents: breakdown

(€'000)

	31/12/2019	31/12/2018
a) Cash	4	12
b) Demand deposits with central banks	72,871	58,917
Total	**72,875**	**58,929**

As well as the group's cash-in-hand, this caption includes the payment module ("PM") account the parent holds as a participant in the European real-time gross settlement system. As per European legislation, the PM account is held with Bank of Italy. Its significant balance is due to the available liquidity invested in this account (€72,871 thousand).

Section 2

Financial assets at fair value through profit or loss – Caption 20

2.1 Financial assets held for trading: breakdown by product

(€'000)

	31/12/2019			31/12/2018		
	L1	L2	L3	L1	L2	L3
A. Assets						
1. Debt instruments						
1.1 Structured	-	-	-	-	-	-
1.2 Other	-	-	-	-	-	-
2. Equity instruments						
3. OEIC units						
4. Financing						
4.1 Reverse repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total A	**-**	**-**	**-**	**-**	**-**	**-**
B. Derivatives						
1. Financial derivatives						
1.1 Trading	-	-	729	-	-	325
1.2 Associated with fair value option	-	-	-	-	-	-
1.3 Other	-	-	-	-	-	-
2. Credit derivatives						
2.1 Trading	-	-	-	-	-	-
2.2 Associated with fair value option	-	-	-	-	-	-
2.3 Other	-	-	-	-	-	-
Total B	**-**	**-**	**729**	**-**	**-**	**325**
Total (A+B)	**-**	**-**	**729**	**-**	**-**	**325**

The caption "Financial derivatives: 1.1. trading" includes a call option for 100% of BE TC S.p.A..

The company is deemed strategic for the development of the tax asset business.

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

(€'000)

	31/12/2019	31/12/2018
A. Assets	**-**	**-**
1. Debt instruments	**-**	**-**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
2. Equity instruments	**-**	**-**
a) Banks	-	-
b) Other financial companies	-	-
of which: insurance companies	-	-
c) Non-financial companies	-	-
d) Other issuers	-	-
3. OEIC units	**-**	**-**
4. Financing	**-**	**-**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total A	**-**	**-**
B. Derivatives	**-**	**-**
a) Central counterparties	-	-
b) Other	729	325
Total B	**729**	**325**
Total (A+B)	**729**	**325**

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

(€'000)

	Totale 31/12/2019			Totale 31/12/2018		
	L1	L2	L3	L1	L2	L3
1. Debt instruments						
1.1 Structured	-	-	-	-	-	-
1.2 Other	-	-	162,010	-	-	130,252
2. Equity instruments	-	-	273	-	-	262
3. OEIC units	-	-	-	-	-	-
4. Financing	-	-		-	-	
4.1 Reverse repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total	**-**	**-**	**162,283**	**-**	**-**	**130,514**

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

"Debt instruments – Other" include:
• The contribution paid by banks to the Interbank Deposit Protection Fund to subscribe the subordinated bonds of €273 thousand issued by Banca Carige;
• ABS of non-consolidated securitisations of €162,010 thousand that did not pass the SPPI test (their business model is HTC).

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

(€'000)

	31/12/2019	31/12/2018
1. Equity instruments	**273**	**262**
of which: banks	-	-
of which: other financial companies	273	262
of which: non-financial companies	-	-
2. Debt instruments	**162,010**	**130,252**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	162,010	130,252
of which: insurance companies	-	-
e) Non-financial companies	-	-
3. OEIC units	**-**	**-**
4. Financing	**-**	**-**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**162,283**	**130,514**

Section 3

Financial assets at fair value through other comprehensive income – Caption 30

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

(€'000)

	31/12/2019			31/12/2018		
	L1	L2	L3	L1	L2	L3
1. Debt instruments	**3,514**	**-**	**-**	**6,516**	**-**	**-**
1.1 Structured	-	-	-	-	-	-
1.2 Other	3,514	-	-	6,516	-	-
2. Equity instruments	**-**	**-**	**-**	**-**	**-**	**-**
3. Financing	**-**	**-**	**-**	**-**	**-**	**-**
Total	**3,514**	**-**	**-**	**6,516**	**-**	**-**

Financial assets at fair value through other comprehensive income include listed bank bonds purchased for treasury purposes. Their carrying amount matches their fair value at the reporting date.

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

(€'000)

	31/12/2019	31/12/2018
1. Debt instruments		
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	3,514	6,516
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
2. Equity instruments		
a) Banks	-	-
b) Other issuers:	-	-
- Other financial companies	-	-
of which: insurance companies	-	-
- Non-financial companies	-	-
- Other	-	-
4. Financing		
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total A	**3,514**	**6,516**

3.3 Financial assets at fair value through other comprehensive income: gross carrying amount and net impairment losses

(€'000)

	Gross carrying amount				Total impairment losses			Partial/ total wri-te-offs (*)
	Stage 1	of which: instruments with a low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt instruments	3,514	-	-	-	(2)	-	-	-
Financing	-	-	-	-	-	-	-	-
Total 31/12/2019	**3,514**	**-**	**-**	**-**	**(2)**	**-**	**-**	**-**
Total 31/12/2018	**6,516**	**-**	**-**	**-**	**(8)**	**-**	**-**	**-**
of which: purchased or originated creditimpaired financial assets	X	X	-	-	X	-	-	-

* To be shown for disclosure purposes

At the reporting date, the group does not have "instruments with a low credit risk" as its debt instruments have an external rating of BBB or one notch lower. Therefore, they do not qualify as investment grade which would lead to their classification in this category.

Section 4

Financial assets at amortised cost – Caption 40

4.1 Financial assets at amortised cost: loans and receivables with banks broken down by type

(€'000)

	31/12/2019						31/12/2018					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Stages 1 and 2	Stage 3	of which: purchased or originated creditim-paired	L1	L2	L3	Stages 1 and 2	Stage 3	of which: purchased or originated creditim-paired	L1	L2	L3
A. Loans and receivables with central banks												
1. Term deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Minimum reserve	2,429	-	-	X	X	X	2,191	-	-	X	X	X
3. Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	-	-	-	X	X	X	-	-	-	X	X	X
B. Loans and receivables with banks												
1. Financing												
1.1 Current accounts and on-demand deposits	88,904	-	-	X	X	X	82,221	-	-	X	X	X
1.2. Term deposits	20,000	-	-	X	X	X	10,012	-	-	X	X	X
1.3. Other financing:	-	-	-	X	X	X	-	-	-	X	X	X
- Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
- Net investments in leases	-	-	-	X	X	X	-	-	-	X	X	X
- Other	6,799	-	-	X	X	X	2,890	-	-	X	X	X
2. Debt instruments												
2.1 Structured	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other	-	-	-	-	-	-	-	-	-	-	-	-
Total	**118,132**	**-**	**-**	**-**	**-**	**118,132**	**97,314**	**-**	**-**	**-**	**-**	**97,314**

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

This caption includes the minimum reserve held with Bank of Italy.
As described in the directors' report, the group invested part of its available liquidity in current accounts and transactions on the Interbank Deposit Market.
"Loans and receivables with banks: Current accounts and on-demand deposits" include liquidity deposited in the SPVs' current accounts up to the payment dates provided for by the related securitisations.

"Loans and receivables with banks: 1.3 Other financing - Other" include amounts due from Creval for collections to be received as part of bank loan purchases (€323 thousand) and invoices to be issued to Banca Carige (€595 thousand).

4.2 Financial assets at amortised cost: loans and receivables with customers broken down by type

(€'000)

	31/12/2019						31/12/2018					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Stages 1 and 2	Stage 3	of which: purchased or originated creditim-paired	L1	L2	L3	Stages 1 and 2	Stage 3	of which: purchased or originated creditim-paired	L1	L2	L3
Financing												
1.1. Current accounts	23,604	48,421	48,421	X	X	X	421	83,614	83,989	X	X	X
1.2. Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
1.3. Loans	44,937	298,423	340,005	X	X	X	40,668	312,412	349,451	X	X	X
1.4. Credit cards, personal loans and salary-backed loans	229	2,124	2,124	X	X	X	172	237	237	X	X	X
1.5. Finance leases	7,138	274,510	271,912	X	X	X	4,638	37,896	32,618	X	X	X
1.6. Factoring	-	-	-	X	X	X	-	-	-	X	X	X
1.7. Other financing	84,714	50,201	91,072	X	X	X	21,185	20,359	20,965	X	X	X
Debt instruments												
1.1. Structured	-	-	-	-	-	-	-	-	-	-	-	-
1.2. Other	161,995	-	-	135,779	-	26,795	156,283	-	-	136,705	-	19,142
Total	**322,617**	**673,680**	**753,534**	**135,779**		**26,795**	**223,368**	**454,518**	**487,260**	**136,705**		**19,142**

Loans and receivables with customers amount to €996,296 thousand, net of impairment losses. The caption is net of loss allowances of €81,579 thousand.
"Financing: Public administrations" comprise the tax assets purchased by Convento SPV S.r.l..
Debt instruments include senior securities of €26,961 issued by non-consolidated securitisation vehicles.

4.3 Financial assets at amortised cost: breakdown of loans and receivables with customers by debtor/issuer

(€'000)

	31/12/2019			31/12/2018		
	Stages 1 and 2	Stage 3	of which: purchased or originated creditimpa-ired	Stages 1 and 2	Stage 3	of which: purchased or originated creditimpa-ired
1. Debt instruments						
a) Public administrations	135,034	-	-	137,246	-	-
b) Other financial companies	26,961	-	-	19,037	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	-	-	-	-	-	-
2. Financing to:						
a) Public administrations	40,645	-	40,645	464	-	464
b) Other financial companies	40,149	4,069	4,069	5,317	12,257	12,257
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	37,407	506,852	505,171	22,808	287,888	283,008
d) Households	42,420	162,759	203,649	38,496	154,373	190,818
Total	**322,616**	**673,680**	**753,534**	**223,368**	**454,518**	**486,547**

4.4 Financial assets at amortised cost: gross amount and net impairment losses

(€'000)

	Gross carrying amount				Total impairment losses			Partial/ total wri-te-offs (*)
	Stage 1		Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
		of which: instru-ments with a low credit risk						
Debt instruments	162,161	-	-	-	(177)	-	-	-
Financing	255,053	-	12,724	766,156	8,942	2,045	(92,477)	(7,388)
Total 31/12/2019	**417,214**	**-**	**12,724**	**766,156**	**8,765**	**2,045**	**(92,477)**	**(7,388)**
Total 31/12/2018	**313,254**	**-**	**30,386**	**492,215**	**(2,628)**	**(994)**	**(37,699)**	**(94)**
of which: purchased or originated credit-impaired financial assets	X	X	11,165	761,162	X	2,121	(92,451)	(7,388)

(*) To be shown for disclosure purposes

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Section 5

Hedging derivatives – Caption 50

None.

Section 6

Fair value gains or losses on macro-hedged financial assets - Caption 60

None.

Section 7

Equity investments – Caption 70

These consolidated financial statements include equity investments of €2 in the securitisation vehicles Acqua SPV S.r.l. and Leviticus SPV S.r.l. which are not consolidated pursuant to IFRS 10 since the group does not exercise control over the portfolios they manage, but only over the vehicles' management. Their consolidation would have been immaterial.

Section 9

Property, equipment and investment property – Caption 90

9.1 Property and equipment: assets measured at cost

(€'000)

	31/12/2019	31/12/2018
1. Owned	**1,567**	**1,313**
a) land	-	-
b) buildings	-	-
c) furniture	619	543
d) electronic systems	-	-
e) other	948	770
Right of use of leased asse	**7,732**	**-**
a) land	7,667	-
b) buildings	-	-
c) furniture	-	-
d) electronic systems	-	-
e) other	65	-
Total	**9,299**	**1,313**
of which: obtained through enforcement of guarantees received	-	-

This caption comprises the right-of-use assets of €7,732 thousand recognised in accordance with the new requirements of IFRS 16. The assets falling within the scope of the new standard refer to the leased offices, the buildings for residential use granted as a benefit to certain employees and company cars.

.

9.6 Property and equipment: changes

(€'000)

	Land	Buildings	Furniture	Electronic systems	Other	Total
A. Gross opening balance	**-**	**-**	**1,123**	**-**	**1,818**	**2,941**
A.1 Accumulated depreciation and net impairment losses	-	-	(542)	-	(1,086)	(1,628)
A.2 Net opening balance	**-**	**-**	**580**	**-**	**733**	**1,313**
B. Increases:	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Purchases	-	17,690	176	-	585	18,452
B.2 Capitalised improvement costs	-	-	-	-	-	-
B.3 Reversals of impairment losses	-	287	-	-	-	287
B.4 Fair value gains, through	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
B.5 Exchange rate gains	-	-	-	-	-	-
B.6 Transfers from investment property	-	-	x	x	x	-
B.7 Other increases	-	-	-	-	-	-
C. Decreases:	**-**	**-**	**-**	**-**	**-**	**-**
C.1 Sales	-	-	-	-	-	-
C.2 Depreciation	-	(1,536)	(137)	-	(305)	(1,979)
C.3 Impairment losses through	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
C.4 Fair value losses through	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
C.5 Exchange rate losses	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) investment property	-	-	x	x	x	-
b) non-current assets held for sale and disposal groups	-	-	-	-	-	-
C.7 Other decreases	-	(8,774)	-	-	-	(8,774)
D. Net closing balance	**-**	**7,667**	**619**	**-**	**1,013**	**9,299**
D.1 Accumulated depreciation and net impairment losses	-	(1,249)	(679)	-	(1,391)	(3,320)
D.2 Gross closing balance	**-**	**8,916**	**1,298**	**-**	**2,403**	**12,618**
E. Measurement at cost	**-**	**-**	**-**	**-**	**-**	**-**

The group has not committed its property and equipment in any way. It does not have any investment property or revalued property and equipment at the reporting date.

Section 10

Intangible assets – Caption 100

10.1 Intangible assets: breakdown by asset

(€'000)

	31/12/2019		31/12/2018	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	**x**	**67,408**	**x**	**10,206**
A.1.1 attributable to the Group	-	67,408	-	10,206
A.1.2 attributable to the Minorities	-	-	-	-
A.2 Other intangible assets	**96,695**	**-**	**21,614**	**-**
A.2.1 Assets measured at cost:	96,695	-	-	-
a) internally developed assets	-	-	-	-
b) other	96,695	-	21,614	-
A.2.2 Assets measured at fair value:	-	-	-	-
a) internally developed assets	-	-	-	-
b) other	-	-	-	-
Totale	**96,695**	**67,408**	**21,614**	**10,206**

Goodwill of €67,408 thousand relates to:
• the Gerica transaction (€9.3 million);
• the acquisition of Be Credit Management (€0.8 million);
• the acquisition of CF Liberty Servicing (€57.2 million);
• goodwill recognised by Be Credit Management S.p.A. (€0.1 million).

The other intangible assets relate to:
• the Gerica transaction (€14.9 million);
• the acquisition of the investment in CF Liberty Servicing (€80.8 million);
• software (€1 million).

10.2 Intangible assets: changes

(€'000)

	Goodwill	Other intangible assets: internally-generated		Other intangible assets: other		Total
		FINITE	INDEFINITE	FINITE	INDEFINITE	
A. Opening balance	**10,206**	**-**	**-**	**29,229**	**-**	**39,435**
A.1 Accumulated amortisation and net impairment losses	-	-	-	(7,615)	-	(7,615)
A.2 Net opening balance	**10,206**	**-**	**-**	**21,614**	**-**	**31,820**
B. Increases	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Purchases	57,202	-	-	85,532	-	142,734
B.2 Increase in internally-generated assets	x	-	-	-	-	-
B.3 Reversals of impairment losses	x	-	-	-	-	-
B.4 Fair value gains:						
a) through equity	x	-	-	-	-	-
b) through profit or loss	x	-	-	-	-	-
B.5 Exchange rate gains	-	-	-	-	-	-
B.6 Other increases	-	-	-	-	-	-
C. Decreases	**-**	**-**	**-**	**-**	**-**	**-**
C.1 Sales	-	-	-	-	-	-
C.2 Impairment losses						
- Amortisation and depreciation	x	-	-	(10,450)	-	(10,450)
- Impairment losses:						
a) equity	x	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
C.3 Fair value losses:	-	-	-	-	-	-
a) through equity	x	-	-	-	-	-
b) through profit or loss	x	-	-	-	-	-
C.4 Transfers to disposal groups	-	-	-	-	-	-
C.5 Exchange rate losses	-	-	-	-	-	-
C.6 Other decreases	-	-	-	-	-	-
D. Net closing balance	**67,408**	**-**	**-**	**96,695**	**-**	**164,103**
D.1 Accumulated amortisation and net impairment losses	-	-	-	(18,066)	-	(18,066)
E. Gross closing balance	**67,408**	**-**	**-**	**114,761**	**-**	**182,169**
F. Measurement at cost	-	-	-	-	-	-

Key:
FINITE: finite life
INDEFINITE: indefinite life

10.3 Other disclosures

The following should be noted:
a) the group does not have any gains related to revalued intangible assets (IAS 38.124.b));
b) the group has not acquired intangible assets under government concession (IAS 38.122.c));
c) the group has not pledged intangible assets to secure its debts (IAS 38.122.d));
d) the group does not have commitments to acquire intangible assets (IAS 38.122.e));
e) it has not leased any intangible assets;
f) it does not have goodwill allocated to cash-generating units under IAS 36.134.a).

Section 11

Tax assets and liabilities – Caption 110 of assets and Caption 60 of liabilities

11.1 Deferred tax assets: breakdown

Deferred tax assets of €32,328 thousand have mostly been recognised on carryforward tax losses (€30,012 thousand) and the ACE benefit (€760 thousand). Carryforward tax losses and the ACE benefit allow for the recognition of deferred tax assets as a deductible temporary difference arises on an accruals basis and this difference can be used to decrease the tax base in future years. As these benefits are potential only, the future taxable profits should be such as to offset the carryfoward tax losses and the ACE benefit. IAS 12.24 provides that a deferred tax asset shall be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. Paragraph 34 and following paragraphs of the same standard clarify that a deferred tax asset shall be recognised for the carryforward of unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised. This shall be ascertained on a prudent basis and by performing a specific probability test to support the underlying assumptions. Accordingly, based on its forecast future taxable profits that can cover the carryforward tax losses up to the legally-established limit (80% of the tax base), the group had recognised deferred tax assets on carryforward tax losses (€13,700 thousand) and the ACE benefit (€2,700 thousand) at 31 December 2018. In 2019, it used €7,009 thousand thereof (specifically, €6,290 thousand and €719 thousand of those recognised on carryforward tax losses and the ACE benefit, respectively) and recognised deferred tax assets on carryforward tax losses of €22,020 thousand while reversing those on the ACE benefit by €1,221 thousand.

The deferred tax assets of €1,512 thousand recognised in accordance with Law no. 214/2011 relate to impairment losses on loans and receivables of which one seventh, one ninth and one eighteenth can be deducted each year.

The other deferred tax assets relate to the reverse merger with CFH (€582 thousand), as described in the directors' report, and the remainder to the actuarial valuation of post-employment benefits pursuant to IAS 19.

11.2 Deferred tax liabilities: breakdown

The group recognised deferred tax liabilities of €32,670 thousand on the intangible asset recognised after the acquisition of CF Liberty Servicing (€22,536 thousand) and the consolidation adjustments and its share of the SPVs' profit or loss (€9,756 thousand).

11.3 Changes in deferred tax assets (recognised in profit or loss)

(€'000)

	31/12/2019	31/12/2018
1. Opening balance	**17,924**	**1,851**
2. Increases		
2.1 Deferred tax assets recognised in the year		
a) related to previous years	20,799	16,400
b) due to changes in accounting policies	-	-
c) reversals of impairment losses	-	-
d) other	13	-
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	577	-
3. Decreases		
3.1 Deferred tax assets derecognised in the year	-	-
a) reversals	(7,009)	(56)
b) impairment due to non-recoverability	**-**	**-**
c) change in accounting policies	-	-
d) other	-	-
3.2 Decrease in tax rates	-	-
3.3 Other decreases:		
a) conversion into tax assets, as per Law no. 214/2011	-	(271)
b) other	-	-
4. Closing balance	**32,304**	**17,924**

11.4 Changes in deferred tax assets as per Law no. 214/2011

(€'000)

	31/12/2019	31/12/2018
1. Opening balance	**1,513**	**1,784**
2. Increases	**-**	**-**
3. Decreases		
3.1 Reversals	-	-
3.2 Conversions into tax assets		
a) arising on the loss for the year	-	-
b) arising on tax losses	-	(271)
3.3 Other decreases	-	-
4. Closing balance	**1,513**	**1,513**

11.5 Changes in deferred tax liabilities (recognised in profit or loss)

(€'000)

	31/12/2019	31/12/2018
1. Opening balance	**8,204**	**-**
2. Increases	-	-
2.1 Deferred tax liabilities recognised in the year		
a) related to previous years	-	-
b) due to changes in accounting policies	-	-
c) other	25,509	7,996
2.2 New taxes or increases in tax rates	-	208
2.3 Other increases	-	-
3. Decreases		
3.1 Deferred tax liabilities derecognised in the year		
a) reversals	(1,043)	-
b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Decrease in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**32,670**	**8,204**

11.6 Changes in deferred tax assets (recognised in equity)

(€'000)

	31/12/2019	31/12/2018
1. Opening balance	**11**	**67**
2. Increases	-	-
2.1 Deferred tax liabilities recognised in the year		
a) related to previous years	-	-
b) due to changes in accounting policies	-	-
c) other	-	-
2.2 New taxes or increases in tax rates	13	-
2.3 Other increases	-	-
3. Decreases	**-**	**-**
3.1 Deferred tax liabilities derecognised in the year		
a) reversals	-	-
b) impairment due to non-recoverability	-	-
c) due to changes in accounting policies	-	-
d) other	-	-
3.2 Decrease in tax rates	-	-
3.3 Other decreases	-	(56)
4. Closing balance	**24**	**11**

11.7 Changes in deferred tax liabilities (recognised in equity)

(€'000)

	31/12/2019	31/12/2018
1. Opening balance	**-**	**5**
2. Increases	**-**	**-**
2.1 Deferred tax liabilities recognised in the year		
a) related to previous years	-	-
b) due to changes in accounting policies	-	-
c) other	-	-
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**-**	**-**
3.1 Deferred tax liabilities derecognised in the year		
a) reversals	-	-
b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Decrease in tax rates	-	-
3.3 Other decreases	-	(5)
4. Closing balance	**-**	**-**

11.8 Other disclosures

Current tax assets at the reporting date may be analysed as follows:

(€'000)

		Amount
1	Withholdings on current account interest paid on account	2,899
2	Virtual stamp duty paid on account	2,400
3	IRAP tax asset from conversion of ACE tax asset	438
4	Asset as per Law no. 214/2011 on the conversion of deferred tax assets	266
5	IRAP paid on account	52
6	IRES from reverse merger	24
7	IRES from reverse merger	92
8	VAT	369
9	IRES paid on account	2
10	IRPEF (employees)	1
	Total	**6,543**

Section 13 Other assets – Caption 130

13.1Other assets: breakdown

(€'000)

	31/12/2019	31/12/2018
Advance for subscription of ABS	-	24,195
Contribution to the assets earmarked for a specific business "Cube Gardenia"	100	3,167
Contribution to the assets earmarked for a specific business "Este"	50	739
Contribution to the assets earmarked for a specific business "Gimli"	50	-
"Cube" intercreditor agreement	7,399	-
Deposit for Liberty transaction	-	20,000
Grants for subsidised loans	4	5
Amounts due from INPS	62	62
Loans and receivables with assets earmarked for a specific business "Cube Gardenia"	-	100
Loans and receivables with assets earmarked for a specific business "Este"	96	-
Guarantee deposits	139	107
Coins	4	4
Prepayments and accrued income	4,313	693
Other	5,684	4,060
Total	**17,901**	**53,130**

They also include the endowment funds provided by the parent as part of the Cube, Este and Gimli transactions described in the directors' report.

Liabilities

Section 1

Financial liabilities at amortised cost – Caption 10

1.1 Financial liabilities at amortised cost: Financial liabilities with banks broken down by type

(€'000)

	31/12/2019				31/12/2018			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Due to central banks	**-**	**x**	**x**	**x**	**45,000**	**x**	**x**	**x**
2. Due to banks	**-**	**x**	**x**	**x**	**-**	**x**	**x**	**x**
2.1 Current accounts and demand deposits	-	x	x	x	-	x	x	x
2.2 Term deposits	-	x	x	x	5,018	x	x	x
2.3 Financing	-	x	x	x	-	x	x	x
2.3.1 Repurchase agreements	142,029	x	x	x	118,750	x	x	x
2.3.2 Other	79,857	x	x	x	57,372	x	x	x
2.4 Commitments to repurchase own equity instruments	-	x	x	x	-	x	x	x
2.5 Lease liabilities	749	x	x	x	-	x	x	x
2.6 Other financial liabilities	23,019	x	x	x	5,123	x	x	x
Total	**245,654**			**245,654**	**231,263**			**231,263**

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

At 31 December 2018, "Due to central banks" included an open market operation of €45,000 thousand with underlying government bonds, which was settled in January 2019.

The "Term deposits" of €5,018 thousand at 31 December 2018 related to interbank financing, which was settled in 2019.

The repurchase agreements of €142,029 thousand refer to funding with ABS given as security.

"Financing - Other" comprises drawdowns of committed credit lines of €79,750 thousand.

"Other financial liabilities" include the liability with the originator for the deferred payment of the consideration for an UTP portfolio purchased by the parent (€4,071 thousand) and the portfolios purchased by the SPVs Ponente and New Levante (€17,964 thousand), as well as the outstanding payment to the originator for the second portfolio purchased by the SPV Cosmo (€11,726 thousand).

The group does not have any structured liabilities, subordinated liabilities or finance lease liabilities to banks.

1.2 Financial liabilities at amortised cost: Financial liabilities with customers broken down by type

(€'000)

	31/12/2019				31/12/2018			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1 Current accounts and on-demand deposits	14,297	x	x	x	12,039	x	x	x
2 Term deposits	684,481	x	x	x	550,518	x	x	x
3 Financing	-	x	x	x	-	x	x	x
3.1 Repurchase agreements	-	x	x	x	-	x	x	x
3.2 Other	-	x	x	x	-	x	x	x
4 Commitments to repurchase own equity instruments	-	x	x	x	-	x	x	x
5 Lease liabilities	7,487	x	x	x		x	x	x
6 Other financial liabilities	34,072	x	x	x	722	x	x	x
Total	**740,337**			**740,337**	**563,278**			**563,278**

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

The current accounts and demand deposits include the retail current accounts for which the time deposit letter had to be signed (€14,297 thousand).

The term deposits continue to grow strongly due to the increasing popularity of the retail Esagon product, the on-line term deposit account ("DOL"). At the reporting date, the liability to DOL customers includes deposits for which the time deposit letter had been signed of €678,908 thousand (31 December 2018: €545,398 thousand), deposits for which the time deposit letter had not been signed of €14,297 thousand and accrued interest of €2,942 thousand. Due to customers include the cash collateral guaranteeing corporate loans of €2,000 thousand and the amounts to be paid to the provinces and municipalities in line with the stage of completion on behalf of a vehicle. The balance also comprises deposits for the sale of leases securing loans of €283 thousand.

The caption includes lease liabilities recognised in accordance with IFRS 16 (€7,487 thousand).

Other financial liabilities include the liability with Ubi Leasing for the deferred payment of the lease portfolio purchased by the SPV Vette, which had already received an offer from third parties for the underlying assets when it purchased the portfolio.

The group does not have any structured liabilities, subordinated liabilities or finance lease liabilities to customers.

1.3 Financial liabilities at amortised cost: Securities issued broken down by type

(€'000)

	31/12/2019				31/12/2018			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
A. Securities	-	x	x	x	-	x	x	x
1. Bonds	-	x	x	x	-	x	x	x
1.1 Strutturate	-	x	x	x	-	x	x	x
1.2 Other	110,503	x	x	110,594	-	x	x	x
2. Other securities	-	x	x	x	-	x	x	x
2.1 Structured	-	x	x	x	-	x	x	x
2.2 Other	-	x	x	x	-	x	x	x
Total	**110,503**			**110,594**	**-**	**-**	**-**	**-**

Securities issued include the notes issued by the SPVs and subscribed by third party companies and, specifically, 9% of the senior and junior notes issued by Artemide SPV S.r.l. and 95% of the senior notes issued by Vette SPV S.r.l..

1.4 Breakdown of subordinated liabilities/junior securities

Securities issued include junior notes of €156 thousand issued by Artemide SPV S.r.l. and subscribed by a third party investor (they account for 9% of the junior notes issued by Artemide SPV S.r.l.).

1.5. Breakdown of structured liabilities

None.

1.6 Lease liabilities

The group's lease liabilities amount to €7,487 thousand at the reporting date and principally relate to leases of the group companies' offices and, to a lesser extent, company cars.

Section 6

Tax liabilities – Caption 60

See section 11 of Assets.

Section 8

Other liabilities – Caption 80

8.1 Other liabilities: breakdown

(€'000)

	31/12/2019	31/12/2018
Amounts to be credited to current accounts	63	159
Remuneration due to employees	12,005	4,895
VAT liability	306	21
Social security contributions to be paid	2,422	717
Sundry liabilities for the on-line term deposit account product	4,838	4,120
Sundry investment liabilities	852	-
Sundry lease liabilities	3,098	2,150
Sundry amounts due to SPVs	90	101
Amounts due to Cassa Depositi e Prestiti	-	15
Trade payables	15,073	6,690
Trade payables from merger	144	-
Amounts due to "Gimly"	32	-
Accrued expenses and deferred income	354	1,001
Withholding taxes to be paid	1,184	875
Amounts due to SPVs for promissory note planning	-	-
Purchase suspense account	5,558	-
Collection suspense account	1,145	-
Guarantee deposits	142	-
Other liabilities	928	6,931
Total	**48,235**	**27,676**

Section 9

Post-employment benefits – Caption 90

9.1 Post-employment benefits: changes

(€'000)

	31/12/2019	31/12/2018
A. Opening balance	**2,343**	**1,855**
B. Increases		
B.1 Accruals	951	1,089
B.2 Other increases	1,761	-
including: business combinations	1,623	
C. Decreases		
C.1 Payments	(976)	(600)
C.2 Other decreases	-	-
D. Closing balance	**4,079**	**2,343**
Total	**4,079**	**2,343**

9.2 Other disclosures

The carrying amount of these benefits is calculated using actuarial methods as provided for by IAS 19.
The main actuarial assumptions are:
- discount rate of 1% (31 December 2018: 1.55%);
- expected inflation rate of 1% (31 December 2018: 1.5%).

Section 10

Provisions for risks and charges – Caption 100

10.1 Provisions for risks and charges: breakdown

(€'000)

	31/12/2019	31/12/2018
1. Provisions for credit risk for loan commitments and financial guarantees	-	-
2. Provisions for other commitments and other guarantees given	-	-
3. Internal pension funds	-	-
4. Other provisions		
4.1 Legal and tax disputes	1,712	1,108
4.2 Personnel	97	-
4.3 Other	49	95
Total	**1,858**	**1,203**

10.2 Provisions for risks and charges: changes

(€'000)

	Provisions for other commitments and other guarantees given	Pension funds	Other provisions	Total
A. Opening balance	**-**	**-**	**1,203**	**1,203**
B. Increases				
B.1 Accruals	-	-	787	787
B.2 Changes due to passage of time	-	-	-	-
B.3 Changes due to variations in discount rate	-	-	-	-
B.4 Other increases	-	-	-	-
C. Decreases				
C.1 Utilisations	-	-	(77)	(77)
C.2 Changes due to variations in discount rate	-	-	-	-
C.3 Other decreases	-	-	(55)	(55)
D. Closing balance	**-**	**-**	**1,858**	**1,859**

10.6 Provisions for risks and charges - other provisions

These provisions comprise:

	Amount
Provision for legal fees	Euro 414 thousand
Provision for amounts to be returned to courts	Euro 24 thousand
Provision for litigation	Euro 1,274 thousand
Restructuring provision	Euro 50 thousand
Provision for employee loyalty bonuses	Euro 97 thousand
Total	**Euro 1,858 thousand**

Details of the provisions and the related risks are given below.

The provision for legal fees includes the fees for professional services to collect problematic loans and receivables or for ongoing legal proceedings. The group expects to use the entire provision in 2020.

The provision for amounts to be returned to courts refers to amounts collected by the parent as part of court, enforcement and insolvency proceedings and court-approved creditor settlements that have not yet been finalised. They may have to be returned following enforcement of the individual voluntary agreement, but it is not known exactly when, as it depends on the courts where the proceedings are being held. The provision was not used during the year.

The provision for litigation covers actions for compensation claimed by customers. Once again, it is difficult to estimate when the pending litigation will be settled. The group cannot objectively calculate an accrual to the provision as it depends on what level the hearing is at and whether an out-of-court settlement may be reached. Pursuant to IAS 37, it decided not to provide for the pending disputes for which management and the legal advisors deem that a negative outcome is only "possible" and not "probable". Management's and the legal advisors' opinion is supported by a number of factors, including the fact that the proceedings are still at an initial stage and the hearings will take place in the coming months, which make it difficult to estimate the possible amounts and timing.

The restructuring provision includes the cost of the termination benefits agreed with the trade unions in December 2013. It comprises these benefits, the cost of the solidarity fund, the cheques for the emergency fund and the consultancy services received to manage the restructuring process. The costs are allocated over the years to 2020.

The provision for employee loyalty bonuses solely relates to CF Liberty Servicing S.p.A..

Section 13

Equity – Captions 120, 130, 140, 150, 160, 170 and 180

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

The parent's fully paid-up share capital consists of 37,785,000 class A1 ordinary shares (that have one voting right per share) with a unit value of €1.

The parent does not have special shares with rights or restrictions, including shares with restrictions to dividend distributions or capital repayment. It does not hold treasury shares nor do its subsidiaries and associates hold its shares. The parent does not have shares reserved for issues with option rights or sales contracts.

13.2 Share capital - Number of shares: changes

(€'000)

	Ordinary	Other
A. Opening balance	**37,681**	**-**
- fully paid-up	37,681	-
- not fully paid-up	-	-
A.1 Treasury shares (-)	-	-
A.2 Outstanding shares: opening balance	**37,681**	**-**
B. Increases	**104**	**-**
B.1 New issues	104	-
a) against payment:	-	-
- business combinations	-	-
- bond conversions	-	-
- exercise of warrants	-	-
- other	-	-
b) bonus:	104	-
- for employees	-	-
- for directors	-	-
- other	104	-
B.2 Sale of treasury shares	-	-
B.3 Other increases	-	-
C. Decreases	**-**	**-**
C.1 Cancellation	-	-
C.2 Repurchase of treasury shares	-	-
C.3 Business transfers	-	-
C.4 Other decreases	-	
D. Outstanding shares: closing balance	**37,785**	**-**
D.1 Treasury shares (+)	-	-
D.2 Closing balance	37,785	-
- fully paid-up	37,785	-
- not fully paid-up	-	-

13.3 Share capital: other information

The parent does not have special shares with rights or restrictions, including shares with restrictions to dividend distributions or capital repayment. It does not hold treasury shares nor do its subsidiaries and associates hold its shares. The parent does not have shares reserved for issues with option rights or sales contracts.

13.4 Income-related reserves: other information

The nature and objective of each income-related reserve are described below:
• Legal reserve: this legally-required reserve amounts to €2,271 thousand and must equal at least one fifth of share capital; it was set up in prior years by allocating prior year profits thereto (at least one twentieth). If the reserve decreases, it shall be increased by allocating one twentieth of the profit for the year thereto.
• Statutory reserves: they amount to €23,904 thousand and comprise prior year profits allocated thereto. Their objective is to protect the parent's financial solidity;
• SPVs' and other subsidiaries' income-related reserves of €7,657 thousand;
• other reserves of €615 thousand.

13.5. Equity instruments: breakdown and changes

The group has not issued equity instruments other than ordinary shares.

13.6 Other disclosures

The share premium amounts to €139,982 thousand. During the year, it increased in connection with the reverse merger with CF Holding (€565 thousand as a result of the approved capital increase and €98 thousand as an adjustment).

On 18 March 2018, the shareholders approved a medium to long-term incentive plan (the "plan") for the years from 2018 to 2020 as part of the parent's remuneration policy. The plan was terminated early and it will be settled in cash in 2020 rather than in shares, as originally provided for. Accordingly, the related cost was recognised under "Other liabilities" and the related equity reserve was reversed.

Section 14 - Equity attributable to minority interests - Caption 190

(€'000)

	31/12/2019	31/12/2018
Investments in consolidated subsidiaries with significant minority interests	**18,647**	**17**
CF Liberty Servicing S.p.A.	18,572	-
Be Credit Management S.p.A.	75	17
Other equity investments (SPVs)	**58**	**149**
Total	**18,705**	**166**

Equity attributable to minority interests relates to CF Liberty Servicing S.p.A. and BE Credit Management S.p.A..

Other information

1. Loan commitments and financial guarantees given (other than those at fair value)

(€'000)

	Nominal amount of loan commitments and financial guarantees given			31/12/2019	31/12/2018
	(Stage 1)	(Stage 2)	(Stage 3)		
Loan commitments	**20,658**	**-**	**-**	**20,658**	**30,163**
a) Central banks	-	-	-	-	-
b) Public administrations	-	-	-	-	-
c) Banks	-	-	-	-	30,163
d) Other financial companies	20,658	-	-	20,658	-
e) Non-financial companies	-	-	-	-	-
f) Households	-	-	-	-	-
Financial guarantees given	**-**	**-**	**-**	**-**	**-**
a) Central banks	-	-	-	-	-
b) Public administrations	-	-	-	-	-
c) Banks	-	-	-	-	-
d) Other financial companies	-	-	-	-	-
e) Non-financial companies	-	-	-	-	-
f) Households	-	-	-	-	-

The loan commitment of €20,658 thousand relates to the payment of the deferred prices of the portfolio of non-performing leases securitised by Vette SPV S.r.l. in which the parent has invested as part of the related securitisation.

5. Management and trading on behalf of third parties

(€'000)

	Amount
1. Execution of customer orders	**-**
a) Purchases	-
1. Settled	-
2. Unsettled	-
b) Sales	-
1. Settled	-
2. Unsettled	-
2. Asset management	**-**
a) individual	-
b) collective	-
3. Securities custody and administration	**967,293**
a) third party securities held as part of depositary bank services (excluding portfolio management)	-
1. securities issued by the reporting entity	-
2. Other securities	-
b) third party securities on deposit (excluding asset management): other	-
1. securities issued by the reporting entity	-
2. Other securities	-
c) third party securities deposited with third parties	9,892
d) securities owned by the bank deposited with third parties	957,401
4. Other	**-**

At 31 December 2019, the following sections were not applicable:
- assets pledged to guarantee liabilities and commitments;
- operating leases;
- financial assets eligible for netting or subject to master netting or similar agreements;
- securities lending transactions;
- jointly controlled operations.

Part C: Notes to the income statement

Section 1

Interest – Captions 10 and 20

1.1 Interest and similar income: breakdown

(€'000)

	Debt instruments	Financing	Other	31/12/2019	31/12/2018
1. Financial assets at fair value through profit or loss:	**13,200**	**-**	**-**	**13,200**	**9,857**
1.1 Financial assets held for trading	-	-	-	-	-
1.2 Financial assets at fair value through profit or loss	-	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value	13,200	-	-	13,200	9,857
2. Financial assets at fair value through other comprehensive income	**85**	**-**	**x**	**85**	**1,100**
3. Financial assets at amortised cost:	**1,374**	**59,272**	**-**	**60,646**	**60,504**
3.1 Loans and receivables with banks	-	347	x	347	121
3.2 Loans and receivables with customers	1,374	58,926	x	60,299	60,383
4. Hedging derivatives	**x**	**x**	**-**	**-**	**-**
5. Other assets	**x**	**x**	**-**	**-**	**-**
6. Financial liabilities	**x**	**x**	**x**	**-**	**-**
Total	**14,659**	**59,273**	**-**	**73,931**	**71,461**
including: interest income on credit-impaired financial assets	-	7,219	-	7,219	48,739
including: interest income on finance leases	-	8,898	x	8,898	-

Interest income of €59,273 thousand includes gains on investments (mainly financing) of €58,926 thousand and interest accrued on non-consolidated ABS of €14,659 thousand.

1.2 Interest and similar income: other disclosures

1.2.1 Interest income on foreign currency financial assets

None.

1.3 Interest and similar expense: breakdown

(€'000)

	Liabilities	Securities	Other	31/12/2019	31/12/2018
1. Financial liabilities at amortised cost					
1.1 Due to central banks	39	x	-	39	52
1.2 Due to banks	3,581	x	-	3,581	2,319
1.3 Due to customers	14,345	x	-	14,345	11,769
1.4 Securities issued	x	2,309	-	2,309	900
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities at fair value through profit or loss	-	-	-	-	-
4. Other liabilities and provisions	x	x	-	-	-
5. Hedging derivatives	x	x	-	-	-
6. Financial assets	x	x	x	-	-
Total	**17,965**	**2,309**	**-**	**20,274**	**15,040**
including: interest expense on lease liabilities	458			458	

Interest expense is the cost of funding to the group.

1.4 Interest and similar expense: other disclosures

1.4.1 Interest expense on foreign currency liabilities

None.

1.5. Hedging gains and losses

None.

Section 2

Fees and commissions – Captions 40 and 50

2.1 Fee and commission income: breakdown

(€'000)

	31/12/2019	31/12/2018
a) Guarantees given	-	-
b) Credit derivatives	-	-
c) Management, brokerage and consultancy services:	-	-
1. trading in financial instruments	-	-
2. foreign currency transactions	-	-
3. asset management	-	-
4. securities custody and administration	-	-
5. depository services	-	-
6. securities placement	-	-
7. order collection and transmission	-	-
8. consultancy services	-	-
8.1. concerning investments	-	-
8.2. concerning financial structure	-	-
9. distribution of third party services	-	-
9.1. asset management	-	-
9.1.1. individual	-	-
9.1.2. collective	-	-
9.2. insurance products	-	-
9.3. other products	-	-
d) Collection and payment services	215	582
e) Servicing services for securitisations	42,600	18,208
f) Services for factoring transactions	-	-
g) Tax collection services	-	-
h) Management of multilateral trading systems	-	-
i) Keeping and management of current accounts	-	-
j) Other services	1,218	4,334
Total	**44,033**	**23,124**

Fee and commission income for collection and payment services of €215 thousand relates to the fees for promissory note management and collection services provided to the securitisation vehicle Danubio S.r.l..

Fee and commission income earned on servicing activities relates to the parent's services provided as part of the securitisations. It includes special servicing fees of €37.5 million.

Fee and commission income on other services comprise, inter alia, one-off commissions of €1,218 thousand, including €583 thousand relating to realised offered positions of the Vette portfolio and €395 thousand for the services provided to a key investor.

2.3 Fee and commission expense: breakdown

(€'000)

	31/12/2019	31/12/2018
a) Guarantees received	13	-
b) Credit derivatives	-	-
c) Management and brokerage services:	-	-
1. trading in financial instruments	-	-
2. foreign currency transactions	-	-
3. asset management:	-	-
3.1 own portfolio	-	-
3.2 third party portfolios	-	-
4. securities custody and administration	49	35
5. placement of financial instruments	-	-
6. off-premises distribution of financial instruments, products and services	-	-
d) Collection and payment services	41	561
e) Other services	5,275	1,188
Total	**5,379**	**1,784**

Fee and commission expense comprises the fees paid to banks for current account and security deposit account charges and commissions.

"Other services" mainly include fee and commission expense for outsourced credit collection services.

Section 3

Dividends and similar income – Caption 70

3.1 Dividends and similar income: breakdown

Dividends received in 2018 amount to €9.

Section 4

Net trading income – Caption 80

4.1 Net trading income: breakdown

(€'000)

	Unrealised gains (A)	Trading income (B)	Untrealised losses (C)	Perdite da negoziazione (D)	Net gain [(A+B) - (C+D)]
1. Financial assets held for trading	**-**	**-**	**-**	**-**	**-**
1.1 Debt instruments	-	-	-	-	-
1.2 Equity instruments	-	-	-	-	-
1.3 OEIC units	-	-	-	-	-
1.4 Financing	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt instruments	-	-	-	-	-
2.2 Financial liabilities	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Financial assets and liabilities: exchange gains (losses)	**x**	**x**	**x**	**x**	**-**
4. Derivatives	**-**	**-**	**-**	**-**	**-**
4.1 Financial derivatives:	-	-	-	-	-
- On debt instruments and interest rates	-	-	-	-	-
- On equity instruments and equity indexes	-	-	-	-	-
- On currencies and gold	x	x	x	x	-
- Other	553	-	-	-	553
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges associated with the fair value option	-	-	-	-	-
Total	**553**	**-**	**-**	**-**	**553**

This caption includes the fair value gains on the call option for BE TC, as described in Section 2 - Financial assets at fair value through profit or loss: Financial assets held for trading.

Section 6

Net gain from sales/repurchases – Caption 100

6.1 Net gain from sales/repurchases: breakdown

(€'000)

	31/12/2019			31/12/2018		
	Gain	Loss	Net gain	Gain	Loss	Net gain
A. Financial assets	**-**	**-**	**-**	**-**	**-**	**-**
1. Financial assets at amortised cost:	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Loans and receivables with banks	-	-	-	-	-	-
1.2 Loans and receivables with customers	-	-	-	-	-	-
2. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-
2.1 Debt instruments	14	(5)	9	-	-	-
2.4 Financing	-	-	-	-	-	-
Total assets (A)	**-**	**-**	**-**	**-**	**-**	**-**
B. Financial liabilities at amortised cost	**14**	**(5)**	**9**	**-**	**-**	**-**
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	-	-	-	-	-	-
Total liabilities (B)	**-**	**-**	**-**	**-**	**-**	**-**

Section 7

Net gain on other financial assets and liabilities at fair value through profit or loss - Caption 110

7.2 Net gain on other financial assets and liabilities at fair value through profit or loss: breakdown of other financial assets mandatorily measured at fair value

(€'000)

	Unrealised gains (A)	Realised gains (B)	Unrealised losses (C)	Realised losses (D)	Net gain [(A+B) - (C+D)]
1. Financial assets					
1.1 Debt instruments	8,083	-	(6,449)	-	1,634
1.2 Equity instruments	11	-	-	-	11
1.3 OEIC units	-	-	-	-	-
1.4 Financing	-	-	-	-	-
2. Foreign currency financial assets: exchange gains (losses)	**x**	**x**	**x**	**x**	**-**
Total	**8,094**	**-**	**(6,449)**	**-**	**1,645**

Financial assets mandatorily measured at fair value include the non-consolidated vehicles' securitised exposures and the related notes that did not pass the SPPI test. The group recognised net fair value gains of €1,634 thousand on financial assets at fair value. They include the amendments to the business plans.

Section 8

Net impairment losses - Caption 130

8.1 Rettifiche di valore nette per rischio di credito relativo ad attività finanziarie valutate al costo ammortizzato: composizione

(€'000)

	Impairment losses (1)			Impairment gains (2)		31/12/2019	31/12/2018
	Stages 1 and 2	Stage 3		Stages 1 and 2	Stage 3		
		write-off	Other				
A. Loans and receivables with banks:							
- financing	-	-	-	218	-	**218**	**(259)**
- debt instruments	-	-	-	-	-	**-**	**-**
of which: purchased or originated credit-impaired	-	-	-	-	-	**-**	**-**
B. Loans and receivables with customers:	-	-	-	-	-	**-**	**-**
- financing	(34)	(7,284)	(131,597)	16,076	113,461	**(9,378)**	**(22,050)**
- debt instruments	(150)	-	-	73	-	**(77)**	**(31)**
of which: purchased or originated credit-impaired	-	-	(131,591)	-	113,461	**(18,130)**	**(22,019)**
C. Total	**(185)**	**(7,284)**	**(131,597)**	**16,367**	**113,461**	**(9,237)**	**(22,340)**

These net impairment losses mainly refer to the POCI loan portfolios acquired by the consolidated securitisation vehicles.

8.2 Net impairment losses for credit risk associated with financial assets at fair value through other comprehensive income: breakdown

(€'000)

	Impairment losses (1)			Impairment gains (2)		31/12/2019	31/12/2018
	Stages 1 and 2	Stage 3		Stages 1 and 2	Stage 3		
		write-off	Other				
A. Debt instruments	-	-	-	5	-	**5**	**7**
B. Financing:	-	-	-	-	-	**-**	**-**
- to customers	-	-	-	-	-	**-**	**-**
- to banks	-	-	-	-	-	**-**	**-**
Of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	**-**	**-**
C. Total	**-**	**-**	**-**	**5**	**-**	**5**	**7**

Section 12

Administrative expenses – Caption 190

12.1 Personnel expense: breakdown

(€'000)

	31/12/2019	31/12/2018
1) Employees		
a) wages and salaries	21,641	17,471
b) social security contributions	7,728	4,616
c) post-employment benefits	5	-
d) pension costs	-	-
e) accrual for post-employment benefits	860	809
f) accrual for pension and similar provisions:	-	-
- defined contribution plans	282	223
- defined benefit plans	-	-
g) payments to external supplementary pension funds:	-	-
- defined contribution plans	-	-
- defined benefit plans	-	-
h) costs of share-based payment plans	-	956
i) other employee benefits	7,664	1,318
2) Other personnel	-	6
3) Directors and statutory auditors	845	572
4) Retired personnel	-	-
5) Cost recoveries for personnel seconded to other companies	845	572
6) Cost reimbursements for personnel seconded to the bank	-	-
Total	**39,025**	**25,971**

Personnel expense amounts to €39,025 thousand.

The payments to external supplementary defined contribution pension funds include the post-employment benefits paid directly to INPS.

12.2 Average number of employees by category

Employees:	
a) managers	21.66
b) junior managers	170
c) other employees	170.57
Other personnel	-

At the reporting date, the group had 377 employees, 31 of whom were part time.

12.4 Other employee benefits

(€'000)

	31/12/2019	31/12/2018
MBO bonuses	1,746	239
Other bonuses	515	-
Other short-term benefits	3,534	-
Insurance policies	391	543
Healthcare	390	-
Canteen subsidy and lunch vouchers	332	222
Refresher courses	306	173
Other	449	158
Total	**7,664**	**1,336**

12.5 Other administrative expenses: breakdown

(€'000)

	31/12/2019	31/12/2018
Business development, ICT development and due diligences	3,471	3,017
Taxes and duties	1,913	2,150
Professional services	2,283	1,257
Sundry consultancies	4,398	2,625
Insurance	132	232
Building leases and management fees	414	1,530
Payroll services	90	54
IT costs	5,108	6,253
Maintenance	1,533	1,140
Audit fees	997	776
Rating agency fees	177	155
Posting and telephone	508	272
Furniture and hardware leases and rentals	-	1
Cleaning and related supplies	210	117
Information services	620	437
Pro rata deductible/non-deductible VAT	102	(102)
Contribution to resolution funds	768	15
Advertising	374	817
Sundry lease costs	530	92
Contribution to the Interbank Deposit Protection Fund	25	444
DOL customer assistance	-	-
SPV management costs	1,749	-
Other	1,499	1,443
Total	**26,899**	**22,724**

In accordance with IFRS 16, it is noted that the group did not recognise costs for short-term leases (IFRS 16.53.c) or leases of low-value assets (IFRS 16.53.d) or variable lease payments not included in the measurement of the lease liabilities (IFRS 16.53.e).

Section 13

Net accruals to provisions for risks and charges – Caption 200

13.3 Net accruals to other provisions for risks and charges: breakdown

(€'000)

	31/12/2019	31/12/2018
Accrual to the restructuring provision	(3)	(5)
Accrual to the provision for litigation	(633)	2
Accrual to the provision for legal fees	-	(121)
Total	**(635)**	**(124)**

Section 14

Depreciation and net impairment losses on property, equipment and investment property – Caption 210

14.1 Depreciation and net impairment losses on property, equipment and investment property: breakdown

(€'000)

	Depreciation (a)	Impairment losses (b)	Reversals of impairment losses (c)	Total (a + b - c)
A. Property, equipment and investment property				
A.1 Property and equipment				
- owned	430	-	-	430
- right-of-use	1,549	-	287	1,262
A.2 Detenute a scopo di investimento:				
- owned	-	-	-	-
- right-of-use	X	-	-	-
3 Inventories				
Total	**1,979**	**-**	**287**	**1,692**

Section 15

Amortisation and net impairment losses on intangible assets – Caption 220

15.1 Amortisation and net impairment losses on intangible assets: breakdown

(€'000)

	Amortisation (a)	Impairment losses (b)	Reversals of impairment losses (c)	Total (a + b - c)
A. Intangible assets				
A.1 Owned				
- Generated internally	-	-	-	-
- Other	6,923	3,527	-	10,450
A.2 Right-of-use	-	-	-	-
Total	**6,923**	**3,527**	**-**	**10,450**

Section 16

Other operating income, net – Caption 230

16.1 Other operating expense: breakdown

(€'000)

	31/12/2019	31/12/2018
Losses on sales of leased assets	-	19
Irrecoverable VAT	1,232	1,241
Other	67	10
Total	**1,299**	**1,270**

16.2 Other operating income: breakdown

(€'000)

	31/12/2019	31/12/2018
Compensation for investment transactions	24,500	-
Cost recoveries from non-consolidated vehicles	220	168
Recovery of social security contributions	93	85
Smaller prior year expense	211	-
Reimbursement of due diligence expenses	61	448
Sundry lease income	62	1,252
Cost recoveries on promissory note management	-	1,061
Legal cost recoveries	1	1
Other	358	206
Total	**25,506**	**3,223**

Section 21

Income taxes – Caption 300

21.1 Income taxes: breakdown

(€'000)

	31/12/2019	31/12/2018
1. Current taxes (-)	(10,107)	-
2. Change in current taxes from previous years (+/-)	-	(52)
3. Decrease in current taxes for the year (+)	-	-
3.bis Decrease in current taxes for the year due to tax assets as per Law no. 214/2011 (+)	-	-
4. Change in deferred tax assets (+/-)	20,791	16,340
5. Change in deferred tax liabilities (+/-)	(895)	(4,615)
6. Tax expense for the year (-) (-1+/-2+3+3bis+/-4+/-5)	**9,789**	**11,673**

21.2 Reconciliation between the theoretical and effective tax expense

The theoretical tax rate is 33.1% (IRES ordinary and surtax rate of 27.5% and IRAP rate of 5.6%).
Part B - Notes to the statement of financial position - Assets: Section 11 "Tax assets and liabilities" provides more information about the deferred taxes recognised during the year.

Section 23

Profit for the year attributable to minority interests – Caption 340

This caption shows the profit attributable to minority interests of BE Credit Management S.p.A. and CF Liberty Servicing S.p.A. (€21 thousand and €302 thousand, respectively).

Section 25

Earnings per share

25.1 Average number of ordinary shares with dilutive effect

Pursuant to IAS 33.70.b), it is noted that the parent only has ordinary shares.

25.2 Other disclosures

Considering the disclosures required by paragraphs 68, 70.a)/c)/d) and 73 of IAS 33, the following is noted:
• There are no discontinued operations that would affect profit;
• There are no instruments that would affect calculation of the basic earnings and earnings attributable to the owners of the parent;
• There are no contingently issuable shares at the reporting date;
• Components other than those provided for by IAS 33 were not used.

Part D: Comprehensive income 140

BREAKDOWN OF COMPREHENSIVE INCOME

(€'000)

		31/12/2019	31/12/2018
10.	**Profit for the year**	**40,576**	**29,456**
	Other comprehensive expense that will not be reclassified to profit or loss		
20.	Equity instruments at fair value through other comprehensive income:		
	a) Fair value gains (losses)	-	-
	b) Transfers to other equity items	-	-
30.	Financial liabilities at fair value through profit or loss (changes in own credit rating):		
	a) Fair value gains (losses)	-	-
	b) Transfers to other equity items	-	-
40.	Hedges of equity instruments at fair value through other comprehensive income:		
	a) Fair value gains (losses) (hedged instrument)	-	-
	b) Fair value gains (losses) (hedging instrument)	-	-
50.	Property, equipment and investment property	-	-
60.	Intangible assets	-	-
70.	Defined benefit plans	(72)	(8)
80.	Non-current assets held for sale and disposal groups	-	-
90.	Share of valuation reserves of equity-accounted investees	-	-
100.	Related tax	-	-
	Other comprehensive expense that will be reclassified to profit or loss		
110.	Hedges of investments in foreign operations:		
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
120.	Exchange rate gains (losses):		
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
130.	Cash flow hedges:		
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
	including: net gain (loss)	-	-
140.	Hedging instruments (non-designated items)		
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
150.	Financial assets (other than equity instruments) at fair value through other comprehensive income:		
	a) fair value gains (losses)	37	(121)
	b) reclassification to profit or loss	-	-
	- impairment losses	-	-
	- gains (losses) on sales	-	-
	c) other changes	-	-
160.	Non-current assets held for sale and disposal groups:		
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
170.	Share of valuation reserves of equity-accounted investees:		
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	- impairment losses	-	-
	- gains (losses) on sales	-	-
	c) other changes	-	-
180.	Related tax	-	-
190.	**Total other comprehensive expense**	**(36)**	**(129)**
200.	**Comprehensive income (captions 10 + 190)**	**40,541**	**29,327**
210.	Comprehensive income (expense) attributable to minority interests	308	(17)
220.	**Comprehensive income attributable to the parent company**	**40,233**	**29,343**

Part E - Risks and hedging policies

Introduction

The Credito Fondiario banking group acknowledges the strategic importance of the internal control system, consisting of rules, procedures and structures designed to allow sustainable growth in line with the group's objectives by properly identifying, measuring, managing and monitoring its risks. The risk culture not only relates to the control functions but is disseminated throughout the group.

In particular, Credito Fondiario focuses on its capacity to identify and promptly analyse interrelations between the various risk categories.

As provided for by the current regulations, the board of directors, as it is also the body charged with managing the parent, is responsible for defining, approving and revising the parent's risk management policies and maintaining an effective management and control system. It is constantly informed about changes in the parent's business risks. The board of statutory auditors supervises the completeness, functionality and adequacy of the internal control system and the risk appetite framework (RAF). It also monitors compliance with the regulations governing the banking sector, communicating the need for remedial actions to remedy weaknesses or irregularities, when necessary. The managing director or the general manager ensures that the strategies, the RAF and risk governance policies defined by the board of directors are implemented.

The supervisory body as per Legislative decree no. 231/01 checks that the organisational, management and control model, required by law, is operational and compliant.

The risk committee supports the board of directors with its monitoring of the governance and integrated management of the overall business risks to which the group is exposed.

This committee acknowledges and expresses its opinion on the risk appetite statement (RAS) and RAF, carries out ongoing checks of any changes in business risks and compliance with the various types of risk assumption thresholds, aids the development and spreading at all levels of an integrated risk culture for all different risk types and across the entire group structure.

The internal audit department checks that the business operations are carried out regularly and monitors changes in risks. It also assesses the completeness, functionality and adequacy of the organisational structures and other components of the internal control system. This department informs the internal bodies of any possible improvements, especially to the RAF or to the risk management process as well as to the risk measurement and control instruments.

The compliance department prevents and manages the risk of incurring judicial or administration sanctions, large financial losses or damage to the parent's reputation due to violations of imperative regulations or self-regulations.

The AML department performs ongoing checks to ensure that the parent's procedures are suitable to prevent and thwart violations of imperative regulations or self-regulations on money laundering and the financing of terrorism.

The risk management department, together with the compliance department, the AML department and the internal audit department that report directly to the board of directors to ensure their independence, monitors all types of risk and provides the clear presentation of the group's total risk profile and its financial solidity to the board of directors. The department assists with the definition and implementation of the RAF, the related risk governance policies, the various stages of risk management and the setting of risk taking limits in order to ensure transparency about the group's risk profile and the capital absorption of each type of risk.

Starting from 2015, the group actively manages IT risk. Specifically, the data protection office assists the risk management department to define methods to measure IT risk, check the effectiveness of the organisational and procedural controls designed to prevent and mitigate this risk and monitors the general working of the group's IT system to ensure that the structures are suitable to effectively support risk management and measurement.

The internal units that define organisational and control checks for cross-bank risks are an important part of the internal control system as are the individual operating offices in charge of implementing risk mitigation measures and achieving the strategic risk objectives, the tolerance threshold and operating limits defined and approved by the board of directors.

Section 1 - QUANTITATIVE DISCLOSURE

A. CREDIT QUALITY

A.1 Performing and non-performing exposures: carrying amount, impairment losses, performance, business and geographical breakdown

A.1.1 Breakdown of financial assets by portfolio and credit quality (carrying amount)

(€'000)

	Bad exposures	Unlikely to pay exposures	Non-performing past due exposures	Performing Past Due exposure	Other performing exposures	Total
1. Financial assets at amortised cost	602,163	70,161	1,356	-	440,748	1,114,428
2. Financial assets at fair value through other comprehensive income	-	-	-	-	3,514	3,514
3. Financial assets at fair value through profit or loss	-	-	-	-	-	-
4. Other financial assets mandatorily mea sured at fair value	-	-	-	-	162,010	162,010
5. Financial assets held for sale	-	-	-	-	-	-
Total 31/12/2019	**602,163**	**70,161**	**1,356**	**-**	**606,272**	**1,279,952**
Total 31/12/2018	**369,894**	**81,077**	**3,546**	**-**	**425,622**	**880,139**

As established by Bank of Italy's Circular no. 262 of 22 December 2005 (fourth update) for the quantitative disclosure on credit quality, "exposures" do not include equities and OEIC units.

A.1.2 Breakdown of financial assets by portfolio and credit quality (gross amount and carrying amount)

(€'000)

	Non-performing				Performing			Total (carrying amount)
	Gross amount	Total impairment losses	Carrying amount	Partial/total write-offs (*)	Gross amount	Total impairment losses	Carrying amount	
1. Financial assets at amortised cost	766,156	(92,477)	673,679	(7,388)	429,938	10,810	440,748	1,114,427
2. Financial assets at fair value through other comprehensive income	-	-	-	-	3,519	(5)	3,514	3,514
3. Financial assets at fair value through profit or loss	-	-	-	-	x	x	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-	x	x	162,010	162,010
5. Financial assets held for sale	-	-	-	-	-	-	-	-
Total 31/12/2019	**766,156**	**(92,477)**	**673,679**	**(7,388)**	**433,457**	**10,805**	**606,272**	**1,279,951**
Total 31/12/2018	**492,215**	**(37,699)**	**454,516**	**(94)**	**429,378**	**(3,755)**	**425,623**	**880,139**

	Assets with poor credit quality		Other assets
	Accumulated losses	Carrying amount	Carrying amount
1. Financial assets held for trading	-	-	729
2. Hedging derivatives	-	-	-
Total 31/12/2019	**-**	**-**	**729**
Total 31/12/2018	**-**	**-**	**325**

* To be shown for disclosure purposes

As established by Bank of Italy's Circular no. 262 of 22 December 2005 (sixth update) for the quantitative disclosure on credit quality, "exposures" do not include equities and OEIC units.

Financial assets at amortised cost classified as non-performing include loans that had already been classified as such and acquired with deep discounts.

A breakdown of the purchased credit-impaired financial assets' nominal amount and purchase price by portfolio is as follows:

	Purchase price	Nominal amount	Difference
Bad exposures	684,762	3,750,174	3,065,412
Unlikely to pay exposures	65,457	158,517	93,060
Non-performing past due	260	307	47
Performing	94,064	107,194	13,130

B. Structured entities (other than securitisation vehicles)

Nothing to report.

Section 2 – PRUDENTIAL CONSOLIDATION RISK

1.1. Credit risk

QUALITATIVE DISCLOSURE

1. General information

Credit risk mostly arises on the parent's investments in loan portfolios or securitisation notes. It mainly operates in the illiquid and non-performing loan sectors, acquiring portfolios of financial assets directly or through the acquisition of securitisation securities with these loans as the underlying.

The parent's lending operations are currently limited to mortgage and personal loans given to employees and credit facilities or endorsement credits on special occasions to a limited number of counterparties.
In 2018 and as described in detail in the directors' report, Credito Fondiario subscribed ABS issued by securitisation vehicles and purchased lease portfolios.

The parent's assumption of credit risk is designed to:
- achieve its growth objective for sustainable lending activities in line with its risk appetite and the creation of value;
- diversify its portfolio, limit its exposure to individual counterparties/groups, business or geographical segments;
- efficiently select economic groups and individual customers by carefully analysing their credit standing in order to take on credit risk in line with its risk appetite.

The parent's continued monitoring of the quality of its loan portfolio includes adopting precise operating methods for each stage of the credit disbursement process.

Counterparty risk, which is included in the credit risk category, is the risk that a counterparty to a transaction involving financial instruments defaults before the transaction is settled.

In line with the provisions set out in Bank of Italy's Circular no. 285/2013, as subsequently amended, about banking groups and banks with assets equal to or less than €4 billion (class 3), the group measures counterparty risk using the standard method for regulatory purposes.

It performs stress tests to check its capital adequacy for counterparty risk purposes.

2. Credit risk management policies

2.1 Organisational aspects

A fundamental role in managing and controlling credit risk is played by the internal bodies that, properly assisted by the control departments and each according to its duties, ensure the proper monitoring of credit risk. They identify the strategies to be taken and the risk management policies, checking continuously their efficiency and effectiveness. The internal bodies also define the duties and responsibilities of the departments and units involved in the process.

This monitoring and checking of credit quality, ensured by the internal bodies, is reflected in the parent's current organisational structure with the allocation of specific responsibilities that guarantee that risks are managed and monitored at various levels.

The board of directors defines the guidelines for taking on risk and the lending policies which include, inter alia, guidance about the guarantees accepted to mitigate risk.

At operating level, the group's units each cover their own area of expertise and ensure comprehensive monitoring of credit risk.

The operating units perform the first level controls on an ongoing and systematic basis to ensure that transactions are performed correctly. The parent carries out credit standing checks, checks of the collateral, checks of external appraisals and checks by the unit that approves the lending transaction that the transaction complies with both ruling regulations and internal policies.

Given the nature of the underlying, when the parent acquires loans, it performs thorough due diligence activities to assess the legal, economic and operational risks (including IT risks) that could preclude an efficient management of the acquired assets. This ex-ante valuation procedure includes a valuation of the collateral, especially the properties pledged to guarantee mortgage loans as well as assets under finance property and other leases.

The group also monitors the performance of its credit exposures regularly using procedures able to identify variations compared to the initial assumptions and/or irregularities that would affect the correct management of credit risk. This allows it to classify the exposures in line with regulations and to ensure that its credit management policies comply with its risk appetite and strategic objectives.

Specifically and in line with their objectives, the deal execution office, the credits/UTP office, the due diligence office, the special servicing office, the capital markets & securitisation office, the portfolio management & acquisitions office and the real estate office are responsible for:
- managing and monitoring risks arising from the parent's ordinary operations in line with its risk management policies;
- complying with their operating limits in line with the credit risk objectives and the credit risk management procedures.

The risk management department carries out the second level controls:
- it checks the capital absorption level once a quarter, identifying the areas requiring attention and planning any risk containment actions;
- it prepares reports as required or requested on the loan portfolio's quality for the board of directors, the management team, the risks committee and the internal units (as necessary);
- it checks that the performance of individual credit exposures are monitored correctly and the adequacy of the related provisioning, the customer due diligences, their classification, the collection process and the risks of applying credit risk mitigation techniques;
- it checks compliance with the risk limits defined in line with the parent's risk appetite.

The internal audit department performs the third level controls and makes sure that the entire process is carried out correctly through:
- remote checks, designed to ensure the orderly monitoring and analysis of credit risks as well as spot checks of the exposures' performance and potential risks in order to agree how and when to intervene if necessary;
- on-the-spot checks, designed to check the operating, accounting and administrative procedures are performed correctly and to check the security, correctness and compliance of the staff's conduct and management practices;

- checks of processes and procedures to assist management introduce the organisational model by performing analysis of its impact on the internal controls.

2.2 Management, measurement and control systems

Credit risk is the risk that the group may incur losses if its counterparty, beneficiary of a loan or issuer of a financial obligation (bonds, securities, etc.) is unable to meet its commitments (payment of interest and/or repayment of principal on time and any other amounts due) (default risk). Credit risk also includes the potential loss arising from the default of a borrower/issuer or a drop in market value of a financial obligation due to deterioration in its credit quality.

2.3. Measurement of expected credit losses

From 1 January 2018, when IFRS 9 became effective, the group changed its provisioning of performing and non-performing exposures from an "incurred loss" to an "expected loss" approach.
IFRS 9 introduced three approaches:
1. the general approach, whereby entities recognise 12-month ECL (stage 1) or lifetime ECL (stages 2 and 3);
2. the purchased or originated credit-impaired (POCI) approach, whereby entities recognised the accumulated change in lifetime ECL since initial recognition at each reporting date;
3. the simplified approach for trade receivables or financial assets that do not contain a significant financing component under IFRS 15, whereby entities can elect to recognise lifetime ECL rather than 12-month ECL.

The group measures the ECL through the following steps:
• Staging: this is carried out on a case-by-case basis, except for those financial instruments with common characteristics, for which collective staging is allowed;
• Calculation of impairment.

The purpose of staging exposures is to identify impairment before the occurrence of a default event, i.e., before the exposure becomes non-performing and is, therefore, subject to individual impairment.

Indeed, under IFRS 9.5.5.9, at each reporting date, an entity shall assess whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, an entity shall use the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses. Moreover, regardless of the way in which an entity assesses significant increases in credit risk, there is a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due. An entity can rebut this presumption if the entity has reasonable and supportable information that is available without undue cost or effort, that demonstrates that the credit risk has not increased significantly since initial recognition even though the contractual payments are more than 30 days past due (IFRS 9.5.5.11). Specifically, based on the increase in their credit risk during the reporting period, financial assets are classified into the following stages:
• Stage 1: this includes all performing financial assets whose credit risk, at the staging date, has not significantly increased since initial recognition. For financial assets in stage 1, entities are required to recognise 12-month ECL;
• Stage 2: this includes all performing financial assets whose credit risk, at the staging date, has significantly increased since initial recognition. For financial assets in stage 2, entities are required to recognise lifetime ECL;
• Stage 3: this includes all credit-impaired financial assets, comprising those past due by over 90 days, regardless of the amount. Moreover, stage 3 includes all tranches associated with securities in default.

The group has defined the trigger events to determine whether its financial assets' credit risk has increased significantly since initial recognition at the reporting date. If this is the case for stage-1 performing financial assets, they are reclassified to stage 2. The group identified the trigger events considering the particular nature of its financial assets.

In the case of ABS, the trigger events are as follows:
• Net collections 20% lower than those forecast in the business plan;

• A 3-notch decrease in the external rating of listed securities, if this decrease does not directly lead to classification as stage 3 (junk grade);
• Business plan reviewed downward by over 20% of the net recoverable amount, if the new business plan does not lead to the write-off of the junior and mezzanine securities measured at fair value that are part of the same transaction, if any. In this case, the affected financial assets are directly transferred to stage 3;
• Business plan reviewed by extending the recovery timing by over three years, if the new business plan does not lead to the write-off of the junior and mezzanine securities measured at fair value that are part of the same transaction, if any. In this case, the affected financial assets are directly transferred to stage 3.
In the case of customer financing (loans and leases), the trigger events are as follows:
• More than 30 days past due;
• Forborne performing.

In the case of loans and receivables with banks, the trigger events are as follows:
• A 3-notch decrease in the counterparty's external rating or, if not available, in the counterparty's country's rating, down to BBB+, a 2-notch decrease from BBB to BBB- and a 2-notch decrease, as long as it does not directly lead to classification as stage 3 (junk grade);
• Analytical risk assessment of the counterparty (issuer risk, country risk, etc.).

The measurement of ABS' ECL considers reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The group's sources of information are both internal (its relationship with the debtor) and external, such as Moody's publications about default and recovery rates for the calculation of multi-period PD and historical trends of the group's realised losses on similar instruments.

To assess the PD of other securities, the group uses Moody's publications about the default and recovery rates of the corporate or sovereign segment, using a LGD rate of 45%.

The PD of customer financing is calculated using the bad loan rates published by Bank of Italy in its statistical tables. When the group does not have its own LGD historical figures, it estimates the LGD using a simplified approach using the 45% rate applicable to senior exposures without eligible collateral (article 161 of Regulation (EU) no. 575/2013).

Exposures with irregular repayments are classified in different categories depending on the risk level.
Non-performing exposures (stage 3) can be split into:
- non-performing past due and/or overdue exposures: on and off-statement of financial position exposures other than bad exposures or unlikely to pay exposures that are past due or overdue by more than 90 days at the reporting date;
- unlikely to pay: on and off-statement of financial position exposures classified as such given that the group does not expect the borrower will be able to fully meet its commitments (principal and/or interest) without resorting to actions such as asset foreclosure;
- bad exposures: on and off-statement of financial position exposures to borrowers that are insolvent (even if not legally certified as such) or in substantially similar situations regardless of the group's estimates about probable losses.

Each of the above categories may also be classified as forborne non-performing exposures.

Both performing and non-performing exposures can be classified as forborne when the following regulatory conditions are met:
- modification of the previous terms and conditions of the contract and/or the total or partial refinancing of the exposure;
- confirmation at the forbearance resolution date that the customer is facing or about to face difficulties in meeting its financial commitments ("financial difficulties"). This condition is automatically deemed to be met in the case of a non-performing exposure but has to be based on a specific valuation of the customer in the case of a performing exposure.

The group assesses its credit-impaired exposures analytically depending on the nature of the assessed asset:
• Customer financing: the impairment losses are calculated as the difference between the non-performing exposures' carrying amount and the expected recoverable amount of the assets pledged as guarantee, discounted based on the estimated recovery date and the contractual interest date, equal to the amount recognised immediately before the reclassification date. The group's core business includes granting loans secured by cash collateral. In this case, there is no default risk and, therefore, the impairment is solely calculated on the portion at risk;
• Tax assets: the impairment losses are calculated as the difference between the individual exposures' carrying amount and their expected recoverable amount based on the underlying business plan;
• POCI exposures: the impairment losses are calculated as the difference between the individual portfolios' carrying amount and their expected recoverable amount based on the underlying business plan;
• ABS: the impairment losses are the higher of those calculated using the approach described for stages 1 and 2 exposures and their expected recoverable amount based on the underlying business plan;
• Leases: the impairment losses are calculated individually by assessing their recoverability considering issuer risk.
The parent revises the business plans used for the measurement of the financial assets every six months or more frequently, if appropriate.

The group checks that the impairment loss on loans is adequate by comparing its portfolio with the average banking sector data and revising the methods used to calculate recovery forecasts based on the results of its recovery procedures (court-appointed experts' appraisals, prices set for auctions and sales prices at auctions).

Impairment losses on ABS reflect both remeasurement of the investment's value compared to its calculation using the amortised cost method agreed during the underwriting phase as well as information available to the parent.

2.4. Credit risk mitigation techniques

Risk mitigation techniques include those instruments that contribute to reducing the loss that the group would incur if a counterparty defaults. They include guarantees and some contracts that mitigate credit risk.

Potential losses are subsequently grouped at customer level to obtain an understanding of the effectiveness of the mitigating factors compared to the total exposures.

The higher impact mitigating factors include collateral (liens on financial assets, residential and non-residential property mortgages and cash collateral deposits).

The group has specific procedures to efficiently manage risk covering the various stages involved (from acquisition of the individual guarantees to their execution as well as the more operational aspects for their management) and to identify the relevant internal process owners.

The granting of credit against collateral is subject to internal regulations and processes to value the asset, finalise the guarantee and check its value in line with market best practices and supervisory regulations. Specialist workout units foreclose the assets, if necessary.

Even when the exposures are secured by collateral, the group is still required to measure credit risk, focusing on the borrower's capacity to meet its obligations without considering the guarantee.

3. Non-performing exposures

3.1. Management strategies and policies

At the reporting date, the group's non-performing exposures were almost entirely credit-impaired when it purchased them (bad or UTP exposures, mostly SME property loans), either as part of securitisations carried out by other banks or financial brokers (e.g., leasing companies) or directly.

To ensure the processes' fast execution and control, the entire underwriting structure is managed entirely through the group's own professionals who carry out due diligence, deal execution, structuring and pricing activities. The group also co-invests alongside other institutional investors, i.e., acts as a sponsor as part of structure finance transaction, holding a retention investment.

Through its securitisation vehicles, the group purchased financial assets at a discount compared to their nominal amount in order to collect the related contractual cash flows.

The risk is managed at the initial stage of the transaction, by carrying out due diligences, and thereafter by regularly analysing and updating the business plans underlying the individual securitisation portfolios and/or the individual purchase exposures.

3.2. Write-Off

As part of its non-performing exposure management, the group adopted write-off policies for those financial assets that are no longer expected to be recovered. Specifically, a write-off constitutes a derecognition event when the group has no reasonable expectations of recovering a financial asset. It may occur before the termination of any legal proceedings and, in any case, it does not entail the group's waiver of its legal right to recover it. To assess the recoverability of its non-performing exposures and defining the related write-off approach, the group considers the following:
• NPE (including forborne non-performing and bad exposures) vintage if, as a result of this classification, the group has no prospects of recovering the financial asset or a portion of it;
• Exposures to borrowers that are insolvent, where the related collateral is negligible and the legal costs would offset a significant portion of any proceeds from the insolvency proceedings;
• When the group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof - including in the case of implementation of forbearance measures or foreclosure. If this is the case, the financial asset can be entirely or partially derecognised;
• When the group is unable to locate the guarantor or believes that its assets are insufficient to recover the exposure;
• A negative outcome of the legal proceedings and/or out-of-court negotiations, when there are no other assets that can be foreclosed in the case of irrecoverability of the financial assets;
• When the group cannot start recovery actions;

3.3 Purchased or originated credit-impaired financial assets

As mentioned earlier, at the reporting date, the group's non-performing exposures were almost entirely credit-impaired when it purchased them (bad or UTP exposures, mostly SME property loans), either as part of securitisations carried out by other banks or financial brokers (e.g., leasing companies) or directly.

The parent acquired these financial assets to collect the related cash flows (HTC business model).

As already described, the group calculates the expected credit losses on POCI exposures as the difference between the net present value of their future cash flows (through credit collection activities less related costs) discounted at the transaction's interest rate (IRR) calculated at inception and the gross amount of the purchased exposures (i.e., the purchase price less collections plus interest calculated using the transaction's IRR.

The parent revises the business plans used for the measurement of the financial assets every six months or more frequently, if appropriate.

The group checks that the impairment loss on loans is adequate by comparing its portfolio with the average banking sector data and revising the methods used to calculate recovery forecasts based on the results of its recovery procedures (court-appointed experts' appraisals, prices set for auctions and sales prices at auctions).

A breakdown of actual collections compared to the related recovery plans, the portfolios' nominal amount and purchase price by portfolio of similar purchased financial assets of consolidated vehicles is set out below:

					Securitised assets		
	Actual collections	Original BP collections	Variation	Variation %	Carrying amount	Purchase price	Nominal amount
Bank loans	244,277	291,973	(47,697)	(16.34%)	399,017	483,899	2,858,829
Leases	27,885	32,372	(4,487)	(13.86%)	313,402	314,726	1,072,859
Tax assets	14,954	10,157	4,797	(47.23%)	40,645	31,712	42,076

4. Renegotiated financial assets and forborne exposures

None.

QUANTITATIVE DISCLOSURE

A. CREDIT QUALITY

A.1 Performing and non-performing exposures: carrying amount, impairment losses, performance, business and geographical breakdown

A.1.1 Prudential consolidation - Breakdown of financial assets by past due bracket (carrying amounts)

(€'000)

	Stage 1			Stage 2			Stage 3		
	Between 1 day and 30 days	Between 30 days and 90 days	Over 90 days	Up to 30 days	Between 30 days and 90 days	Over 90 days	Up to 30 days	Between 30 days and 90 days	Over 90 days
Financial assets at amortised cost	2,390	-	-	642	937	5,299	2,390	346	670,944
2. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
Total 31/12/2019	**2,390**			**642**	**937**	**5,299**	**2,390**	**346**	**670,944**
Total 31/12/2018	**10**			**387**	**1,673**	**4,490**	**491**	**5,351**	**448,675**

A.1.2. Prudential consolidation - Financial assets, loan commitments and financial guarantees given: total impairment losses and provisioning

(€'000)

	Total impairment losses													Total accruals on loan commitments and financial guarantees given			
	Stage 1				Stage 2				Stage 3								
	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income	of which: individual impairment	of which: collective impairment	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income	of which: individual impairment	of which: collective impairment	Financial assets at amorti-sed cost	Financial assets at fair value through other comprehensive income	of which: individual impairment	of which: collective impairment	Of which: purchased or originated creditimpaired financial assets	Stage 1	Stage 2	Stage 3	Total
Opening balance	**2,754**	**8**	**4,184**	**(1,422)**	**994**	**-**	**691**	**303**	**37,699**	**-**	**(37,699)**	**-**	**-**	**-**	**-**	**-**	**(41,455)**
Increase in purchased or originated financial assets	-	-	-	-	-	-	-	-	4,497	-	4,497	-	-	-	-	-	**4,497**
Cancellations other than write-offs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Net impairment gains (losses) for credit risk (+/-)	(11,457)	(5)	(11,529)	67	(3,039)	-	(2,967)	(72)	50,711	-	50,711	-	-	-	-	-	**36,210**
Modification gains (losses)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Changes in estimation methodology	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Write-off	-	-	-	-	-	-	-	-	299	-	299	-	-	-	-	-	**(299)**
Other changes	(62)	-	-	(62)	-	-	-	-	(130)	-	(130)	-	-	-	-	-	**(192)**
Closing balance	**(8,765)**	**3**	**(7,345)**	**(1,417)**	**(2,045)**	**-**	**(2,276)**	**231**	**92,477**	**-**	**(92,478)**	**-**	**-**	**-**	**-**	**-**	**81,670**
Collections of written-off financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Write-offs recognised directly in profit or loss	-	-	-	-	-	-	-	-	299	-	299	-	-	-	-	-	**(299)**

A.1.3 Prudential consolidation - Financial assets, loan commitments and financial guarantees given: transfers among the various credit risk stages (gross amount and nominal amount)

(€'000)

	Gross/nominal amounts					
	Transfer between stage 1 and 2		Transfer between stage 2 and 3		Transfer between stage 1 and 3	
	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
1. Financial assets at amortised cost	667	2,483	1,691	631	686	117
2. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-
3. Loan commitments and financial guarantees given	-	-	-	-	-	-
Total 31/12/2019	**667**	**2,483**	**1,691**	**631**	**686**	**117**
Total 31/12/2018	**12,079**	**2,483**	**2,181**	**548**	**1,763**	**95**

A.1.4 Prudential consolidation - On- and off-statement of financial position exposures with banks: gross amount and carrying amount

(€'000)

	Gross amount		Total impairment losses and accruals	Carrying amount	Partial/total write-offs*
	Non performing	Performing			
A. ON-STATEMENT OF FINANCIAL POSITION					
a) Bad exposures	-	x	-	-	-
- including: forborne exposures	-	x	-	-	-
b) Unlikely to pay exposures	-	x	-	-	-
- including: forborne exposures	-	x	-	-	-
c) Non-performing past due exposures	-	x	-	-	-
- including: forborne exposures	-	x	-	-	-
d) Performing past due exposures	x	-	-	-	-
- including: forborne exposures	x	-	-	-	-
e) Other performing exposures	x	121,734	(88)	121,646	-
- including: forborne exposures	x	-	-	-	-
TOTAL A	**-**	**121,734**	**(88)**	**121,646**	**-**
B. OFF-STATEMENT OF FINANCIAL POSITION					
a) Non-performing	-	x	-	-	-
b) Performing	x	-	-	-	-
TOTAL B	**-**	**-**	**-**	**-**	**-**
TOTAL A+B	**-**	**121,734**	**(88)**	**121,646**	**-**

As established by Bank of Italy's Circular no. 262 of 22 December 2005 for the quantitative disclosure on credit quality, "exposures" do not include equities and OEIC units.

Like at the previous year end, the group does not have non-performing exposures with banks at the reporting date

A.1.5 Prudential consolidation - On- and off-statement of financial position exposures with customers: gross amount and carrying amount

(€'000)

	Gross amount		Total impairment losses and accruals	Carrying amount	Partial/total write-offs*
	Nonperforming	Performing			
A. ON-STATEMENT OF FINANCIAL POSITION					
a) Bad exposures	692,248	x	(93,086)	602,163	(7,388)
- including: forborne exposures	56,887	x	(18,143)	38,744	-
b) Unlikely to pay exposures	69,595	x	566	70,161	-
- including: forborne exposures	26,455	x	1,055	27,510	-
c) Non-performing past due exposures	1,313	x	43	1,356	-
- including: forborne exposures	43	x	13	56	-
d) Performing past due exposures	x	8,545	723	9,268	-
- including: forborne exposures	x	2,269	525	2,794	-
e) Other performing exposures	x	465,183	10,175	475,358	-
- including: forborne exposures	x	7,840	694	8,534	-
TOTAL A	**766,156**	**473,728**	**(81,579)**	**1,158,306**	**(7,388)**
B. OFF-STATEMENT OF FINANCIAL POSITION					
a) Non-performing	-	x	-	-	-
b) Performing	x	20,658	-	20,658	-
TOTAL B	**-**	**20,658**	**-**	**20,658**	**-**
TOTAL A+B	**766,156**	**494,386**	**(81,579)**	**1,178,964**	**(7,388)**

The on-statement of financial position exposures include the banking portfolios, the credit-impaired lease portfolios directly purchased by the group and the consolidated SPVs' portfolios.

A.1.6 Prudential consolidation - On-statement of financial position exposures with customers: gross non-performing exposures

None.

A.1.6bis Prudential consolidation - On-statement of financial position exposures with banks: gross forborne exposures broken down by credit quality

None.

A.1.7 Prudential consolidation - On-statement of financial position loans and receivables with customers: gross non-performing exposures

(€'000)

	Bad exposures	Unlikely to pay exposures	Non-performing past due exposures
A. Gross opening balance	**402,707**	**85,822**	**3,686**
- including: exposures transferred but not derecognised	-	-	-
B. Increases	**352,385**	**18,311**	**140**
B.1 from performing exposures	1,219	2,353	129
B.2 from purchased or originated credit-impaired exposures	290,648	4,760	-
B.3 reclassifications from other non-performing categories	8,802	2,999	-
B.4 modification gains	-	-	-
B.5 other increases	51,716	8,199	11
C. Decreases	**(62,861)**	**(35,009)**	**(2,521)**
C.1 to performing exposures	(71)	(804)	-
C.2 write-off	(7,388)	-	-
C.3 collections	(52,412)	(25,439)	(667)
C.4 sales	-	-	-
C.5 losses on sales	-	-	-
C.6 transfers to other non-performing categories	(2,990)	(8,766)	(1,854)
C.7 modification losses	-	-	-
C.8 other decreases	-	-	-
D. Gross closing balance	**692,231**	**69,124**	**1,305**
- including: exposures transferred but not derecognised	-	-	-

A.1.7bis Prudential consolidation - On-statement of financial position exposures with customers: gross forborne exposures broken down by credit quality 159

(€'000)

	Forborne nonperforming exposures	Other forborne exposures
A. Gross opening balance	**81,790**	**10,050**
- including: exposures transferred but not derecognised	-	-
B. Increases	**7,716**	**1,459**
B.1 transfers from performing exposures not subject to forbearance measures	-	-
B.2 transfers from performing forborne exposures	-	-
B.3 reclassifications from forborne non-performing exposures	-	-
B.4 other increases	7,716	1,459
C. Decreases	**(6,121)**	**(952)**
C.1 transfers to performing exposures not subject to forbearance measures	-	-
C.2 transfers to performing forborne exposures	-	x
C. 3 reclassifications to forborne non-performing exposures	-	-
C.4 write-off	-	-
C.5 collections	(6,121)	(952)
C.6 sales	-	-
C.7 losses on sales	-	-
C.8 other decreases	-	-
D. Gross closing balance	**83,385**	**10,557**
- including: exposures transferred but not derecognised	-	-

A.1.8. Prudential consolidation - On-statement of financial position non-performing exposures with banks: changes in impaired positions

None.

A.1.9 Consolidato prudenziale - Esposizioni creditizie per cassa deteriorate verso clientela: dinamica delle rettifiche di valore complessive

(€'000)

	Bad exposures		Unlikely to pay exposures		Non-performing past due exposures	
	Total	including: forborne exposures	Total	including: forborne exposures	Total	including: forborne exposures
A. Opening balance	**32,814**	**1,773**	**4,745**	**287**	**139**	**3**
- including: exposures transferred but not derecognised	-	-	-	-	-	-
B. Increases	**133,587**	**19,009**	**2,996**	**182**	**116**	**1**
B.1 from purchased or originated credit-impaired exposures	4,266	-	-	-	-	-
B.2 other impairment losses	129,321	19,009	2,996	182	116	1
B.3 losses on sales	-	-	-	-	-	-
B.4 reclassifications from other non-performing categories	-	-	-	-	-	-
B.5 modification gains	-	x	-	x	-	x
B.6 other increases	-	-	-	-	-	-
C. Decreases	**(73,315)**	**(2,639)**	**(8,307)**	**(1,524)**	**(298)**	**(17)**
C.1. fair value gains	(73,016)	(2,639)	(8,307)	(1,524)	(168)	(17)
C.2 impairment gains due to collections	-	-	-	-	-	-
C.3 gains on sales	-	-	-	-	-	-
C.4 write-offs	(299)	-	-	-	-	-
C.5 transfers to other non-performing categories	-	-	-	-	-	-
C.6 modification gains (losses)	-	x	-	x	-	x
C.7 other decreases	-	-	-	-	130	-
D. Closing balance	**93,086**	**18,143**	**(566)**	**(1,055)**	**(43)**	**(13)**
- including: exposures transferred but not derecognised	-	-	-	-	-	-

As established by Bank of Italy's Circular no. 262 of 22 December 2005 (sixth update) for the quantitative disclosure on credit quality, "exposures" do not include equities and OEIC units.

A.2 Classification of exposures using external and internal ratings

A.2.1 Prudential consolidation - Breakdown of financial assets, loan commitments and financial guarantees given by external rating class (gross amounts)

(€'000)

	External rating classes						Unrated	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Financial assets at amortised cost	**-**	**-**	**284,331**	**-**	**-**	**-**	**911,763**	**1,196,094**
- stage 1	-	-	284,331	-	-	-	132,883	417,214
- stage 2	-	-	-	-	-	-	12,724	12,724
- stage 3	-	-	-	-	-	-	766,156	766,156
B. Financial assets at fair value through other comprehensive income	**-**	**-**	**3,514**	**-**	**-**	**-**	**-**	**3,514**
- stage 1	-	-	3,514	-	-	-	-	3,514
- stage 2	-	-	-	-	-	-	-	-
- stage 3	-	-	-	-	-	-	-	-
Totale (A + B +)	**-**	**-**	**287,845**	**-**	**-**	**-**	**911,763**	**1,199,608**
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	806,970	806,970
C. Loan commitments and financial guarantees given	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- stage 1	-	-	-	-	-	-	20,658	20,658
- stage 2	-	-	-	-	-	-	-	-
- stage 3	-	-	-	-	-	-	-	-
Total (C)	**-**	**-**	**-**	**-**	**-**	**-**	**20,658**	**20,658**
Total (A + B + C)	**-**	**-**	**287,845**	**-**	**-**	**-**	**932,421**	**1,220,266**

A.2.2 Prudential consolidation - Breakdown of financial assets, loan commitments and financial guarantees given by internal rating class (gross amounts)

The group does not use internal ratings.

A.3 BREAKDOWN OF GUARANTEED EXPOSURES BY TYPE OF GUARANTEE

A.3.1 Prudential consolidation - On- and off-statement of financial position guaranteed exposures with banks

None.

A.3.2 Prudential consolidation - On- and off-statement of financial position guaranteed exposures with customers

(€'000)

	Gross amount	Carrying amount	Collateral (1)				Personal guarantees (2)									Total (1)+(2)
							Credit derivatives					Endorsement credits				
								Other derivatives								
			Mortgaged property	Property under finance lease	Securities	Other collateral	CLN	Central coun-terparties	Banks	Other financial companies	Other	Public administrations	Banks	Other financial companies	Other	
1. On-statement of financial position guaranteed exposures:	**479,862**	**466,476**	**326,502**	**137,457**	**-**	**1,600**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**465,559**
1.1 fully guaranteed	479,041	465,856	325,882	137,457	-	1,600	-	-	-	-	-	-	-	-	-	464,939
- including non-performing	432,897	420,121	283,546	134,241	-	1,600	-	-	-	-	-	-	-	-	-	419,387
1.2 partly guaranteed	821	620	620	-	-	-	-	-	-	-	-	-	-	-	-	620
- including non-performing	821	620	620	-	-	-	-	-	-	-	-	-	-	-	-	620
2. Off-statement of financial position guaranteed exposures:																
2.1 fully guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- including non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 partly guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- including non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

The guarantees are first level mortgages. The loans are usually recovered through court procedures by selling the property pledged as guarantee. The collateral's carrying amount is the market value of the mortgaged property.

A.4 Prudential consolidation - Financial and non-financial assets obtained through the enforcement of guarantees received

None.

B. BREAKDOWN AND CONCENTRATION OF CREDIT EXPOSURES

B.1 Prudential consolidation - Breakdown of on- and off-statement of financial position exposures with customers by business segment

(€'000)

	Public administrations		Financial companies		Financial companies (including insurance companies)		Non-financial companies		Households	
	Carrying amount	Total impairment	Carrying amount	Total impairment	Carrying amount	Total impairment	Carrying amount	Total impairment	Carrying amount	Total impairment
A. On-statement of financial position										
A.1 Bad exposures	-	-	4,041	(192)	-	-	452,046	(56,723)	146,076	(36,173)
- including: forborne exposures	-	-	-	-	-	-	4,675	(594)	34,069	(17,549)
A.2 Unlikely to pay exposures	-	-	18	2	-	-	53,639	(1,172)	16,504	1,736
- including: forborne exposures	-	-	-	-	-	-	21,747	394	5,763	661
A.3 Non-performing past due exposures	-	-	10	-	-	-	1,167	-	179	43
- including: forborne exposures	-	-	-	-	-	-	-	-	56	13
A.4 Performing exposures	175,679	3,582	229,120	(86)	-	-	37,407	(916)	42,420	8,285
- including: forborne exposures	-	-	-	-	-	-	2,147	(760)	9,381	1,729
Total (A)	**175,679**	**3,582**	**233,189**	**(276)**	**-**	**-**	**544,259**	**(58,811)**	**205,179**	**(26,109)**
B. Off-statement of financial position										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	-	-	20,658	-	-	-	-	-	-	-
Total (B)	**-**	**-**	**20,658**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31/12/2019	**175,679**	**3,582**	**253,847**	**(276)**	**-**	**-**	**544,259**	**(58,811)**	**205,179**	**(26,109)**
Total (A+B) 31/12/2018	**137,710**	**188**	**131,800**	**(68)**	**-**	**-**	**345,088**	**(29,629)**	**193,280**	**(11,659)**

B.2 Prudential consolidation - Breakdown of on- and off-statement of financial position exposures with customers by geographical segment

(€'000)

	Italy		Other European countries		America		Asia		Rest of the world	
	Carrying amount	Total impairment losses	Carrying amount	Total impairment losses	Carrying amount	Total impairment losses	Carrying amount	Total impairment losses	Carrying amount	Total impairment losses
A. On-statement of financial position										
A.1Bad exposures	601,491	(92,435)	666	(315)	4	-	-	-	2	(335)
A.2 Unlikely to pay exposures	70,161	566	-	-	-	-	-	-	-	-
A.3 Non-performing past due exposures	1,346	43	10	-	-	-	-	-	-	-
A.4 Performing exposures	475,707	11,044	8,919	(146)	-	-	-	-	-	-
Total (A)	**1,148,705**	**(80,782)**	**9,595**	**(461)**	**4**	**-**	**-**	**-**	**2**	**(335)**
B. Off-statement of financial position										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	20,658	-	-	-	-	-	-	-	-	-
Total (B)	**20,658**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31/12/2019	**1,169,363**	**(80,782)**	**9,595**	**(461)**	**4**	**-**	**-**	**-**	**2**	**(335)**
Total (A+B) 31/12/2018	**795,472**	**(40,967)**	**12,099**	**(195)**	**307**	**(6)**	**-**	**-**	**-**	**-**

B.3 Prudential consolidation - Breakdown of on- and off-statement of financial position exposures with banks by geographical segment (carrying amounts)

(€'000)

	Italy		Other European countries		America		Asia		Rest of the world	
	Carrying amount	Total impairment losses	Carrying amount	Total impairment losses	Carrying amount	Total impairment losses	Carrying amount	Total impairment losses	Carrying amount	Total impairment losses
A. On-statement of financial position										
A.1Bad exposures	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay exposures	-	-	-	-	-	-	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	118,125	(87)	3,609	(1)	-	-	-	-	-	-
Total (A)	**118,125**	**(87)**	**3,609**	**(1)**	**-**	**-**	**-**	**-**	**-**	**-**
B. Off-statement of financial position										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	-	-	-	-	-	-	-	-	-	-
Total (B)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31/12/2019	**118,125**	**(87)**	**3,609**	**(1)**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31/12/2018	**95,956**	**(286)**	**8,160**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

B.4 Large exposures

(€'000)

	31/12/2019
Carrying amount	468,989
Weighted amount	46,403
No. of positions	5

The group's large exposures at year end comply with the limits set by the supervisory regulations.

Pursuant to the recommendations made in the "Enhancing the risk disclosure of banks" report, a breakdown of the assets and related weighting factors used to calculate credit risk is set out below.

(€'000)

	NOMINAL AMOUNT	WEIGHING	WEIGHTED AMOUNT
Exposures with or guaranteed by central administrations or central banks	332,184,948	0%	-
	1,512,496	100%	1,512,496
	24,291	250%	60,728
Exposures with or guaranteed by supervised brokers	108,576,897	20%	21,715,379
	-	50%	-
	20,785,946	100%	20,785,946
Exposures with or guaranteed by companies and other parties	52,414,434	100%	52,414,434
Exposures guaranteed by properties	802,782	35%	280,974
	16,748,496	50%	8,374,248
Defaulting exposures	281,595,436	100%	281,595,436
	83,153,652	150%	124,730,478
Exposures with UCIs	2,795,305	100%	2,795,305
Equity instruments	101,123,104	100%	101,123,104
	50,014	250%	125,035
Other exposures	5,891	0%	-
	230,160	20%	46,032
	28,009,268	100%	28,009,268
Exposures with securitisations	28,349,157	150%	42,523,736
	6,397,013	113%	7,228,624
	56,332,169	93%	52,388,917
	1,240,254	94%	1,165,838
	12,754,546	100%	12,754,546
	6,582,703	223%	14,679,428
	10,267,792	249%	25,566,801
	46,087,243	157%	72,356,972
	20,449,765	144%	29,447,661
	36,254,730	139%	50,394,075
	112,254,659	105%	117,867,392

TOTAL WEIGHTED ASSETS	1,069,942,854
Breakdown of capital allocated to cover credit risk at the reporting date (in Euro)	85,595,428

C. SECURITISATIONS

This section does not include securitisations where the originating group subscribes all the securities (e.g., ABS, financing during the warehousing stage) issued by the vehicle at their issue date. If the originating group sells all or part of its liabilities after the securitisation, the transaction is disclosed in this section.

Qualitative disclosure

Strategies - processes - objectives:

As a bank specialised in the brokerage, management and servicing of impaired or illiquid exposures, Credito Fondiario plays many roles in securitisation transactions. For example, it acts as arranger, asset manager and servicer, it structures securitisation vehicles (as per Law no. 130/99) and provides all the related portfolio management services.

The group also acts as sponsor and may take on part of the risk as the direct investor (in accordance with the retention rule set by the regulations).

It acts as asset manager/primary servicer of portfolios on behalf of third parties.
Credito Fondiario has a Primary Service rating from S&P and Fitch.

Internal risk measurement and control systems

Before it takes on a risk position with a securitisation, the group analyses the following aspects about the underlying assets:
- it firstly checks the transactions where it is not the sponsor to verify that the originator or promoter intends to maintain a commitment to the securitisation pursuant to the ruling regulations;
- it analyses the risk characteristics of the portfolio underlying the securities to be subscribed. The related due diligence considers the technical form (i.e., product) and type of exposure making up the portfolio, the documentation about the exposures, the lending policies applied by the originators, the classification of the borrowers in the portfolio and the classification criteria applied by the originators, how any credit restructurings are organised, portfolio stratification (amount, guarantee LTV, seasoning, etc.), the performance of earlier securitisations performed by the same originators and valuations of the real estate;
- the transaction's contractual structure;
- the parties involved in the securitisation and especially the special servicer.

As the department in charge of performing the second level controls, the risk management department:
- monitors investment performances constantly;
- performs stress tests;
- checks the capital absorption level once a quarter, identifying the areas requiring attention and planning any risk containment actions;
- checks compliance with the risk limits defined in line with the parent's risk appetite.

The internal audit department performs the third level controls and, hence, it:
- regularly checks the reliability and effectiveness of the entire process;
- makes recommendations to the internal bodies based on its findings;
- ensures the group offices involved in securitisations comply with the related contractual commitments and informs the board of directors about this every three months.

Organisational structure and system for reporting to senior management

The portfolio management & acquisitions office performs the above activities, assisted by all the group's organisational units for the more specific issues.
All the investments in securitisations are checked by the credit and investment committee for its prior opinion for the purposes of the related acquisition resolution.

The acquisitions are monitored on many levels.
Specifically, the portfolio management & acquisitions office prepares reports at least each quarter and specifically for transactions when the group has invested in or subscribed securities or underwritten risks or whenever necessary commenting on:
- portfolio collections for the year;
- actual collections compared to the business plan;
- an analysis of the closed exposures;
- an analysis of losses on closed exposures and the possible additional collection of the outstanding amount;
- an analysis of the recovery strategy adopted by the special servicer;
- the legal fees incurred compared to those estimated;
- proposals about how to improve the recovery trend;
- any changes to be made to the business plan;
- any other information deemed useful to fully understand the investment's performance.

The special servicing department is responsible for the entire work-out process of non-core, illiquid and/or non-performing exposures from the initial default status up to renegotiation or restructuring of the exposure for its collection or the commencement of legal action and its subsequent management, including by a sub-servicer. This department also prepares the post-acquisition business plans once a year which are then used as a basis to analyse the portfolio's performance.

In addition, the special servicing department:
- monitors the performance of the parent's legal advisors compared to the average processing times of the related courts;
- orders prepayments and formalises them, involving other internal offices when necessary;
- formalises the mortgage policies (cancellations and renewals).

The special servicing oversight department:
- checks any non-compliance with their duties by the special servicers and adherence to the SLAs (as part of its oversight duties).

Hedging policies

The group decides whether to mitigate its securitised portfolios' exposure to interest rate risk through the agreement by the vehicle of interest rate swaps to hedge the fixed rate portfolio and basis swaps to hedge the indexed rate portfolio.

Disclosure on the profit or loss of securitisations

The profits or losses on securitisations substantially reflect the performance of the underlying portfolios and the related cash flows at the end of the year, considering any defaults and prepayments made during the year.

Quantitative disclosure

C.1 Exposures of the main "own" securitisations broken down by securitised asset and type of exposure

None.

C.2 Exposures of the main "third party" securitisations broken down by securitised asset and type of exposure

(€'000)

	Exposures						Guarantees given						Credit facilities					
	Senior		Mezza-nine		Junior		Senior		Mezza-nine		Junior		Senior		Mezza-nine		Junior	
	Carrying amount	Impairment losses/gains	Carrying amount	Impairment losses/gains	Carrying amount	Impairment losses/gains	Net balance	Impairment losses/gains	Net balance	Impairment losses/gains	Net balance	Impairment losses/gains	Net balance	Impairment losses/gains	Net balance	Impairment losses/gains	Net balance	Impairment losses/gains
- Mortgage loans, leases, credit cards, securities	**44,119**	**60**	**-**	**-**	**114,772**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**		**-**

The group has not issued guarantees or granted credit facilities to the securitisations.

C.3 Securitisation vehicles

(€'000)

	Registered office	Consolidation	Assets			Liabilities		
			Loans and receivables	Debt instruments	Other	Senior	Mezzanine	Junior
DANUBIO S.R.L.	Roma - Italia	no	38,930	-	4,620	5,492	-	19,759
NOVUS ITALIA 1 S.R.L	Roma - Italia	yes	6,683	-	746	58,097	20,205	1,000
LUCULLO S.R.L.	Roma - Italia	yes	3,733	-	276	-	-	311
SALLUSTIO S.R.L.	Roma - Italia	yes	17,478	-	1,098	12,121	-	22,890
ELMO SPV S.R.L.	Roma - Italia	yes	2,050	-	381	750	-	3,378
RESLOC IT 1 S.R.L.	Roma - Italia	yes	80,167	-	7,166	39,463	45,208	29,088
RESLOC IT 2 S.R.L.	Roma - Italia	yes	2,069	-	61	1,911	-	234
RESTART SPV S.R.L.	Roma - Italia	yes	19,979	-	10,084	14,984	15,058	-
ITALIAN CREDIT RECYCLE SPV S.R.L.	Roma - Italia	yes	11,484	-	1,708	-	10	-
FEDAIA SPV S.R.L.	Roma - Italia	no	191,559	-	14,007	49,652	219,804	-
RIENZA SPV S.R.L.	Roma - Italia	no	147,269	-	22,937	-	88,775	-
GARDENIA SPV S.R.L.	Roma - Italia	no	193,365	-	16,547	54,509	-	172,914
BRAMITO SPV S.R.L.	Roma - Italia	yes	151,519	-	11,526	72,527	-	127,810
PONENTE SPV S.R.L.	Roma - Italia	yes	40,625	-	3,519	21414,	-	6,392
NEW LEVANTE SPV S.R.L.	Roma - Italia	yes	17,583	-	619	6,786	-	2,525
COSMO SPV 1 S.R.L.	Roma - Italia	yes	21,922	-	1,130	16,950	-	4,266
COSMO SPV 2 S.R.L.	Roma - Italia	yes	10,867	-	-	-	-	-
CONVENTO SPV S.R.L.	Roma - Italia	yes	31,712	-	13,575	35,126	-	11,299
ARTEMIDE SPV S.R.L.	Roma - Italia	yes	25,807	-	1,058	16,623	-	10,128
VETTE TV SPV S.R.L.	Roma - Italia	yes	239,592	-	16,789	113,616	-	106,607
APPIA TV SPV S.R.L.	Roma - Italia	no	55,000	-	389	55,037	-	-
FAIRWAY 1	Roma - Italia	no	15,212	-	4,215	18,632	-	13,275
FAIRWAY 2	Roma - Italia	no	14,505	-	504	13,799	-	6,864
SESTO S.R.L.	Roma - Italia	yes	27,673	-	2,130	12,724	-	21,429

The information in the table is updated to 31 December 2019.

C.4 Non-consolidated securitisation vehicles

(€'000)

	Credito Fondiario classification			CA			Maximum loss risk
	Senior	Mezzanine	Junior	Senior	Mezzanine	Junior	
DANUBIO S.R.L.	AFVCA	N/A	AFVFVTP&L	279	N/A	1,786	2,066
FEDAIA SPV S.R.L.	AFVCA	N/A	AFVFVTP&L	6,425	N/A	46,087	52,512
RIENZA SPV S.R.L.	N/A	N/A	AFVFVTP&L	N/A	N/A	20,450	20,450
GARDENIA SPV S.R.L.	AFVCA	N/A	AFVFVTP&L	7,027	N/A	36,255	43,282
APPIA TV SPV S.R.L.	AFVFVTP&L	N/A	N/A	2,795	N/A	N/A	2,795
FAIRWAY 1	AFVFVTP&L	N/A	AFVFVTP&L	14,494	N/A	5,136	19,630
FAIRWAY 2	AFVFVTP&L	N/A	AFVFVTP&L	13,098	N/A	5,058	18,156

Key:
FAAC: Caption 40. Financial assets at amortised cost: b) loans and receivables with customers
FAFVTPL: Caption 20. Financial assets at fair value through profit or loss: c) other financial assets mandatorily measured at fair value.

C.5 Prudential consolidation - Servicer - own securitisations: collection of securitised loans and redemption of securities issued by the securitisation vehicle

None.

C.6 Prudential consolidation – Consolidated securitisation vehicles

(€'000)

	Type of securitised assets	Non-performing exposures Carrying amount	Performing exposures Carrying amount	Senior notes	Group's share	Mezzanine notes	Group's share	Junior notes	Group's share
Sallustio SPV	Bank loans	20,420	-	12,121	100%	-	n.a.	22,890	100%
Elmo SPV	Bank loans	4,290	-	750	100%	-	n.a.	3,378	100%
Novus Italia 1 SPV	Bank loans	7,463	-	58,097	100%	-	n.a.	1,000	100%
New Levante SPV	Leases	15,830	1,638	6,786	100%	-	n.a.	2,525	100%
Ponente SPV	Bank loans	44,198	724	21,414	100%	-	n.a.	6,392	100%
Cosmo SPV 1 PTF	Bank loans	23,912	-	16,950	100%	-	n.a.	4,266	100%
Cosmo SPV 2 PTF	Bank loans	10,842	-	-	100%	-	n.a.	-	n.a
Convento SPV	Leases	-	40,645	35,126	100%	-	n.a.	11,299	100%
Sesto SPV	Bank loans	30,823	798	12,724	100%	-	n.a.	21,429	100%
Lucullo SPV	Bank loans	8,420	-	-	100%	-	n.a.	311	100%
Resloc SPV 1 PTF	Bank loans	17,365	39,561	39,463	100%	45,208	100%	29,088	100%
Resloc SPV 2 PTF	Bank loans	472	1,163	1,911	100%	-	n.a.	234	100%
Bramito SPV	Bank loans	183,727	-	72,527	100%	-	n.a.	127,810	100%
Artemide SPV	Bank loans	30,400	-	16,623	90.64%	-	n.a.	10,128	90.91%
Vette SPV	Leases	242,054	291	113,616	5%	-	n.a.	106,607	100%
Restart SPV	Leases	28,768	-	14,984	47.5%	-	n.a.	-	47.5%
Italian Credit Recycle SPV	Bank loans	30,804	-	-	47.5%	-	n.a.	-	47.5%
Total		**699,788**	**84,820**	**423,092**	**-**	**45,208**	**-**	**347,357**	**-**

D. Transfers

This section covers assets that have been fully transferred and not derecognised related to self-securitisations or transfers of own loans and receivables. It includes self-securitisations only if the transfer is made to issue covered bonds and the group is not the lender.

A. Financial assets transferred and not derecognised in full

Qualitative disclosure

Credito Fondiario purchased a portfolio of non-performing exposures from the Credito Valtellinese Group in 2016 and subsequently transferred them to Sesto SPV S.r.l. a securitisation vehicle. This transaction is a self-securitisation. As it is not part of a transfer made to issue covered bonds and the group is not the lender, it is not included in this table.

Quantitative disclosure

D.1 Prudential consolidation - Financial assets transferred and not derecognised and associated financial liabilities

None.

The parent has not recognised financial liabilities for financial assets transferred but not derecognised (in full or in part) nor has it engaged in covered bond transactions where the originator and the lender are the same bank.

D.2 Financial assets transferred and partly recognised and associated financial liabilities: carrying amount

None.

D.3 Transfers with liabilities that can solely be covered by the transferred assets not derecognised in full: fair value

None.

B. Financial assets transferred and derecognised in full with recognition of continuing involvement

Qualitative disclosure

None.

Quantitative disclosure

D.4 Covered bond transactions

None.

E. PRUDENTIAL CONSOLIDATION - CREDIT RISK MEASUREMENT MODELS

At present, the group does not use internal portfolio valuation models to measure its exposure to credit risk, apart from that described in the first part of this Section 1.

2 - MARKET RISK

2.1 - Interest rate and price risks - Supervisory trading book

Market risk is the risk of incurring losses generated by operating on the market for financial instruments (assets and liabilities) included in the "Financial assets at fair value through profit or loss" portfolio due to fluctuations in interest rates, currency rates, the inflation rate, fluctuations in share prices, credit spreads, commodity prices (generic risk) and the issuer's credit standing (specific risk).

The group's trading portfolios solely comprise two call options for companies deemed of strategic interest. These options do not fall under the "supervisory trading book" definition, as defined by prudential regulations for market risk. The group is also exposed to the risk of losses on financial assets managed under the HTC and HTCS business models that did not pass the SPPI test. Specifically, these assets are junior and mezzanine securities and, in two cases, senior securities acquired by the group as an investor in securitisations and shares of Banca Carige acquired as a member of the Interbank Fund.

The group does not have foreign currency assets or liabilities on or off the statement of financial position. It does not undertake transactions in Euros indexed to variations in exchange rates or in gold.

QUALITATIVE DISCLOSURE

A. General information

At the reporting date, the group no longer has investments in this type of portfolio and, hence, is not exposed to the risk of losses thereon.

B. Management and measurement of interest rate and price risks

At the reporting date, the group does not have investments in trading portfolios and, therefore, it does not have procedures to manage and measure the related risks.

2.2 - Interest rate and price risks - banking book

QUALITATIVE DISCLOSURE

A. General aspects, management and measurement of interest rate and price risks

The parent is exposed to interest rate risk, which is the risk that a change therein may negatively affect its net interest income and equity.

Credito Fondiario uses the simplified method to measure own funds to cover this risk, as required by the supervisory regulations. The method consists of classifying assets and liabilities by time horizon based on their residual life (fixed rate assets and liabilities) or the interest rate renegotiation date (floating rate assets and liabilities), weighing the net exposures in each bracket, adding the weighted exposures of each bracket and calculating the risk indicator (ratio of net weighted exposure to the own funds).

The risk management department performs this calculation.

Specifically, the risk management department analyses the classification of assets and liabilities in the different time brackets depending on the interest rate renegotiation period and designs the risk measurement instruments, together with the applications suitable for the identified measurement methods and rules.

The risk management department regularly checks the group's risk exposure.

QUANTITATIVE DISCLOSURE

1. Banking book: breakdown by residual maturity (by repricing date) of financial assets and liabilities

(€'000)

	On demand	Up to 3 months	Between 3 months and 6 months	Between 6 months and 1 year	Between 1 year and 5 years	Between 5 and 10 years	After 10 years	Open term
1. Assets								
1.1 Debt instruments								
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	44,440	68,628	22,130	147,100	36,254	8,966	-
1.2 Financing to banks	168,016	22,392	-	595	-	-	-	-
1.3 Financing to customers								
- current account	36,552	1,979	3,443	9,395	25,081	1,980	170	-
- other financing	-	-	-	-	-	-	-	-
- with early repayment option	48	434	101	12,245	691	3,419	775	-
- other	6,454	35,635	47,671	98,208	502,925	46,591	503	-
2. Liabilities								
2.1 Due to customers								
- current account	(329)	(2,000)	-	(281)	-	-	-	-
- other liabilities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	(17,633)	(36,375)	(64,836)	(70,593)	(476,814)	(63,555)	-	(7,921)
2.2 Due to banks								
- current account	-	-	-	-	-	-	-	-
- other liabilities	(1,733)	(58,969)	(51,925)	(10,524)	(122,503)	-	-	-
2.3 Debt instruments								
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	(109,419)	-	(151)	(597)	(336)	-	-
2.4 Other liabilities								
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ long positions	-	-	-	-	729	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4. Other off-statement of financial position transactions								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-

An increase or decrease in the interest rates of 100 basis points would decrease or increase net interest income, respectively (and hence the loss - dovrebbe essere un utile? - for the year and equity) by €7,646,269 and €8,136,709, respectively. The effect on the fixed rate securities would have been approximately €25 thousand.

2. Banking book: internal models and other methodologies for sensitivity analyses

The parent develops a simulation of a 2% parallel annual increase or decrease in interest rates for the sensitivity test.

2.3 Currency risk

The group does not have foreign currency assets or liabilities on or off the statement of financial position. It did not undertake transactions in Euros indexed to variations in exchange rates or in gold.

DERIVATIVES AND HEDGING POLICIES

Trading derivatives

At the reporting date, the group had two call options for companies it deems are of strategic interest.

A. Financial derivatives

A.1 Trading financial derivatives: reporting date notional amounts

(€'000)

	31/12/2019			
	Over the counter			Organised markets
	Central counterparties	Without central counterparties		
		With netting agreements	Without netting agreements	
1. Debt instruments and interest rates				
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Titoli di capitale e indici azionari				
a) Options	-	-	729	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Valute e oro				
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Other				
4. Commodities	**-**	**-**	**-**	**-**
5. Other	**-**	**-**	**-**	**-**
Total	**-**	**-**	**729**	**-**

A.2 Trading financial derivatives: gross positive and negative fair value - breakdown by product

(€'000)

	31/12/2019			
	Over the counter			Organised markets
	Central counterparties	Without central counterparties		
		With netting agreements	Without netting agreements	
1. Positive fair value				
a) Options	-	-	729	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**-**	**-**	**729**	**-**
1. *Negative fair value*				
a) Options	-	-	-	-
b) Interest rate swaps	-	-	-	-
c) Cross currency swaps				
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**-**	**-**	**-**	**-**

A.3 OTC financial derivatives - notional amounts, gross positive and negative fair value by counterparty

(€'000)

	Government and central banks	Banks	Other financial companies	Other
Contracts not covered by netting agreements				
1) Debt instruments and interest rates				
- notional amount	x	-	-	-
- positive fair value	x	-	-	-
- negative fair value	x	-	-	-
2) Equity instruments and share indexes				
- notional amount	x	-	200	-
- positive fair value	x	-	729	-
- negative fair value	x	-	-	-
3) Currencies and gold				
- notional amount	x	-	-	-
- positive fair value	x	-	-	-
- negative fair value	x	-	-	-
4) Commodities				
- notional amount	x	-	-	-
- positive fair value	x	-	-	-
- negative fair value	x	-	-	-
5) Other				
- notional amount	x	-	-	-
- positive fair value	x	-	-	-
- negative fair value	x	-	-	-
Contracts covered by netting agreements				
1) Debt instruments and interest rates				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
2) Equity instruments and share indexes				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Currencies 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 life of OTC trading financial derivatives: notional amounts

(€'000)

	Up to 1 year	From 1 to 5 years	After 5 years	Total
A.1 Financial derivatives on debt instruments and interest rates	-	-	-	**-**
A.2 Financial derivatives on equity instruments and share indexes	-	200	-	**200**
A.3 Financial derivatives on currencies and gold	-	-	-	**-**
A.4 Financial derivatives on commodities	-	-	-	**-**
A.5 Other financial derivatives	-	-	-	**-**
Total 31/12/2019	**-**	**200**	**-**	**200**
Total 31/12/2018	**-**	**350**	**-**	**350**

B. Credit derivatives

B1. Credit derivatives: notional amounts at the reporting date

None.

B.2 Trading credit derivatives: gross positive and negative fair value - breakdown by product

None.

B.3 OTC credit derivatives - notional amounts, gross positive and negative fair value by counterparty

None.

B.4 Residual life of OTC trading credit derivatives: notional amounts

None.

B.5 Credit derivatives associated with the fair value option: changes

None.

3 – LIQUIDITY RISK

QUALITATIVE DISCLOSURE

A. General aspects, management and measurement of liquidity risk

Liquidity risk is the risk that the group is unable to meet its payment commitments due to its inability to raise funds on the market (funding liquidity risk) and/or to disinvest its assets (market liquidity risk).

The parent monitors its liquidity levels to ensure its short-term structural stability, finance its growth and mitigate its liquidity risk.

The finance office ensures that the parent's liquidity policy is complied with.

Credito Fondiario uses different tools to measure, check and constantly monitor its liquidity risk. The main tool is the maturity ladder plan, which is designed to measure the parent's exposure to operating and structural liquidity risks.

Measurement of the parent's exposure to operating liquidity risk is based on the projection of expected cash inflows and outflows and the related shortfalls or surpluses in the various maturity brackets included in the maturity ladder.

Structural liquidity risk management aims at ensuring a balanced liquidity profile in the long term (after 12 months) and its matching to short-term liquidity management.

Credito Fondiario prepares early warning ratios and indicators for the timely identification of any vulnerabilities in its financial position. In addition, it regularly develops stress scenarios and has defined a contingency funding plan.

Liquidity risk is managed using on demand or term deposits with retail customers, short-term funding (overnight to six months) on the Interbank Deposit Market, funding through uncommitted credit facilities granted by national banks and OMOs with the central bank using eligible securities or ABS for its own securitisations.

The risk management department carries out the second level controls and checks compliance with the defined limits.

At the reporting date, the parent's liquidity would be sufficient in a stress situation. It also has liquidity reserves consisting of highly liquid assets or the possibility to access the funds of the ECB.

Pursuant to IFRS 7.39.c, it is noted that the parent has financial liabilities to be repaid upon maturity and it does not have derivatives with a contractual maturity to be settled.

QUANTITATIVE DISCLOSURE

1. Breakdown of financial assets and liabilities by residual contractual maturity

(€'000)

	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	Between 1 month and 3 months	Between 3 months and 6 months	Between 6 months and 1 year	Between 1 year and 5 years	After 5 years	Open term
Assets										
A.1 Government bonds	-	-	-	-	5,000	45,000	12,500	70,000	-	-
A.2 Other debt instruments	-	-	-	3,598	4,266	15,334	20,914	103,261	45,198	-
A.3 OEIC units	-	-	-	-	-	-	-	-	-	-
A.4 Financing										
- banks	167,744	-	-	20,000	-	-	595	-	-	2,429
- customers	36,587	4,808	-	5,822	21,645	55,353	131,943	693,088	106,636	-
Liabilities										
B.1 Deposits and current accounts										
- banks	-	-	-	(2,239)	(7,798)	(11,846)	(23,996)	(180,356)	(22,551)	-
- customers	(15,036)	(2,142)	(2,726)	(8,367)	(30,227)	(68,523)	(77,384)	(443,549)	(96,865)	-
B.2 Debt instruments	-	-	-	-	(52)	(1,475)	(2,491)	(12,542)	(93,016)	(964)
B.3 Other liabilities	(456)	-	-	-	-	(4,135)	(8,974)	(213,672)	-	-
Off-statement of financial position transactions										
C.1 Financial derivatives with exchange of principal										
- long positions	-	-	-	-	-	-	-	200	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.2 Financial derivatives without exchange of principal										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and financing to be received										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Firm loan commitments										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

Section 5 – OPERATIONAL RISK

QUALITATIVE DISCLOSURE

A. General aspects, management and measurement of operational risk

Main sources and nature of operational risk:

Operational risk is the risk of losses arising from shortcomings, malfunctioning or weaknesses in internal procedures, human resources and systems or due to external factors.

It includes losses deriving from fraud, human error, operating breakdowns, system unavailability, contractual defaults and natural disasters. It does not include strategic or reputation risks but does include legal risk, i.e., the risk created by violations or non-compliance with laws and regulations or scant transparency about the rights and obligations of counterparties in a transaction. This risk also comprises exposure to fines, warnings and sanctions as a result of measures taken by the supervisory authority or private transactions.

The operating departments perform the first level controls while the risk management, compliance, AML and internal audit departments carry out the second and third level controls.

Credito Fondiario measures operational risk using the basic indicator approach whereby it calculates the related capital requirement by applying a 15% indicator to the average of the last three annual positive observations of the relevant indicator (article 316 of the Capital Requirements Regulation - CRR).

The procedures are highly automated and the parent dedicated considerable resources in previous years to ensure that they include (preferably automated) first level controls, designed to protect the formal and substantial correctness of its operations.

Over the years, the parent has checked its self-assessment risk systems to align the method used with changes in the related regulations and to improve the risk identification and quantification methods.

Similarly, it held special training courses, especially for employees with new duties or about new procedures or about significant changes in the regulatory or legislative framework.

Operational risk is one of the factors that can trigger the second level reputation risk. This is a current or prospective risk of a downturn in profits or capital due to the negative perception of the group by its customers, counterparties, shareholders, employees, investors or regulators.

The internal consequences include employee dissatisfaction.

Reputation risk can be measured as part of the ICAAP process although actual or possible internal capital is not calculated or estimated, respectively.

Reputation risk is managed and monitored with an integrated process involving various internal bodies at different levels and depending on their expertise.

The board of directors decides the organisational and risk appetite strategies.

At operational level, the operating and control departments ensure a comprehensive overview of reputation risk, each in their own area of expertise.

The operating departments carry out the first level controls regularly and systematically to ensure that the parent operates correctly.

The risk management, compliance and AML departments perform the second level controls.

Operational risk control unit

The operating departments perform the first level controls while the risk management, compliance, AML and internal audit departments carry out the second and third level controls.

Internal operational risk measurement, management and control systems

Credito Fondiario measures operational risk using the basic indicator approach whereby it calculates the related capital requirement by applying a 15% indicator to the average of the last three annual positive observations of the relevant indicator (article 316 of the Capital Requirements Regulation - CRR).

The procedures are highly automated and the parent dedicated considerable resources in previous years to ensure that they include (preferably automated) first level controls, designed to protect the formal and substantial correctness of its operations.

Over the years, the parent has checked its self-assessment risk systems to align the method used with changes in the related regulations and to improve the risk identification and quantification methods.

Similarly, it held special training courses, especially for employees with new duties or about new procedures or about significant changes in the regulatory or legislative framework.

Assessments of the operating performance

No operating losses in excess of the RAF-defined limits were incurred during the year.

The group manages legal risks by setting up a specific provision which amounted to €1,761 thousand at the reporting date. The first level control units also monitor this risk on an ongoing basis as do the second and third level control units.

QUANTITATIVE DISCLOSURE

Based on its observation of the relevant indicator for application of the basic indicator approach and calculation of the operational risk, the capital requirement to cover this risk at 31 December 2019 is €10,348 thousand.

Part F - Equity

SECTION 1 – EQUITY

A. Qualitative disclosure

The group is not required to prepare supervisory reporting or comply with capital adequacy requirements as these are prepared/complied with by Tiber Investments s.à.r.l. ("Tiber"), which is the ultimate parent.

The following figures refer to the Credito Fondiario banking group.

B. Quantitative disclosure

B.1 Equity: breakdown by type of entity.

(€'000)

	Prudential consolidation	Insurance companies	Other entities	Consolidation entries and adjustments	Total
1. Share capital	38,227	-	-	(266)	37,961
2. Share premium	139,982	-	-	-	139,982
3. Reserves	151,673	-	-	27,484	179,157
4. Equity instruments	-	-	-	-	-
5. (Treasury shares)					
6. Valuation reserves	(108)				(108)
- Equity instruments at fair value through other comprehensive income	-	-	-	-	-
- Hedges of equity instruments at fair value through other comprehensive income	-	-	-	-	-
- Financial assets (other than equity instruments) at fair value through other comprehensive income	8	-	-	-	8
- Property, equipment and investment property	-	-	-	-	-
- Intangible assets	-	-	-	-	-
- Hedges of investments in foreign operations	-	-	-	-	-
- Cash flow hedges	-	-	-	-	-
- Hedging instruments (non-designated items)	-	-	-	-	-
- Exchange rate gains (losses)	-	-	-	-	-
- Non-current assets held for sale and disposal groups	-	-	-	-	-
- Financial liabilities at fair value through profit or loss (changes in own credit rating)	-	-	-	-	-
- Actuarial gains (losses) on defined benefit pension plans	(116)	-	-	-	(116)
- Share of valuation reserves of equity-accounted investees	-	-	-	-	-
- Special revaluation laws	-	-	-	-	-
7. Profit (loss) for the year (+/-) ttributable to the parent company and minority interests	44,464	-	-	(3,888)	40,576
Total	**374,238**	**-**	**-**	**23,330**	**397,568**

B.2 Fair value reserves: breakdown

(€'000)

	Prudential consolidation		Insurance companies		Other entities		Consolidation entries and adjustments		31/12/2018	
	Fair value gains	Fair value losses	Fair value gains	Fair value losses	Fair value gains	Fair value losses	Fair value gains	Fair value losses	Fair value gains	Fair value losses
1. Debt instruments	8	-	-	-	-	-	-	-	-	8
2. Equity instruments	-	-	-	-	-	-	-	-	-	-
3. Financing	-	-	-	-	-	-	-	-	-	-
Total	**8**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**8**

B.3 Fair value reserves: changes

(€'000)

	Debt instruments	Equity instruments	Financing
1. Opening balance	**(29)**	**-**	**-**
2. Increases			
2.1 Fair value gains	38	-	-
2.2 Impairment losses for credit risk	-	x	-
2.3 Reclassification of fair value losses to profit or loss on sale	-	x	-
2.4 Transfers to other equity reserves (equity instruments)	-	-	-
2.5 Other increases	-	-	-
3. Decreases			
3.1 Fair value losses	-	-	-
3.2 Impairment gains for credit risk	-	-	-
3.3 Reclassification of fair value gains to profit or loss: on sale	-	x	-
3.4 Transfers to other equity reserves (equity instruments)	-	-	-
3.5 Other decreases	-	-	-
4. Closing balance	**8**	**-**	**-**

B.4 Actuarial reserves: changes

The group recognised actuarial losses of €73 thousand on post-employment benefits during the year. The net actuarial losses accumulated on defined benefit plans amounted to €116 thousand at the reporting date.

SECTION 2 – OWN FUNDS AND REGULATORY RATIOS

As already noted, the group is not obliged to comply with supervisory or reporting requirements which are met by Tiber Investments s.à r.l..

Part G: Business combinations

SECTION 1 - COMBINATIONS PERFORMED DURING THE YEAR

1.1 Business combinations

(€'000)

	Transaction date	(1)	(2)	(3)	(4)
1. CF Liberty Servicing	01/06/2019	100,000	70%	14,945	1,008
2. CF Holding	01/12/2019	-	100%	-	-

Legenda
(1) = Costo dell'operazione
(2) = Percentuale di interessenza acquisita con diritto di voto nell'assemblea ordinaria.
(3) = Totale ricavi del gruppo
(4) = Utile/perdita netto del gruppo

Acquisition of CF Liberty Servicing

With the binding agreement signed on 10 December 2018, Credito Fondiario S.p.A. and Elliott Management Corporation started a strategic long-term partnership with Banco BPM S.p.A. ("BBPM") in the NPE segment.

The partnership entailed the performance of two separate but related transactions:
- Elliott Management Corporation's acquisition, via its subsidiary Leviticus SPV S.r.l., of the notes arising from the securitisation of a NPE portfolio of BBPM (roughly €7.4 billion), which can benefit from the GACS scheme. The parent acts as master servicer and corporate servicer for the securitisation;
- the set up of a NPE servicing platform and the concurrent termination of a ten-year servicing agreement.

As a result of the last point, the parent acquired 70% of Credito Fondiario Liberty Servicing S.p.A. ("CFLS"), formerly First Servicing S.p.A., a vehicle set up and wholly owned by BBPM, to which the latter had previously transferred its NPE servicing platform business unit. BBPM retained a 30% interest in the servicer's share capital. CFLS acts as a servicer for the portfolio purchased by Elliott, BBPM's residual NPE portfolios and, over the next ten years, 80% of BBPM's new NPE flows.

The transaction was completed on 31 May 2019.

Thanks to this transaction, the group consolidated its leadership in the Italian credit management market. Its employee numbers jumped to 352, working from the new offices in Bergamo, Verona, Lodi and Naples, as well as from the offices in Milan, Rome and Genoa, the latter was opened last year.

CFLS' statement of financial position at 31 May 2019 (the transfer date) is as follows:

Assets (€)		Liabilities and equity (€)	
Financial assets at amortised cost	2,314,948	Other liabilities	533,965
a) loans and receivables with banks	2,314,948	Post-employment benefits	1,623,281
Property, equipment and investment property	1,682	Equity	144,940
Other assets	88,035	including share capital	150,000
		including loss for the year	(5,060)
Total assets	**2,404,664**	**Total liabilities and equity**	**2,404,664**

The main asset captions comprise:
• financial assets at amortised cost, made up of loans and receivables with banks, of €2,314.9 thousand;
• property, equipment and investment property, made up of electronic systems and components, of €1.7 thousand;
• other assets of €88.0 thousand.

The main liability captions comprise:
• other liabilities, made up of social security charges payable and amounts due to employees, of €534.0 thousand;
• post-employment benefits of €1,623.3 thousand;
• provisions for risks and charges, relating to the employee loyalty bonuses, of €102.5 thousand;
• share capital of €150.0 thousand
• loss for the period ended 30 June 2019 of €5.1 thousand.

The purchase price for 70% of CFLS is €100 million, subjected to the PPA procedure required by IFRS 3.
The PPA procedure identified two intangible assets with finite lives, i.e., the framework servicing agreement and the sub servicing agreement, as well as an intangible asset with an indefinite life (goodwill).

The group used the multi-period excess earning method (MEEM) to measure the intangible assets identified during the PPA procedure. The method comprises the following stages:
1. estimating the gross cash flows generated by the intangible asset being valued by using forward-looking data over the asset's estimated useful life. These cash flows do not include the effects of the acquiror's specific synergies;
2. adjusting the gross cash flows to reflect:
- a normal amount of supporting asset charges administrative costs to support cash flow generation;
- the tax expense;
- the cost of the capital employed;
- any other supporting asset charges.
3. calculating the present value of the net cash flows of the intangible asset;
4. calculating the tax benefit related to amortisation of the intangible asset.

The group calculated the fair value of the identified intangible assets based on the financial projections relating to the servicing agreements prepared by management with the support of an external advisor, which are set out in a business plan containing a breakdown of the cash flows generated by the framework servicing agreement and the sub servicing agreement. The cash flows relating to the latter have been discounted using a rate of 11.2% for the period from 2019 to 2024, when the contract provides for minimum guaranteed managed flows. The cash flows have been discounted using a rate increased by 1% for the period from 2025 to 2028, when the minimum guaranteed flow system will be replaced by a netting mechanism, and for the run off period.

The group also considered the tax benefit arising from the amortisation of the intangible assets over their useful life when determining the assets' fair value. In accordance with IAS 12, it also calculated the deferred tax liabilities arising on the intangible assets using a tax rate of 27.9%.

After the above process, the carrying amount of the two intangible assets, net of the related deferred tax liabilities, is €60.9 million. Minority interests of €18.3 million have been calculated on the basis of the net assets' fair values. The related goodwill, i.e., the difference between the purchase price and the group's share of the net assets measured at fair value, amounts to €57.2 million, calculated using the partial goodwill method, whereby goodwill is calculated as the difference between the consideration paid by an acquirer to obtain control over the acquiree and its share of the fair value of the net identifiable assets. Minority interests are recognised on a pro rata basis using the fair value of the identified assets.

Reverse merger of CF Holding S.p.A.

The reverse merger of CF Holding S.p.A. (the "merged company") into the parent (the "merging bank") became effective in December 2019 (the "effective date").

Before the reverse merger took place, CF Holding S.p.A. had a 27.15% investment in CF (10,230,000 shares) as well as some net assets with it, mainly tax assets.

The reverse merger took place in line with the proposal approved by the parent's board of directors (the "reverse merger proposal") and authorised by Bank of Italy on 7 March 2019 and 28 May 2019, respectively.

Its objective is to streamline the parent's ownership structure by eliminating the intermediate investor CF Holding S.p.A..

The reverse merger proposal established that the share exchange ratio would be calculated considering the merged company's two assets, i.e.:
• its investment in CF (10,230,000 shares);
• the other net assets held at the effective date, estimated to be worth €669,622 at the proposal date (the "adjusted asset surplus at the merger date").

As a result, the exchange ratio was calculated as follows:
• with respect to the merged company's investment in CF, the exchange ratio was roughly 0.065 shares of the merged company for each share of the merging bank making up the CF investment. This ratio led to the allocation to the shareholders of CF Holding S.p.A. of a number of CF shares exactly equal to the number of shares held by the merging company in CF before the merger (i.e., 10,230,000 shares);
• with respect to the merged company's adjusted asset surplus at the merger date, the exchange ratio was 104,221 new CF shares while any other assets held by the merging company at the merger date were not included in the exchange ratio calculation and were assigned to CF free of charge.

Therefore, at the effective date, CF:
• with respect to the merged company's investment in CF, directly awarded its shares held by CF Holding S.p.A. to its then shareholders in proportion to their investments;
• with respect to the merged company's adjusted asset surplus at the merger date, increased its share capital by €104,221 (with a share premium of €565,401 recognised in equity) issuing 104,221 new shares to the merged company's shareholders in proportion to their investments therein;
• with respect to the adjusted asset surplus of €97,958 at the merger date, increased the share premium by the same amount.

For accounting purposes, the reverse merger is a contribution in kind by a minority investor which leads to an increase in equity equal to the carrying amount of the contributed assets.

Accordingly, the reverse merger increased equity by €767,200 (€104,221 for share capital and €662,979 for the share premium) equal to the carrying amount of the net assets transferred to CF as a result of the reverse merger (excluding the CF investment).

SECTION 2 – COMBINATIONS PERFORMED AFTER THE REPORTING DATE

At the date of approval of these consolidated financial statements, no other business combinations falling under the scope of IFRS 3 had taken place.

SECTION 3 – Retrospective adjustments

Impairment of the intangible assets of the business unit acquired from Banca Carige S.p.A. (Project Gerica)

On 10 May 2018, the parent completed its acquisition of a business unit from Banca Carige S.p.A. ("Carige"), which included 53 people based in Genoa who now work with the servicing and loan administration teams (Project Gerica).

The PPA procedure carried out in connection with the preparation of the 2018 consolidated financial statements identified the servicing agreement between Credito Fondiario and Banca Carige, entered into concurrently with the acquisition of the platform, as an intangible asset.

The transaction generates net fee and commission income for the parent, earned on the loans being serviced over the 10-year servicing agreement, whereby Banca Carige gave Credito Fondiario a mandate to manage and collect part of its NFEs.

Credito Fondiario determined the intangible asset's fair value using the multi-period excess earnings method (MEEM, a model that discounts cash flows and income). It found that the asset's fair value equals the present value of the net cash inflows generated solely by the specific asset being valued. In addition and in accordance with IFRS 3 (revised), the parent calculated the intangible asset's fair value assuming that it is a normal market player and without considering its specific characteristics (i.e., the synergies arising from the acquisition). It used a discount rate of 11%.

This led to the recognition of an intangible asset with a finite useful life of €21,700 thousand (the servicing agreement entered into with Banca Carige S.p.A.) and goodwill of €9,300 thousand.

The parent is amortising the intangible asset with a finite useful life over ten years.

During the year, the servicing agreement with Banca Carige for the management and collection of part of its NPEs was amended, leading to a change in the managed NPEs that were sold to AMCO- Asset Management Company. The parent paid €24.5 million to compensate for the exposures it no longer manages. The new arrangements stipulate that the original terms and volumes provided for in the servicing agreement continues to apply to future NPE flows.

Due to the above amendments to the managed NPEs, the parent recognised an impairment loss of €3,527 thousand on the related intangible asset.

The intangible assets amounted to €14,917 thousand at the reporting date, net of accumulated amortisation of €3,301 thousand and impairment losses of €3,527 thousand.

The parent tested goodwill for impairment and did not identify any impairment, including on the basis of the sensitivity analysis. The recoverable amount, which is the higher of value in use and fair value of the cash-generating unit (CGU) to which the goodwill was allocated (Credito Fondiario), is higher than the CGU's carrying amount, less the goodwill.

Part H: Related party transactions

1. Key management personnel's remuneration

Pursuant to IAS 16, a table showing the total fees of the board of directors, the board of statutory auditors and key management personnel for 2019 is set out below:

(€'000)

	Directors	Statutory auditors	Other key management personnel
a) Short-term benefits	571	252	3,769
b) Post-employment benefits			255
c) Other long-term benefits	-	-	3,207
d) Termination benefits	-	-	-
e) Share-based payment	-	-	-

As a result of its early termination, the 2018-2020 long-term incentive plan will be settled in cash and the related cost was recognised under "Other long-term benefits".

2. Related party transactions

No atypical or unusual related party transactions took place that would affect the group's financial position and performance, given their materiality. All transactions with related parties take place on an arm's length basis and are part of the group's normal operations.

MANAGEMENT AND COORDINATION ACTIVITIES PURSUANT TO ARTICLE 2497 AND FOLLOWING ARTICLES OF THE ITALIAN CIVIL CODE

At the reporting date, the group was not managed or coordinated by another company pursuant to article 2497 and following articles of the Italian Civil Code.

Fees for audit and non-audit services pursuant to article 2427.1.16-bis of the Italian Civil Code

Pursuant to article 2427.1.16-bis of the Italian Civil Code, the contractually-agreed fees for the statutory audit of the group's financial statements and other services provided by the independent auditors in 2018 are set out below.

The amounts are net of VAT and out-of-pocket expenses.

(€'000)

Service	Beneficiary	Provider: independent auditors	Total fees
Audit of the separate and consolidated financial statements	Credito Fondiario S.p.A.	KPMG S.p.A.	122
Audit of the financial statements	CF Liberty Servicing	KPMG S.p.A.	35
Audit of the financial statements	Sallustio SPV S.r.l.	KPMG S.p.A.	30
Audit of the financial statements	Elmo SPV S.r.l.	KPMG S.p.A.	20
Audit of the financial statements	Novus Italia 1 SPV S.r.l.	KPMG S.p.A.	21
Audit of the financial statements	New Levante SPV S.r.l.	KPMG S.p.A.	30
Audit of the financial statements	Ponente SPV S.r.l.	KPMG S.p.A.	60
Audit of the financial statements	Cosmo SPV S.r.l.	KPMG S.p.A.	30
Audit of the financial statements	Convento SPV S.r.l.	KPMG S.p.A.	30
Audit of the financial statements	Sesto SPV S.r.l.	KPMG S.p.A.	25
Audit of the financial statements	Lucullo SPV S.r.l.	KPMG S.p.A.	35
Audit of the financial statements	Resloc SPV S.r.l.	KPMG S.p.A.	32
Audit of the financial statements	Bramito SPV S.r.l.	KPMG S.p.A.	65
Audit of the financial statements	Artemide SPV S.r.l.	KPMG S.p.A.	47
Audit of the financial statements	Vette SPV S.r.l.	KPMG S.p.A.	47
Review of the condensed interim consolidated financial statements	Credito Fondiario S.p.A.	KPMG S.p.A.	25
Review of the interim financial reporting package	CF Liberty Servicing	KPMG S.p.A.	10
Comfort letter as per art. 26.(2) of Regulation (EU) 575/2013	Credito Fondiario S.p.A.	KPMG S.p.A.	20

The audit of the financial statements of the subsidiary BE Credit Management S.p.A. is carried out by its board of statutory auditors and the related fees are included in their total fees of €25 thousand.

Part I: Share-based payments

Qualitative disclosure

1. Description of share-based payments

On 18 March 2018, the shareholders approved a medium to long-term incentive plan (the "plan") for the years from 2018 to 2020 as part of the parent's remuneration policy. The plan was terminated early and it will be settled in cash in 2020 rather than in shares, as originally provided for. Accordingly, the related cost was recognised under "Other liabilities".

Quantitative disclosure

1. Changes

No options for the shares were exercised during the year.

2. Other information

The total cost of this share-based plan is €3,782 thousand. The balancing entry is a specific liability for employee benefits recognised under other liabilities.

Part L: Segment reporting

As the group is not listed, it does not have to prepare segment reporting.

Part M - Leases

SECTION 1 - LEASES AS LESSEE

Qualitative information

Pursuant to IFRS 16.59/60, it is noted that, as a lessee, the parent leases its offices in Rome (registered office), Milan and Genoa. The leased buildings for residential use granted as a benefit to certain employees and company cars also fall within the scope of IFRS 16. Moreover, during the year, the parent was not exposed to: i) variable lease payments; ii) extension or termination options; iii) residual value guarantees; and iv) leases not yet commenced to which the lessee is committed. In addition, there are no restrictions or covenants imposed by leases and sale and leaseback transactions. As a lessee, the parent has not accounted for short-term leases or leases of low-value assets during the year.

Quantitative information

Reference should be made to:
– the information on right-of-use assets set out in Part A, Assets;
– the information on lease liabilities set out in Part B, Liabilities;
– the information on interest expense on lease liabilities and other expenses relating to right-of-use assets, gains or losses from sale and leaseback transactions and income from subleasing right-of-use assets set out in Part C.

The main figures relating to group's leasing activities are summarised in the following table:

	Office premises	Buildings for residential use	Company cars	31/12/2019
a) depreciation of right-of-use assets	1,397,062	19,231	27,032	**1,443,325**
b) interest expense on lease liabilities	405,793	1,479	685	**407,957**
c) costs for short-term leases (IFRS 16.6)	-	-	-	**-**
d) costs for leases of low-value assets (IFRS 16.6)	-	-	-	**-**
e) variable lease payments not included in the measurement of lease liabilities	-	-	-	**-**
f) income from subleasing right-of-use assets	-	-	-	**-**
g) total cash outflows for leases	1,617,013	20,400	28,011	**1,665,424**
h) additions to right-of-use assets	-	-	-	**-**
i) gains or losses from sale and leaseback transactions	-	-	-	**-**
j) closing balance of right-of-use assets	6,865,730	50,205	65,091	**6,981,026**

The group did not take on any commitments for short-term leases during the year.

SECTION 2 - LEASES AS A LESSOR

Qualitative information

The group recognised five lease portfolios in its consolidated financial statements, four of which meet the definition of POCI assets. It constantly monitors the related cash flows and manages the risk associated with the rights it retains in underlying assets though credit collection activities and/or by enforcing the residual value guarantees.

There are no operating leases.

Quantitative information

1. Statement of financial position and income statement

Reference should be made to the information on interest income on the net investment in the lease and other income relating to finance leases set out in Part C.

2. Finance leases

1.2.1 Breakdown of lease payments receivable by due date and reconciliation with the net investment in the lease recognised under assets

(€'000)

Lease payments receivable	31/12/2019	31/12/2018
Up to 1 year	50,005	5,696
Between 1 year and 2 years	119,977	9,616
Between 2 and 3 years	138,972	10,553
Between 3 and 4 years	45,849	14,779
Between 4 and 5 years	18,869	9,425
After 5 years	17,539	15,326
Total lease payments receivable	391,211	65,396
RECONCILIATION WITH NET INVESTMENT IN LEASES	-	-
Unaccrued interest income (-)	(111,737)	(22,720)
Unguaranteed residual value (-)	-	-
Net investments in leases	279,474	42,676

2.2 Other information

None.

3. Operating leases

3.1 Breakdown of lease payments receivable by due date

None.

3.2 Other information
None.

DISCLOSURE ON THE ASSETS EARMARKED FOR A SPECIFIC BUSINESS

Cube Gardenia

On 26 April 2017, the parent set aside assets earmarked for a specific business called "Cube Gardenia" pursuant to article 2447-bis and following articles of the Italian Civil Code. The specific business in question is the en bloc purchase as per article 58 of the Consolidated Banking Act of the contracts arising from unlikely to pay lease exposures and the related assets, as well as certain other contracts related to terminated finance leases (bad leases) and the related assets. This purchase transaction is part of the securitisation of leases by the vehicle Gardenia SPV S.r.l. ("Gardenia") as part of the Cube transaction (described in the directors' report). The management and monetisation of the assets purchased mainly on behalf of Gardenia is to enhance the value of and sell the assets which are the "collateral" underlying the vehicle's exposures. This business is a "core" business in a certain sense and is also closely tied to the parent's role as servicer to the Gardenia securitisation.

When they were set aside, the assets earmarked for a specific business were given an endowment fund of €100,000 to cover their costs.

The agreement for the purchase of the assets was signed on 28 April 2017 and became effective when the conditions precedent provided for therein were met on 10 May 2017.

The consideration for the purchase of the leases and the assets was set at €29,463,429.17 and was financed in full with a limited recourse special loan granted (pursuant to article 2447-decies of the Italian Civil Code) by the originating banks (Nuova Banca delle Marche S.p.A. and Nuova Banca dell'Etruria e del Lazio S.p.A.). The loan was transferred on its disbursement date to Gardenia. It accrues interest (also with limited recourse) at a rate of 5.25%.

The group covered the VAT calculated on the consideration using its general assets. It will use the related tax asset to offset its tax liabilities or will claim it for reimbursement from the tax authorities. Cube Gardenia paid an annual lump-sum fee of €200,000 for this advance on 31 July 2017 and 2018, whereas no fee was paid on 31 July 2019 since the group had fully recovered the VAT asset.

The consideration paid can be allocated to the underlying assets as follows:

	No. of assets	Purchase price €'000
Buildings	249	29,085
Photovoltaic systems	13	315
Vehicles	42	8
Watercraft	11	1
Other	67	54
Total	**382**	**29,463**

As noted above, the leases and assets are to be used to service the Gardenia securitisation. All the proceeds from their sale or other re-allocation of Cube Gardenia's assets are used to either cover its costs or to repay the special loan.

Cube Gardenia is not exposed to risks thanks to contractual terms included in the securitisation structure, which include a number of insurance and risk hedging mechanisms, as well as the liquidity made available to it.

The securitisation vehicle bears all the costs of operating, maintaining and selling the assets.

At the reporting date, the underlying assets amounted to €28,615 thousand while the outstanding special loan amounted to €29,352 thousand.

Este

On 16 June 2017, the parent set aside assets earmarked for a specific business called "Este Restart" pursuant to article 2447-bis and following articles of the Italian Civil Code. The specific business in question is the purchase of the contracts and assets arising from exposures sold by Nuova Cassa di Risparmio di Ferrara S.p.A. as part of the Este transaction (described in the directors' report) to the securitisation vehicle Restart S.r.l. ("Restart") to manage and monetise the assets purchased to enhance the value of and sell the assets which are the "collateral" underlying the vehicle's exposures. This business is a "core" business in a certain sense and is also closely tied to the parent's role as servicer to the Restart securitisation.

When they were set aside, the assets earmarked for a specific business were given an endowment fund of €50,000 to cover their costs.

The lease portfolio was split into three groups, reflecting the constraints to the sale of the underlying assets. Este shall, thus, purchase the legal relationships and assets in three separate transactions when each group of exposures is sold to Restart.

The purchase of the first group was agreed on 20 June 2017 and took place when the conditions precedent were met on 28 June 2017. In June 2018, Este Restart purchased a second portion of the portfolio for €84 thousand. The purchase of the third group was finalised in March 2019. The consideration of €2,592 thousand was financed in full with a limited recourse special loan granted (pursuant to article 2427-decies of the Italian Civil Code) by the originating bank (Nuova Cassa di Risparmio di Ferrara). The loan was transferred on its disbursement date to Restart. It accrues interest (also with limited recourse) at a rate of 5%.

The group covered the VAT calculated on the consideration using its general assets. It will use the related tax credit to decrease its tax liabilities or will claim it for reimbursement from the tax authorities.

The consideration paid can be allocated to the underlying assets as follows:

	No. of assets	Purchase price €'000
Buildings	103	1,843
Photovoltaic systems	1,293	679
Vehicles	725	67
Watercraft	24	2
Total	**2,145**	**2,592**

As noted above, the leases and assets are to be used to service the Restart securitisation. All the income from their sale or other re-allocation of Este Restart's assets are used to either cover its costs or to repay the special loan.

Este Restart is not exposed to risks thanks to contractual terms included in the securitisation structure, which include a number of insurance and risk hedging mechanisms, as well as the liquidity made available to it.
The securitisation vehicle bears all the costs of operating, maintaining and selling the assets.

During the transaction, Este Restart repaid €958 thousand of the special loan using income from the sale/surrender of the assets, net of costs.

At the reporting date, the underlying assets amounted to €2,271 thousand while the outstanding special loan amounted to €1,898 thousand.

Gimli

On 19 September 2018, the parent set aside assets earmarked for a specific business called "Gimli New Levante" pursuant to article 2447-bis and following articles of the Italian Civil Code. The specific business in question is the purchase of the contracts and assets arising from exposures sold by Banca Piccolo Credito Valtellinese S.p.A. ("Creval") as part of the Gimli transaction (described in the directors' report) to the securitisation vehicle New Levante S.r.l. ("Levante") to manage and monetise the assets purchased to enhance the value of and sell the assets which are the "collateral" underlying the vehicle's exposures. This business is a "core" business in a certain sense and is also closely tied to the parent's role as servicer to the Levante securitisation.

When they were set aside, the assets earmarked for a specific business were given an endowment fund of €50,000 to cover their costs.

The contracts and assets were purchased on 28 September 2018 with effect from 1 January 2018.

The consideration for the purchase of the leases and the assets was set at €150,000 and was financed in full with a limited recourse special loan granted (pursuant to article 2447-decies of the Italian Civil Code) by the originating bank. The loan was transferred on its disbursement date to Levante. It accrues interest (also with limited recourse) at a rate of 5%.

The group covered the VAT calculated on the consideration using its general assets. It will use the related tax credit to decrease its tax liabilities or will claim it for reimbursement from the tax authorities.

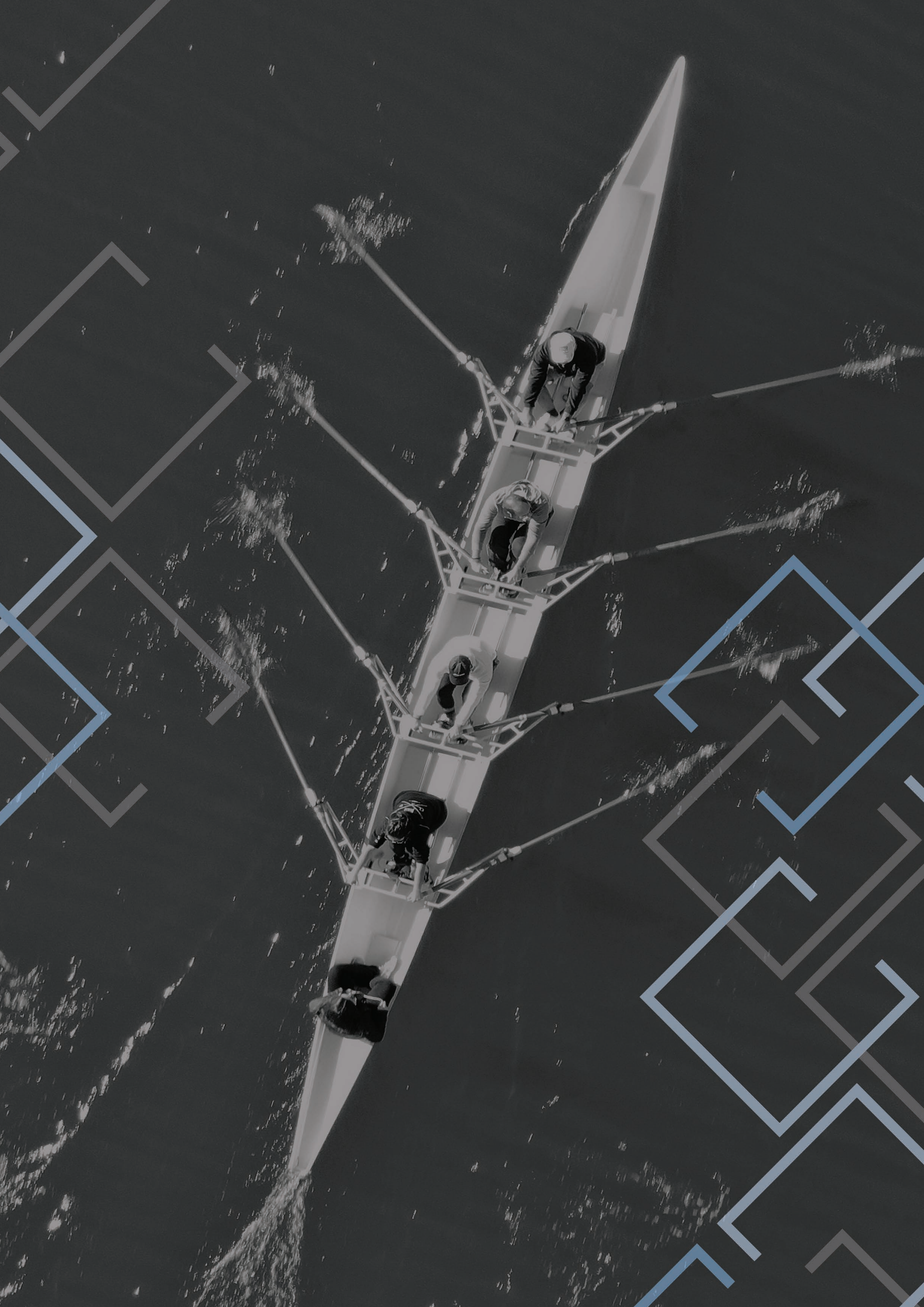
The underlying assets are all buildings.

As noted above, the leases and assets are to be used to service the Levante securitisation. All the income from their sale or other re-allocation of Gimli New Levante's assets are used to either cover its costs or to repay the special loan.

Gimli New Levante is not exposed to risks thanks to contractual terms included in the securitisation structure, which include a number of insurance and risk hedging mechanisms, as well as the liquidity made available to it. The securitisation vehicle bears all the costs of operating, maintaining and selling the assets.

Gimli New Levante did not repay any loan instalments during the year.

At the reporting date, the underlying assets amounted to €119 thousand while the outstanding special loan amounted to €150 thousand.



INDEPENDENT AUDITORS' REPORT PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE NO. 39 OF 27 JANUARY 2010

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(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
Credito Fondiario S.p.A.

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of the Credito Fondiario Group (the "group"), which comprise the statement of financial position as at 31 December 2019, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

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

Basis for opinion

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

Credito Fondiario Group
Independent auditors' report
31 December 2019

Key audit matters

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

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

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

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

Notes to the consolidated financial statements "Part C - Notes to the income statement": section 8 "Net impairment losses"

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

Key audit matter	Audit procedures addressing the key audit matter
Loans and receivables with customers recognised under financial assets at amortised cost totalled €996 million at 31 December 2019, accounting for 62.9% of total assets. They include exposures (the "portfolios") underlying the ABS subscribed by the parent. Measuring such portfolios is a complex activity, with a high degree of uncertainty and subjectivity, with respect to which the directors apply valuation methods and models that consider many quantitative and qualitative factors relating to the exposures underlying each ABS, including historical collection flows, the existence of any indicators of impairment, expected cash flows comprising estimated collection costs and an assessment of any guarantees, as well as the estimated collection dates. Any impairment losses/gains on the portfolios identified through the regular revision of the expected cash flows (discounted at the investments' original internal return rate) and/or of the related collection dates are recognised as impairment losses/gains for credit risk in profit or loss. For the above reasons, we believe that the measurement of loans and receivables with customers is a key audit matter.	Our audit procedures included: — understanding the parent's processes and IT environment in relation to investing in ABS and forecasting, monitoring and revising the underlying exposures' expected cash flows and related collection dates; — assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls, especially in relation to forecasting and revising the underlying exposures' expected cash flows and related collection dates; — analysing the impairment assessment methods 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 individually-assessed exposures underlying the ABS and assessing the expected cash flows and related collection dates for reasonableness; — assessing the appropriateness of the disclosures about loans and receivables with customers recognised under financial assets measured at amortised cost.

Allocation for the consideration paid for the acquisition of an investment in CF Liberty Servicing S.p.A. from Banco BPM S.p.A.

Notes to the consolidated financial statements "Part A - Accounting policies": paragraph A.2.10 "Other information"

Notes to the consolidated financial statements "Part B - Notes to the statement of financial position - Assets": section 10 "Intangible assets"

Notes to the consolidated financial statements "Part G - Business combinations": section 1 "Combinations performed during the year"

Key audit matter	Audit procedures addressing the key audit matter
On 31 May 2019, the parent completed its acquisition of 70% of CF Liberty Servicing S.p.A. from Banco BPM S.p.A. for a consideration of €100 million. During 2019, assisted by external experts, the directors completed the recognition of the fair value of the assets acquired and liabilities assumed at the date the parent acquired control. They identified and recognised intangible asset with a finite useful life of €60.9 million, relating to the servicing agreements signed with Banco BPM S.p.A., and goodwill of €18.3 million, calculated using the partial goodwill method. Assisted by external experts, the directors measured the fair value of the assets acquired and liabilities assumed using the multi-period excess earnings method. This method is very complex and entails the use of estimates which, by their very nature, are uncertain and subjective, about: — the cash flows expected from the intangible assets, forecast on the basis of the assets' residual useful life; — the financial parameters used to calculate the discount rate. For the above reasons, we believe that the allocation of the consideration paid for the acquisition of 70% of CF Liberty Servicing S.p.A. from Banco BPM S.p.A. is a key audit matter.	Our audit procedures included: — understanding the process adopted by the directors to allocate the consideration paid for the acquisition of 70% of CF Liberty Servicing S.p.A.; — obtaining and reading the acquisition agreement for 70% of CF Liberty Servicing S.p.A.; — obtaining and reading the minutes of the internal bodies' meetings; — analysing the report prepared by the external consultants engaged by the parent to measure the fair value of the assets acquired and liabilities assumed with the acquisition of the equity investment; — involving experts of the KPMG network in the assessment of the appropriateness and reasonableness of the allocation and measurement model and main assumptions used, including by means of a comparison with external data and information; — discussing the allocation and measurement model and main assumptions used with management; — assessing the appropriateness of the disclosures provided in the notes about the allocation of the consideration paid for the acquisition of the equity investment.

Credito Fondiario Group
Independent auditors' report
31 December 2019

Recoverability of the intangible asset relating to the servicing agreement signed with Banca Carige S.p.A. in 2018

Notes to the consolidated financial statements "Part A - Accounting policies": paragraph A.2.6 "Intangible assets"

Notes to the consolidated financial statements "Part B - Notes to the statement of financial position - Assets": section 10 "Intangible assets"

Notes to the consolidated financial statements "Part C - Notes to the income statement": section 15 "Amortisation and net impairment losses on intangible assets"

Notes to the consolidated financial statements "Part G - Business combinations": section 3 "Retrospective adjustments"

Key audit matter	**Audit procedures addressing the key audit matter**
The consolidated financial statements include intangible assets of €25.2 million, comprising the asset of €14.9 million relating to the servicing agreement signed with Banca Carige S.p.A. in 2018 (the "agreement") after the acquisition of the NPE management platform business unit (the "business unit") therefrom. During 2019, the agreement was amended with respect to the management and collection of the NPEs originated by Banca Carige S.p.A., leading to a change in the managed NPEs that were sold to AMCO S.p.A.. The parent paid €24.5 million to compensate for the exposures it no longer manages. Since the directors considered the above as a trigger event, they tested the intangible asset for impairment. They revised the forecast commission income on the basis of the change in the managed NPEs. As a result of the impairment test, the parent recognised an impairment loss of €3.5 million on the intangible asset with a finite useful life. Impairment testing require a high level of judgement, especially in relation to: — the expected cash flows, considering the agreement's forecasts about, in particular, the managed NPE portfolio, as well as the fees, commissions and costs provided for by the agreement; — the financial parameters used to calculate the discount rate. For the above reasons, we believe that the recoverability of the intangible asset relating to the servicing agreement referred to above is a key audit matter.	Our audit procedures included: — analysing the process adopted by the directors to prepare the impairment test; — obtaining and reading the acquisition agreement for the business unit, the agreements signed thereafter and calculating the amount of the compensation: — analysing the expected cash flows and main assumptions used to calculate the CGU's value in use; — involving experts of the KPMG network in the assessment of the appropriateness and reasonableness of the impairment testing model and main assumptions used, including by means of a comparison with external data and information; — discussing the impairment testing model and main assumptions used with management; — assessing the appropriateness of the disclosures provided in the notes about the impairment test of the intangible asset relating to the servicing agreement.

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

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

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

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

Auditors' responsibilities for the audit of the consolidated financial statements

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

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

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

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

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

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

Credito Fondiario Group
Independent auditors' report
31 December 2019

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

On 17 April 2019, the parent's shareholders appointed us to perform the statutory audit of its consolidated financial statements as at and for the years ending from 31 December 2018 to 31 December 2021.

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

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

KPMG

Credito Fondiario Group
Independent auditors' report
31 December 2019

Report on other legal and regulatory requirements

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

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

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

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

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

Rome, 10 April 2020

KPMG S.p.A.

(signed on the original)

Riccardo De Angelis
Director of Audit

YOUR INVESTMENT
AND SERVICING
PARTNER

CREDITO
FONDIARIO