CREDITO FONDIARIO

2020 GROUP ANNUAL REPORT

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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
Substitute 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 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.

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).

In 2020, the parent formalised Project 3.0, which sets out its plans to demerge and sell assets that qualify as a disposal group under IFRS 5, i.e., a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction and the liabilities directly associated with those assets. At the date of preparation of this report, the project's implementation is highly probable, given the parent's board of directors' resolution of 24 June 2020 approving the application to be submitted to Bank of Italy for its authorisation, as well as the actions taken by management and discussions with the supervisory body. The transaction should be closed within 12 months of 31 December 2020. Therefore, the assets, liabilities, revenue and costs associated with the disposal group have been reclassified into the specific statement of financial position and income statement captions in order to comply with IFRS 5.

Consolidation scope

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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).

The following companies were included in the consolidation scope in 2020:
• Fairway SPV S.r.l., for which Credito Fondiario has acted as master servicer since January 2020, while it already held 100% of the notes issued by the vehicle in 2019;
• Liberio SPV S.r.l., of which the parent purchased 95% of its ABS with impaired bank loans as the underlying in July 2020;
• Lutezia SPV S.r.l., of which the parent purchased 100% of its ABS with impaired bank loans as the underlying in September 2020;
• Tiberina SPV S.r.l., of which the parent purchased 95% of its mezzanine and junior notes with impaired bank loans as the underlying in December 2020;
• Aventino SPV S.r.l., to which the parent advanced the acquisition cost of the loans in December 2020 and will subscribe the notes at the start of 2021 to support the acquisition of the loans.

List of consolidated companies

Group company	Shareholder	Investment %	Consolidation method
C F Liberty Servicing S.p.A.	Credito Fondiario S.p.A.	70%	Line-by-line
Be Credit Management S.p.A.	Credito Fondiario S.p.A.	100%	Line-by-line
CF Master Servicing S.p.A.	Credito Fondiario S.p.A.	100%	Line-by-line
CF Special Servicing S.p.A.	Credito Fondiario S.p.A.	100%	Line-by-line
CF Asset Management S.p.A.	Credito Fondiario S.p.A.	100%	Line-by-line
Palatino SPV S.r.l.	Credito Fondiario S.p.A.	100% of the junior notes	Line-by-line
Domizia SPV S.r.l.	Credito Fondiario S.p.A.	100% of the junior notes	Line-by-line
LeaseCo Europa S.r.l.	Credito Fondiario S.p.A.	100%	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-by-line
Ponente SPV S.r.l.	Credito Fondiario S.p.A.	60% of the SPV and 100% of the junior notes	Line-by-line
Cosmo SPV S.r.l.	Credito Fondiario S.p.A.	60% of the SPV and 100% of the junior notes	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-by-line
Resloc SPV S.r.l.	Credito Fondiario S.p.A.	100% of the junior notes	Line-by-line
Bramito SPV S.r.l.	Credito Fondiario S.p.A.	60% of the SPV and 100% 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%	Line-by-line
Fairway SPV S.r.l.	Credito Fondiario S.p.A.	100% of the junior notes	Line-by-line
Tiberina SPV S.r.l.	Credito Fondiario S.p.A.	60% of the SPV and 95% of the junior notes	Line-by-line
Liberio SPV S.r.l.	Credito Fondiario S.p.A.	95% of the Monotranche notes	Line-by-line
Sallustio SPV S.r.l.	Credito Fondiario S.p.A.	60% of the SPV	Line-by-line

Elmo SPV S.r.l.	Credito Fondiario S.p.A.	60% of the SPV	Line-by-line
Novus Italia 1 S.r.l.	Credito Fondiario S.p.A.	60% of the SPV	Line-by-line
Sesto SPV S.r.l.	Credito Fondiario S.p.A.	60% of the SPV	Line-by-line
Lucullo SPV S.r.l.	Credito Fondiario S.p.A.	60% of the SPV	Line-by-line
Artemide SPV S.r.l.	Credito Fondiario S.p.A.	60% of the SPV	Line-by-line
Lutezia SPV S.r.l.	Credito Fondiario S.p.A.	80% of the SPV	Line-by-line
Aventino SPV S.r.l.	Credito Fondiario S.p.A.	100% of the loan for debt purchasing	Line-by-line

List of equity-accounted investees

Group company	Shareholder	Investment %	Recognition 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

In July 2020, the vehicles Sallustio SPV S.r.l., Elmo SPV S.r.l., Novus Italia 1 S.r.l., Sesto SPV S.r.l., Lucullo SPV S.r.l., Artemide SPV S.r.l. and Cosmo 2° Portafoglio sold their portfolios to the vehicle Bramito SPV S.r.l..

In December 2020, the vehicle Lutezia SPV S.r.l. sold its portfolio to Palatino SPV S.r.l. while Bramito SPV S.r.l. concurrently sold it part of its portfolio.

Key events of the year

The group made a profit of €12.9 million for the year, including €11.44 million attributable to the owners of the parent and €1.43 million to non-controlling interests.

The key events of the year are described below:

Credito Fondiario's response to Covid-19
The group introduced remote working to ensure the safety of its employees and customers in February for the northern Italy offices and March for the Rome office. It immediately adopted business continuity measures in order to continue to operate as normal while guaranteeing the best possible safety conditions.

The group rolled out a procedure to remotely monitor and report on the working of its operating systems and related risks. It concurrently checked that its key suppliers can continue to provide their services on a remote basis. It found that the new system is fully functional and none of its work processes has been delayed or upset by the move out of the office.

All the group offices were equipped with measures to ensure compliance with the hygiene rules introduced as a result of the emergency situation.
The parent was able to achieve these positive results thanks to the spirit of sacrifice of all its employees, its business culture hinging on technological and process innovation and the large investments made in ICT in previous years.

It made a donation to Ospedale Luigi Sacco in Milan to acknowledge the efforts of and support all the healthcare professionals who were in the first line of defence against the Coronavirus.

The group companies have not distributed dividends from the 2019 financial statements in 2020 thus complying with Bank of Italy's dividend policy communication of 31 March 2020.

The parent provided the legally-mandatory assistance ("moratoria") to households and businesses as well as other non-mandatory measures to assist them in this dramatic time, including on behalf of its administrated vehicles and in line with the practice generally adopted by the Italian banking sector.

The group has a structured procedure in place to accept, perform and monitor moratorium applications and set up a special section on its website with guidance about the measures introduced for its customers.

During the period from March to December 2020, also as the servicer of securitisation vehicles, the parent received over 400 applications (for loans with a carrying amount of more than €106 million), of which roughly 70% managed by negotiations with the customers and 30% in accordance with the legal requirements or the ABI (Italian banking association) agreements. It approved more than 75% of the applications with the related loans being holidayed during the period.

Section 4 of Part A of the notes to the consolidated financial statements provides details of the impact of Covid-19 on the group's financial position and performance (focusing in particular on credit quality).

Approval of Project 3.0
On 24 June 2020, the parent's board of directors approved the proposed reorganisation of the Credito Fondiario banking group (the "**CF group**" or the "**group**"). The aim is to redefine the parent's mission and to set up a non-banking entity specialised in debt purchasing and debt servicing in order to focus on this business and benefit from greater competitiveness and efficiency.

This project (the "**project**", "**Project 3.0**" or the "**reorganisation**") will consist of two demergers of Credito Fondiario after which its debt purchasing and debt servicing activities (including its investments in the companies currently part of the group) will be transferred to a newco, **CF HoldCo**, and its subsidiaries. The parent will not transfer its investment in Be Credit Management S.p.A..

Once the project has been completed and the regulator has provided the relevant authorisations[1], the demerged entity, **CF NewBank**, will carry out banking activities and will have the resources, organisational structure and capital necessary to meet its obligations arising from funding activities, as well as the relevant reference prudential and organisational requirements.

CF NewBank will retain its banking licence and will continue to manage some NPE portfolios on a run-off basis and will work in the tax asset segment. It will also develop its foothold in sectors and sectors that are not currently its core business.

Specifically, CF NewBank will be a challenger bank with a revisited business object in order to become a specialised lender for performing (or re-performing) loans, and an innovative player in the specialised corporate lending sector for high potential market segments not currently fully covered by the major banks.

The new organisational structure based on the complete separation between the banking business and the debt purchasing and debt servicing activities better reflects the needs of the servicing market which is undergoing consolidation and where the adequate enhancement of a target's value requires the definition of clear-set boundaries.

Furthermore, the entities that will operate in the debt purchasing and debt servicing business after the reorganisation will have greater opportunities for growth and development.

Substitute tax on goodwill and other intangible assets of CF Liberty Servicing
On 30 June 2020, the parent paid the substitute tax of €16 million on the goodwill and other intangible assets recognised in the consolidated financial statements related to the acquisition of the stake in CF Liberty Servicing ("CFLS") in June 2019 (tax redemption). Based on the probability tests required by IAS 12, the parent recognised deferred tax assets of €28.2 million arising on the tax redemption benefit.

(1) The parent submitted its application on 1 March 2021.

VAT group
In 2019, 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., Leaseco One S.r.l., Leaseco Europa S.r.l., Aurelia SPV S.r.l., Cassia SPV S.r.l, Lutezia SPV S.r.l., Tiberina SPV S.r.l., POP NPLS SPV S.r.l. and Leviticus SPV S.r.l..

At 31 December 2020, Cassia SPV S.r.l., Aurelia SPV S.r.l., POP NPLS SPV (former 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) their segregated portfolios and their consolidation would have been immaterial.

The key events that led to changes in the consolidation scope in 2020 are described below:

Acquisition of 65% of Be Credit Management S.p.A.
On 10 December 2020, Credito Fondiario completed its acquisition of 100% of Be Credit Management ("BECM"), specialised in the analysis and servicing of tax assets, by exercising its call option for 65% of its share capital (it already held 35%). As a result, the carrying amount of its equity investment increased from €0.8 million to €2.3 million.
The parent has purchased tax assets for €160 million (carrying amount of €88 million) in the period from 2018 to 2020.

Thanks to the acquisition of BECM, the group has a team of experts specialised in the analysis and servicing of tax assets (VAT, IRES, IRAP and all other forms of tax assets), be they either purchased from companies under insolvency proceedings or solvent companies that have, however, financial difficulties. BECM is based in Rome and will continue with its core business of analysing, valuing and servicing tax assets.

New special purpose vehicles
As already described, during 2020, the group acquired most of the junior notes issued by the securitisation vehicles Liberio SPV S.r.l., Tiberina SPV S.r.l. and Lutezia SPV S.r.l. (whose loans were subsequently sold to Palatino SPV S.r.l.), which are, therefore, included in its consolidation scope.

Since January 2020, the parent has also become the master servicer of Fairway SPV S.r.l., of which it had already purchased all its notes in 2019, meaning that the vehicle has been included in the group's consolidation scope.
During the year, additional investments were made in tax assets by subscribing ABS issued by Convento with a carrying amount of €85 million at 31 December 2020.

Bramito SPV
In July 2020, this vehicle purchased the loans of the vehicles Sallustio, Elmo, Lucullo, Sesto, Artemide, Novus Italia 1 and Cosmo 2° Portafoglio, which redeemed the related notes. Bramito SPV issued new junior notes to fund these purchases.

Palatino SPV
In December 2020, Palatino SPV purchased all of Lutezia SPV's loans and most of those of Bramito SPV. As a result, Bramito redeemed its senior notes and part of the junior notes.

Domizia SPV
In December 2020, this vehicle purchased most of the loans of Vette SPV, which subsequently redeemed all the senior notes and part of the junior notes it had issued.

Again in December 2020, the parent subscribed 100% of the quota capital 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 purchased from Domizia 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 Domizia SPV S.r.l. which is, in turn, consolidated.

Key figures

The following table presents the group's key figures at 31 December 2020:

Loan assets under management / servicing (nominal amount)	€52.8 billion
Proprietary investment portfolio (nominal amount)	€7.5 billion
Proprietary investment portfolio (carrying amount)	€1,020 million
Retail savings (Esagon account)	€759.2 million
Equity	€389.5 million
Total capital ratio	18.22%
Employees	374

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

Credito Fondiario 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 parent has been very active in the servicing sector in recent years and has been placed first in the ranking of master servicers by assets under management (AUM) since the first half of 2019[2].

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

(€'000)

	Performing		Non-performing	Total
	Stage 1	Stage 2	Stage 3	
POCI exposures purchased through securitisation vehicles (consolidated vehicles)	-	37,774	745,796	783,570
Tax assets purchased through securitisation vehicles (consolidated vehicles)	88,062	-	-	88,062
Unconsolidated ABS	133,599	-	-	133,599
POCI exposures purchased directly by the parent	-	-	22,614	22,614
Loans disbursed by the parent	40,695	1,887	3,912	46,494
Government bonds	107,122	-	-	107,122
Treasury investments	20,235	-	-	20,235
Trade receivables and other assets	19,520	-	-	19,520
Total investments	**409,233**	**39,661**	**772,322**	**1,221,216**

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 securitisation portfolios.

POCI 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 2020

Assets under management are set out below:

	No. of exposures	Original amount of exposures
Performing loans (PLs)	1,624	€126 million
Non-performing loans (NPLs)	919,048	€50,822 million
Commercial mortgage-backed securities (CMBS)	3	€97 million
Trade receivables	274,122	€205 million
Industrial loans	6	€328 million
NPLs of real estate funds	113	€64 million
Single names	6	€45 million
Leases	18,563	€1,009 million
Tax assets	277	€112 million
Total	**1,213,762**	**€52.8 billion**

The group is one of the largest and most experienced servicers in Italy, with assets under management of approximately €52.8 billion.

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

Agency	Special servicer	Master servicer
Fitch	RSS2+/CSS2+	MS2+
Standard & Poor's	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 bank;
• optimised cost of funding while concurrently ensuring diversified sources of funding, reference markets and tools;
• a sufficient volume of high quality liquid assets, that can also 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 (mainly by maintaining an appropriate liquidity buffer in line with its assets) and complying with regulations; specifically, this objective is achieved as a result of:
- the creation of capital cushions, which include marketable securities eligible for refinancing by central banks;
- a risk and operating limit system;
- diversified sources and channels of funding, counterparties and maturities.

CF Liberty Servicing S.p.A. avails of the parent's services for its treasury and payment management activities.

The group's total funding amounts to €1,244 million at the reporting date. Specifically, it has the following sources of funds:
• repurchase agreements with banks of €157.3 million;
• interbank credit facilities of €67.75 million;
• interbank deposits of €45 million;
• other bank loans and borrowings of €23.3 million;
• stable retail deposits of €755.9 million;
• other amounts due to customers of €29 million;
• securities issued of €167.2 million (notes issued by the consolidated vehicles and held by third parties).

The debt to equity ratio, the disclosure of which is required by IAS 13, is 319.5% 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.

Financial performance and position

Application of IFRS 5

In 2020, the group formalised Project 3.0, which sets out its plans to demerge and sell assets that qualify as a disposal group under IFRS 5, i.e., a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction and the liabilities directly associated with those assets. At the date of preparation of this report, the project's implementation is highly probable, given the parent's board of directors' resolution of 24 June 2020 approving the application to be submitted to Bank of Italy for its authorisation (sent on 1 March 2021), as well as the actions taken by management and discussions with the supervisory body. The transaction should be closed within 12 months of 31 December 2020. Therefore, the assets, liabilities, revenue and costs associated with the disposal group have been reclassified into the specific statement of financial position and income statement captions in order to comply with IFRS 5.

The reclassifications were made on the basis of the project approved by the board of directors on 24 June 2020 and the estimates available at the date of preparation of this report. The assumptions used are described below.

Specifically, the servicing business will no longer be part of the group's operations. All the related assets and associated income and expense have been reclassified into the relevant statement of financial position and income statement captions. They include trade receivables for the fees received by the parent for its role as corporate, master and special servicer as well as other roles; the investments in CF Master Servicing S.p.A., CF Asset Management S.p.A., CF Special Servicing, CF Liberty Servicing, LeaseCo One, LeaseCo Europa and those in the securitisation vehicles part of the VAT group and included in the disposal group; the intangible assets (goodwill and other intangible assets) related to the Gerica servicing platform, acquired from Banca Carige in 2018; software used to perform servicing activities; deferred tax assets related to the substitute tax paid on the other intangible assets and goodwill recognised in the consolidated financial statements on the acquisition of 70% of CF Liberty Servicing to bring their carrying amount into line with their tax base.

The notes and/or loans of the vehicles Tiberina, Palatino and Domizia will be transferred as part of the demerger project, possibly after their restructuring. This may happen before the demergers and is an essential part thereof.

With respect to the other assets and liabilities, they were reclassified using criteria deemed appropriate at the date of preparation of this report given the number of resources allocated to the disposal group (property, equipment and investment property, post-employment benefits and liabilities for employees) or on a proportionate basis considering the vehicles' equity (current and deferred tax assets and liabilities).

With respect to the income statement, all the items specifically related to the servicing business (mostly fee and commission income and expense, amortisation, depreciation and impairment losses on property, equipment and investment property and intangible assets and other operating costs) and the equity investments that will be transferred (interest income, fair value gains and losses and expected credit losses) were reclassified to the profit from discontinued operations. Personnel expenses were recognised in line with the resources allocated to the disposal group while the administrative expenses were allocated directly to the cost centres, when possible or in line with specific drivers (pro rata to personnel or based on revenue).

Reconciliations between the statement of financial position and the income statement before application of IFRS 5 and the statement of financial position and income statement included in the consolidated financial statements are provided below with a description of the assets held for sale, the associated liabilities and the profit from discontinued operations.

The 2019 income statement has been reclassified as per IFRS 5 using the same assumptions adopted to calculate the profit from discontinued operations for 2020.

The reconciliations between the statement of financial position and the income statement before application of IFRS 5 and the statement of financial position and income statement included in the consolidated financial statements are as follows:

(€'000)

		31/12/2020 pre IFRS 5 A	Effect of applying IFRS 5 B	31/12/2020 Reclassified figures (A+B)
10.	Cash and cash equivalents	93,145	-	93,145
20.	Financial assets at fair value through profit or loss	121,667	-	121,667
	a) held for trading	*638*	-	*638*
	c) other financial assets mandatorily measured at fair value	*121,029*	-	*121,029*
40.	Financial assets at amortised cost	1,267,299	(644,884)	622,415
	a) loans and receivables with banks	*167,113*	*(91,050)*	*76,063*
	b) loans and receivables with customers	*1,100,186*	*(553,834)*	*546,352*
70.	Equity investments	6	(6)	-
90.	Property, equipment and investment property	8,564	(7,257)	1,307
100.	Intangible assets, including:	153,284	(152,186)	1,098
	- goodwill	*67,408*	*(66,502)*	*906*
110.	Tax assets	*70,378*	*(52,652)*	*17,726*
	a) current	*33,827*	*(18,282)*	*15,545*
	b) deferred	*36,551*	*(34,369)*	*2,182*
110.	Non-current assets held for sale and disposal groups	-	868,575	868,575
130.	Other assets, including:	*30,343*	*(11,590)*	*18,753*
	- 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: "Gimli - New Levante"	*50*	*50*	-
	Total assets	**1,744,687**	**-**	**1,744,687**
10.	Financial liabilities at amortised cost	1,244,497	(291,891)	952,606
	b) due to customers	*784,915*	*(5,607)*	*779,309*
	c) securities issued	*167,216*	*(164,013)*	*3,203*
30.	Financial liabilities at fair value through profit or loss	2,696	-	2,696
60.	Tax liabilities	37,587	(25,015)	12,572
	a) current	*7,300*	*(5,701)*	*1,600*
	b) deferred	*30,286*	*(19,314)*	*10,972*
70.	Liabilities associated with disposal groups	-	340,633	340,633
80.	Other liabilities	44,642	(19,939)	24,703
90.	Post-employment benefits	4,137	(3,706)	431
100.	Provisions for risks and charges:	1,502	(82)	1,420
	c) other provisions	*1,502*	*(82)*	*1,420*
120.	Valuation reserves	(140)	-	(140)
150.	Reserves	80,444	-	80,444
160.	Share premium	243,578	-	243,578
170.	Share capital	54,190	-	54,190
190.	Equity attributable to the owners of the parent (+/-)	20,114	-	20,114
200.	Profit for the year (+/-)	11,441	-	11,441
	Total liabilities and equity	**1,744,687**	**-**	**1,744,687**

Based on the assumptions described earlier, the following items were reclassified to non-current assets held for sale and disposal groups for €868.6 million in the consolidated financial statements:
• loans and receivables with customers of €553.8 million, including POCI exposures of €534.5 million purchased through securitisation vehicles relating to the Palatino portfolio (€234.9 million), the Domizia portfolio (€189 million, comprising the €3.8 million loan given to Leaseco Europa), the Tiberina portfolio (€110.6 million), and the parent's and CFLS' trade receivables for servicing fees already invoiced or yet to be invoiced (€19.3 million);
• loans and receivables with banks of €91 million, comprising the portion of the parent's liquidity that is expected to be transferred, loans and receivables with banks of CFLS of €10 million and current account balances of €58 million of the vehicles and other investees that are part of the disposal group;
• property, equipment and investment property and intangible assets of €159.4 million, including goodwill of €66.5 million and other intangible assets of €85 million related to Gerica and CFLS, and non-current assets of €1.1 million of CFLS;
• tax assets of €52.7 million, including current tax assets of €18.3 million and deferred tax assets of €34.3 million;
• other assets of €11.6 million.

Liabilities associated with assets held for sale of €340.6 million include:
• securities issued by the vehicles to be transferred (Tiberina and Domizia) of €164 million subscribed by third parties;
• tax liabilities of €25 million, including CFLS' current income taxes of €5.7 million and deferred tax liabilities of €19.3 million, arising on CFLS' goodwill (€20.5 million) and the release of deferred tax liabilities of the vehicles that are part of the disposal group (-€1.2 million).

(€'000)

	2020 pre IFRS 5 A	Effect of applying IFRS 5 B	2020 Reclassified figures (A+B)
10. Interest and similar income	114,062	(56,548)	57,514
including: interest calculated using the effective interest method	114,062	(56,548)	57,514
20. Interest and similar expense	(27,072)	4,238	(22,833)
30. Net interest income	**86,990**	**(52,309)**	**34,681**
40. Fee and commission income	43,984	(43,035)	949
50. Fee and commission expense	(4,415)	1,670	(2,745)
60. Net fee and commission income (expense)	**39,569**	**(41,365)**	**(1,796)**
70. Dividends and similar income	-	-	-
80. Net trading expense	(91)	-	(91)
90. Net hedging income (expense)	-	-	-
110. Net loss on other financial assets and liabilities at fair value through profit or loss	(201)	-	(201)
a) financial assets and liabilities designated at fair value	*(2)*	-	-
b) other financial assets mandatorily measured at fair value	*(199)*	-	*(201)*
120. Total income	**126,268**	**(93,674)**	**32,593**
130. Net impairment losses/gains for credit risk associated with:	(34,604)	26,461	(8,143)
a) financial assets at amortised cost	*(34,606)*	*26,461*	*(8,145)*
b) financial assets at fair value through other comprehensive income	*2*	-	*2*

Continue previous table:

150. Net financial income	**91,664**	**(67,213)**	**24,451**
190. Administrative expenses:	(76,091)	52,707	(23,384)
a) personnel expense	*(36,716)*	*31,237*	*(5,479)*
b) other administrative expenses	*(39,375)*	*21,470*	*(17,905)*
200. Net accruals to provisions for risks and charges	331	-	331
a) commitments and guarantees given	-	-	-
b) other	331	-	331
210. Depreciation and net impairment losses on property, equipment and investment property	(2,365)	1,984	(381)
220. Amortisation and net impairment losses on intangible assets	(11,606)	11,373	(232)
230. Other operating income (expense), net	604	(2,479)	(1,875)
240. Operating costs	**(89,127)**	**63,586**	**(25,541)**
290. Pre-tax profit (loss) from continuing operations	**2,537**	**(3,627)**	**(1,090)**
300. Income taxes	10,337	(13,072)	(2,735)
310. Post-tax profit (loss) from continuing operations	**12,873**	**(16,699)**	**(3,825)**
320. Profit from discontinued operations	-	16,699	16,699
330. Profit for the year	**12,873**	**-**	**12,873**
340. Profit attributable to non-controlling interests	**1,432**	**-**	**1,432**
350. Profit attributable to the owners of the parent	**11,441**	**-**	**11,441**

The net profit from discontinued operations of €16.7 million is generated by:

• interest income of €56.5 million accrued on the portfolios of the vehicles Palatino, Domizia and Tiberina as well as impairment losses of €26.5 million. They include interest accrued and impairment losses recognised in 2020 on the bank loans transferred to Bramito in July 2020 and then to Palatino in December 2020 and the leases transferred by Vette to Domizia in December 2020;

• interest expense accrued on the financial liabilities measured at amortised cost associated with the disposal group of €4.2 million, including interest on securities issued. The main item of the cost of funding related to customer deposits (on-line deposit accounts) of €17 million was not reclassified as the funding is expected to remain with the parent to be used to develop its new business shortly to be set up;

• net servicing fees of €41.4 million attributable to the parent and CLFS;

• operating costs of €63.6 million, mostly related to the parent and CFLS, which contributes personnel expense of €8 million, other administrative expenses of €1.4 million and depreciation, amortisation and impairment losses of €7.9 million on property, equipment and investment property and intangible assets, mostly due to the amortisation.

The net profit from discontinued operations is also affected by an income tax benefit of €13.1 million, related to the parent, CLFS (€1.7 million) and the vehicles to be included in the disposal group (-€0.4 million).

Financial position

(€'000)

		31/12/2020 pre IFRS 5	31/12/2019 pre IFRS 5	Variation	Var. %
10.	Cash and cash equivalents	93,145	72,875	20,270	28%
20.	Financial assets at fair value through profit or loss	121,667	163,012	(41,344)	(25%)
	a) held for trading	638	729	(91)	(12%)
	c) other financial assets mandatorily measured at fair value	121,029	162,283	(41,254)	(25%)
40.	Financial assets at amortised cost	1,267,299	1,114,427	152,872	14%
	a) loans and receivables with banks	167,113	118,132	48,981	41%
	b) loans and receivables with customers	1,100,186	996,296	103,891	10%
70.	Equity investments	6	-	6	-
90.	Property, equipment and investment property	8,564	9,299	(735)	(8%)
100.	Intangible assets, including:	153,284	164,103	(10,818)	(7%)
	- goodwill	67,408	67,408	-	-
110.	Tax assets	70,378	38,871	31,507	81%
	a) current	33,827	6,543	27,284	417%
	b) deferred	36,551	32,328	4,223	13%
130.	Other assets, including:	30,343	17,901	12,441	69%
	- 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: "Gimli - New Levante"	50	50	-	-
	Total assets	**1,744,687**	**1,584,002**	**160,685**	**10%**
10.	Financial liabilities at amortised cost	1,244,497	1,096,494	148,003	13%
	b) due to customers	784,915	740,337	44,578	6%
	c) securities issued	167,216	110,503	56,713	51%
30.	Financial liabilities at fair value through profit or loss	2,696	-	2,696	100%
60.	Tax liabilities	37,587	35,767	1,819	5%
	a) current	7,300	3,098	4,203	136%
	b) deferred	30,286	32,670	(2,384)	(7%)
80.	Other liabilities	44,642	48,235	(3,593)	(7%)
90.	Post-employment benefits	4,137	4,079	58	1%
100.	Provisions for risks and charges:	1,502	1,858	(356)	(19%)
	c) other provisions	1,502	1,858	(356)	(19%)
120.	Valuation reserves	(140)	(92)	(48)	52%
150.	Reserves	80,444	160,935	(80,491)	(50%)
160.	Share premium	243,578	139,982	103,595	74%
170.	Share capital	54,190	37,785	16,405	43%
190.	Equity attributable to the owners of the parent (+/-)	20,114	18,705	1,409	8%
200.	Profit for the year (+/-)	11,441	40,253	(28,812)	(72%)
	Total liabilities and equity	**1,744,687**	**1,584,002**	**160,685**	**10%**

Total assets amount to €1,744.7 million at year end compared to €1,584 million at 31 December 2019 (+€160.7 million, 10%).

Investments ("Financial assets mandatorily measured at fair value through profit or loss" and "Loans and receivables with customers") come to €1,221 million and include:
• loans and receivables (POCI) of €806.2 million, comprising:
 - loans and receivables with customers (POCI) of €382.3 million purchased through the securitisation vehicles;
 - credit-impaired assets of €234.9 million transferred to the SPV Palatino and not derecognised by the parent;
 - impaired leases of €189 million transferred to the SPV Domizia and not derecognised by the parent;
• tax assets of €88 million, purchased through the securitisation vehicles;
• ABS of €133.6 million managed by the non-consolidated group companies;
• loans of €67.3 million granted or purchased by the parent (including the Manuli loan of €12 million, the GIMLI assets of €14.4 million, the loans of €17.3 million given to the REOCOs and the €20 million deposit with Direct Sim);
• lease portfolios of €17.8 million purchased directly by the parent;
• government bonds of €107.3 million held by the parent;
• trade receivables and other assets of €19.5 million.

Intangible assets decreased by €10.8 million to €153.3 million at 31 December 2020 due to amortisation and impairment losses of €1.5 million on the intangible assets of the Gerica platform. The caption comprises:
• goodwill related to the Gerica transaction (€9.3 million) and the related intangible asset with a finite useful life (€11.7 million);
• goodwill arising on the CF Liberty Servicing acquisition (€57.2 million) and the related intangible asset with a finite useful life (€73.3 million);
• goodwill of €0.8 million arising on the BECM acquisition;
• software (€1 million).

The group tested the intangible asset and goodwill of CFLS for impairment without identifying any impairment losses (the related documentation is attached to the notes to the consolidated financial statements).

Deferred tax assets of €36.5 million at year end entirely belong to the parent. They relate to carryforward tax losses (€5.5 million), the **ACE** (Aid for Economic Growth) benefit (€0.8 million), the reverse merger with CF Holding (€0.6 million), the substitute tax paid for the alignment of the carrying amounts recognised as a result of CFLS' acquisition with their tax bases (€28.2 million) and impairment losses on loans and receivables that are deductible over more than one year as allowed by Law no. 214/2011 (€1.5 million). During the year, the group transformed deferred tax assets on carryfoward tax losses into current tax assets (€23.9 million) availing of the concessions allowed by the Cura Italia decree.

The group mostly funded its business activities using the Esagon product in 2020. At 31 December 2020, on-line deposits amounted to €730.6 million. Other sources of **funding** are:
• repurchase agreements of €157 million;
• interbank deposits and loans of €112.8 million.

The group vehicles issued securities of €167.2 million that have not been subscribed by group companies.

Equity amounts to €409.6 million and includes the profit for the year. It comprises €20.1 million attributable to non-controlling interests.

Own funds amount to €251.5 million and the group's prudential ratio is above the minimum (estimated to be 18.22%).

Financial performance

(€'000)

	Voci	2020 pre IFRS 5	2019 pre IFRS 5	Variation	Var. %
10.	Interest and similar income	114,062	73,931	40,130	54%
	including: interest calculated using the effective interest method	*114,062*	*73,846*	*40,216*	*54%*
20.	Interest and similar expense	(27,072)	(20,274)	(6,797)	34%
30.	**Net interest income**	**86,990**	**53,657**	**33,333**	**62%**
40.	Fee and commission income	43,984	44,033	(48)	-
50.	Fee and commission expense	(4,415)	(5,379)	963	(18%)
60.	**Net fee and commission income**	**39,569**	**38,654**	**915**	**2%**
80.	Net trading income (expense)	(91)	553	(644)	(116%)
100.	Net gain from sales or repurchases of:	-	9	9	(100%)
	b) financial assets at fair value through other comprehensive income	-	*9*	*9*	(100%)
110.	Net gain (loss) on other financial assets and liabilities at fair value through profit or loss	(201)	1,645	(1,845)	(112%)
	a) financial assets and liabilities designated at fair value	*(2)*	-	*(2)*	(100%)
	b) other financial assets mandatorily measured at fair value	*(199)*	*1,645*	*(1,844)*	(112%)
120.	**Total income**	**126,268**	**94,517**	**31,750**	**34%**
130.	Net impairment losses/gains for credit risk associated with:	(34,604)	(9,237)	(25,367)	275%
	a) financial assets at amortised cost	*(34,606)*	*(9,242)*	*(25,364)*	*274%*
	b) financial assets at fair value through other comprehensive income	*2*	*5*	*(3)*	(56%)
150.	**Net financial income**	**91,664**	**85,281**	**6,383**	**7%**
190.	Administrative expenses:	(76,091)	(65,923)	(10,168)	15%
	a) personnel expense	*(36,716)*	*(39,025)*	*2,309*	*(6%)*
	b) other administrative expenses	*(39,375)*	*(26,899)*	*(12,477)*	*46%*
200.	Net accruals to provisions for risks and charges	331	(635)	966	(152%)
	b) other	331	(635)	*966*	(152%)
210.	Depreciation and net impairment losses on property, equipment and investment property	(2,365)	(1,692)	(672)	40%
220.	Amortisation and net impairment losses on intangible assets	(11,606)	(10,450)	(1,156)	11%
230.	Other operating income, net	604	24,207	(23,604)	(98%)
240.	**Operating costs**	**(89,127)**	**(54,494)**	**(34,634)**	**64%**
290.	**Pre-tax profit from continuing operations**	**2,537**	**30,787**	**(28,250)**	**(92%)**
300.	Income taxes	10,337	9,789	548	6%
310.	**Post-tax loss from continuing operations**	**12,873**	**40,576**	**(27,703)**	**(68%)**
330.	**Profit for the year**	**12,873**	**40,576**	**(27,703)**	**(68%)**
340.	**Profit (loss) attributable to non-controlling interests**	**1,432**	**323**	**1,109**	**343%**
350.	**Profit attributable to the owners of the parent**	**11,441**	**40,253**	**(28,812)**	**(72%)**

The group made a profit of €12.9 million for the year, including €11.44 million attributable to the owners of the parent and €1.43 million to non-controlling interests, compared to a profit of €40.6 million for 2019.

The group's financial performance reflects the repercussions of the Covid-19 public health emergency, which led to the impairment of financial assets included in its portfolios and smaller fees earned on the special servicing business of both the parent and CFLS.

In addition, the inclusion of CFLS for the entire year compared to seven months (from June) in 2019 affected the comparability of the two years.

Net interest income amounts to €87 million compared to €53.7 million in 2019. Interest income comes to €114 million (€73.9 million in 2019). The increase is due to the higher average principal of the investments in exposures purchased through the securitisation vehicles with interest rates equal to those applied to the securitisation transaction. Interest income benefited from the higher return on the exposures, calculated using the internal rate of return ("**IRR**") of the portfolio rather than of the notes issued by the vehicles, which the parent used in its separate financial statements.
Interest expense of €27.1 million (€20.3 million for 2019) mostly refers to the Esagon on-line deposits (€16.8 million) with the remainder incurred on other sources of financing.

Net fee and commission income amounts to €39.6 million compared to €38.7 million for 2019.

Fee and commission income of €44 million was mostly earned on special servicing activities (€38.7 million). A comparison with 2019 is not meaningful given the inclusion of CFLS in the consolidation scope for the entire year of 2020 while it only contributed for seven months in 2019.

Fee and commission expense includes fees of €3.8 million paid to consultants for credit collection services.

Net fee and commission income includes €16 million contributed by the parent (net of intragroup net income) as well as the net income generated by CFLS (€25.5 million) and Be Credit Management S.p.A. (€0.6 million). It is net of the fee and commission expense of €2.4 million paid by the vehicles to third parties.

Total income amounts to €126.3 million compared to €94.5 million for 2019.

Impairment losses on financial assets at amortised cost amount to €34.6 million for the year and were mostly recognised on exposures purchased through the securitisation vehicles (€26.7 million), affected by the public health emergency and the closing of the courts, which mainly led to delays in scheduled payments.
Impairment losses calculated collectively on loans and receivables with banks and government bonds reflect the inclusion of a downwards forward-looking factor in the test model to include the Covid-19 emergency and related economic crisis. This was only partly offset by the smaller volume of exposures tested for impairment compared to 2019 (impairment losses of €28 million on government bonds and of €8.5 million on bank deposits and current accounts).

Personnel expense decreased to €36.7 million from €39 million for 2019. The increase in the personnel expense contributed by CFLS of €8.3 million for the entire year compared to €5.6 million for seven months of 2019 was entirely offset by the reduction in the parent's personnel expense (-€5.1 million).

Other administrative expenses amount to €39.4 million compared to €26.9 million for 2019. They include the greater expenses for CFLS (12 months for 2020 compared to seven for 2019, +€1.9 million), the non-recurring expenses for Project 3.0 (€5.2 million) and those related to the consolidation of the securitisation vehicles (+€5.1 million), mostly due to initial expenses of the securitisations completed in December 2019 (Palatino, Domizia and Tiberina) that cannot be capitalised.
The group made **net reversals** of €0.3 million of the **provisions for risks and charges**, mainly relating to the provision for disputes after settlement of a dispute.

Amortisation, depreciation and net impairment losses on property, equipment and investment property and intangible assets amount to €14 million compared to €12.2 million for 2019. The caption includes amortisation of €7.4 million of intangible assets recognised as part of the 2019 purchase price allocation procedure for CFLS.

Other operating income, net of €0.6 million includes the parent's costs to settle a dispute.

The group's pre-tax profit comes to €2.5 million compared to a profit of €30.8 million for 2019.

In the first half of 2020, the parent recognised deferred tax assets of €28.2 million after it paid the substitute tax of €16 million to align the carrying amount and tax base (tax redemption) of goodwill and other intangible assets recognised after the acquisition of CFLS. This group company has income taxes of €3.8 million and has reversed deferred tax assets recognised on intangible assets in 2019 (-€2 million).

The group made a **profit** for the year of €12.9 million, including €11.44 million attributable to the owners of the parent and €1.43 million to non-controlling interests.

Financial position and key profitability indicators

Profitability indicators	2020	2019
ROA (Gross profit/Total assets)	0.15%	1.94%
RORAC	12.03%	14.80%
EBITDA €/000	43,579	63,203

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	**369,542**	**6,883**
CF Liberty Servicing S.p.A.	13,924	10,137
Be Credit Management S.p.A.	131	16
Other consolidated companies	3,025	(35)
Consolidated vehicles	13,992	13,744
Consolidation adjustments for CF Liberty Servicing S.p.A.	10,081	(5,363)
Consolidation adjustments for Be Credit Management S.p.A.	(1,325)	(18)
Consolidation adjustments for other companies	(3,060)	-
Consolidation adjustments for securitisation vehicles	3,317	(12,491)
As per the consolidated financial statements (including non-controlling interests)	**409,627**	**12,873**
Non-controlling interests	**20,114**	**1,432**
As per the consolidated financial statements (owners of the parent)	**389,513**	**11,441**

Equity attributable to non-controlling interests of €20,114 thousand refers entirely to CF Liberty Servicing S.p.A.. Specifically, the profit for the year of €10,137 thousand recognised by CF Liberty Servicing S.p.A. is offset by amortisation of €5,363 thousand of the intangible asset recognised with the subsidiary's acquisition, net of amortisation of the related deferred tax liability. Therefore, its profit for the year recognised for consolidation purposes is €1,432 thousand, including 30% attributable to non-controlling 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.

Business opportunities and going concern

The parent's directors have prepared the consolidated financial statements at 31 December 2020 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.

The group has withstood the pandemic's adverse economic effects, which led it to recognise large collective impairment losses, mostly as a result of the delay in collections compared to the schedules in the servicing business plans. Nevertheless, this has not jeopardised its financial position and performance and it plans to continue its business as normal after dealing with the public health emergency. It also intends to introduce the new business lines as per the strategy described earlier in this report. In fact, over the next year, the group will be engaged in its reorganisation.

After the presentation of the relevant applications and once Bank of Italy has issued its authorisations and the demergers can take place, Tiber Investments S.à r.l. will transfer its 87.12% investment in the parent to another Elliot Group company.

As already described, after the demergers, CF NewBank will retain the banking business and all the resources, organisational structure and capital necessary to meet its obligations arising from funding activities, as well as the relevant prudential and organisational requirements.

Events after the reporting date and outlook

As described in the "Approval of Project 3.0" section, on 1 March 2021, the parent submitted its application to Bank of Italy for approval of the project.

No adjusting events (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.

CONSOLIDATED FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

(€'000)

		31.12.2020	31.12.2019
10.	Cash and cash equivalents	93,145	72,875
20.	Financial assets at fair value through profit or loss	121,667	163,012
	a) held for trading	*638*	*729*
	c) mandatorily measured at fair value	*121,029*	*162,283*
30.	Financial assets at fair value through other comprehensive income	-	3,514
40.	Financial assets at amortised cost	622,415	1,114,427
	a) loans and receivables with banks	*76,063*	*118,132*
	b) loans and receivables with customers	*546,352*	*996,296*
90.	Property, equipment and investment property	1,307	9,299
100.	Intangible assets, including:	1,098	164,103
	- goodwill	*906*	*67,408*
110.	Tax assets	17,726	38,871
	a) current	*15,545*	*6,543*
	b) deferred	*2,182*	*32,328*
120.	Non-current assets held for sale and disposal groups	868,575	-
130.	Other assets, including:	18,753	17,901
	- contribution to the assets earmarked for a specific business: "Cube Gardenia"	-	*100*
	- contribution to the assets earmarked for a specific business: "Este"	-	*50*
	- contribution to the assets earmarked for a specific business: "Gimli - New Levante"	-	*50*
	Total assets	**1,744,687**	**1,584,002**

CONTINUED: STATEMENT OF FINANCIAL POSITION

(€'000)

	Liabilities and equity	31.12.2020	31.12.2019
10.	Financial liabilities at amortised cost	952,606	1,096,494
	a) due to banks	*170,094*	*245,654*
	b) due to customers	*779,309*	*740,337*
	c) securities issued	*3,203*	*110,503*
30.	Financial liabilities at fair value through profit or loss	2,696	-
60.	Tax liabilities	12,572	35,767
	a) current	1,600	3,098
	b) deferred	10,972	32,670
70.	Liabilities associated with disposal groups	340,633	-
80.	Other liabilities	24,703	48,235
90.	Post-employment benefits	431	4,079
100.	Provisions for risks and charges:	1,420	1,858
	c) other provisions	*1,420*	*1,858*
120.	Valuation reserves	(140)	(92)
150.	Reserves	80,444	160,935
160.	Share premium	243,578	139,982
170.	Share capital	54,190	37,785
190.	Equity attributable to the owners of the parent (+/-)	20,114	18,705
200.	Profit for the year	11,441	40,253
	Total liabilities and equity	**1,744,687**	**1,584,002**

INCOME STATEMENT

(€'000)

		2020	2019*
10.	Interest and similar income	57,514	36,878
	including: interest calculated using the effective interest method	57,514	36,793
20.	Interest and similar expense	(22,833)	(17,943)
30.	**Net interest income**	**34,681**	**18,935**
40.	Fee and commission income	949	1,638
50.	Fee and commission expense	(2,745)	(1,483)
60.	**Net fee and commission income (expense)**	**(1,796)**	**155**
70.	Dividends and similar income	-	-
80.	Net trading income (expense)	(91)	553
100.	Net gain from sales or repurchases of:	-	9
	b) financial assets at fair value through other comprehensive income	-	*9*
110.	Net gain (loss) on other financial assets and liabilities at fair value through profit or loss	(201)	1,645
	a) financial assets and liabilities designated at fair value	*(2)*	-
	b) other financial assets mandatorily measured at fair value	*(199)*	*1,645*
120.	**Total income**	**32,593**	**21,296**
130.	Net impairment losses/gains for credit risk associated with:	(8,143)	11,757
	a) financial assets at amortised cost	*(8,145)*	*11,752*
	b) financial assets at fair value through other comprehensive income	*2*	*5*
150.	**Net financial income**	**24,451**	**33,053**
190.	Administrative expenses:	(23,384)	(20,772)
	a) personnel expense	*(5,479)*	*(6,273)*
	b) other administrative expenses	*(17,905)*	*(14,499)*
200.	Net reversals of (accruals to) provisions for risks and charges	331	(635)
	b) other	*331*	*(635)*
210.	Depreciation and net impairment losses on property, equipment and investment property	(381)	(277)
220.	Amortisation and net impairment losses on intangible assets	(232)	(310)
230.	Other operating income (costs), net	(1,875)	464
240.	**Operating costs**	**(25,541)**	**(21,530)**
290.	**Pre-tax profit (loss) from continuing operations**	**(1,090)**	**11,524**
300.	Income taxes	(2,735)	2,559
310.	**Post-tax profit (loss) from continuing operations**	**(3,825)**	**14,083**
320.	Post-tax profit from discontinued operations	16,699	26,493
330.	**Profit for the year**	**12,873**	**40,576**
340.	Profit for the year attributable to non-controlling interests	1,432	323
350.	**Profit for the year attributable to the owners of the parent**	**11,441**	**40,253**

(*) The 2019 comparative income statement figures have been reclassified following the adoption of IFRS 5

STATEMENT OF COMPREHENSIVE INCOME

(€'000)

	Voci	2020	2019
10.	**Profit for the year**	**12,873**	**40,576**
	Other comprehensive expense, net of tax, that will not be reclassified to profit or loss	**(44)**	**(73)**
70.	Defined benefit plans	*(44)*	*(73)*
	Other comprehensive income (expense), net of tax, that will be reclassified to profit or loss	**(8)**	**38**
140.	Financial assets (other than equity instruments) at fair value through other comprehensive income	(8)	38
170.	**Total other comprehensive expense, net of tax**	**(52)**	**(36)**
180.	**Comprehensive income (captions 10 + 170)**	**12,821**	**40,540**
190.	Comprehensive income attributable to non-controlling interests	1,427	308
200.	**Comprehensive income attributable to the owners of the parent**	**11,394**	**40,232**

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

(€'000)

	Balance at 31.12.2019	Change to opening balances	Balance at 1.1.2020	Allocation of prior year profit		Changes of the year									Equity at 31.12.2020	Equity att. to the owners of the parent at 31.12.2020	Equity att. to non-controlling interests at 31.12.2020
							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	2020 comprehensive income			
Share capital:																	
a) ordinary shares	37,960	-	37,960	-	-	-	16,405	-	-	-	-	-	(16)	-	54,349	54,190	160
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium	139,982	-	139,982	-	-	-	103,595	-	-	-	-	-	-	-	243,578	243,578	-
Reserves:																	
a) income-related	45,206	-	45,206	40,576	-	-	-	-	-	-	-	-	72	-	85,854	67,312	18,543
b) other	133,950	-	133,950	-	-	-	(120,000)	-	-	-	(818)	-	-	-	13,132	13,132	-
Valuation reserves	(108)	-	(108)	-	-	-	-	-	-	-	-	-	-	(52)	(160)	(140)	(20)
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit for the year	40,576	-	40,576	(40,576)	-	-	-	-	-	-	-	-	-	12,873	12,873	11,441	1,432
Equity	**397,568**	**-**	**397,568**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(818)**	**-**	**56**	**12,821**	**409,627**	**389,513**	**20,114**
Equity attributable to the owners of the parent	378,862	-	378,862	-	-	-	-	-	-	-	(818)	-	75	11,394	-	389,513	-
Equity attributable to non-controlling interests	18,705	-	18,705	-	-	-	-	-	-	-	-	-	(19)	1,427	-	-	20,114

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

(€'000)

	Balance at 31.12.2018	Change to openingbalances	Balance at 1.1.2019	Allocation of prior year loss		Changes of the year									Equity at 31.12.2019	Equity att. to the owners of the parent at 31.12.2019	Equity att. to non-controlling 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
Equity	**219,088**	**-**	**219,088**	**-**	**-**	**120,000**	**767**	**-**	**-**	**-**	**-**	**(956)**	**18,128**	**40,541**	**397,568**	**378,862**	**18,705**
Equity attributable to the owners of the parent	218,922	-	218,922	-	-	120,000	767	-	-	-	-	(956)	(104)	40,233	-	378,862	-
Equity attributable to non-controlling interests	166	-	166	-	-	-	-	-	-	-	-	-	18,232	308	-	-	18,705

STATEMENT OF CASH FLOWS – (indirect method)

(€'000)

	Amount	
	2020	2019
A. OPERATING ACTIVITIES		
1. Operations	**86,881**	**50,716**
- profit for the year	12,873	40,576
- net gains/losses on financial assets held for trading and other financial assets/liabilities at fair value through profit or loss (-/+)	291	(2,198)
- gains/losses on hedging transactions (-/+)	-	-
- net impairment losses/gains for credit risk (+/-)	8,145	(11,757)
- amortisation, depreciation and net impairment losses on property, equipment and investment property and intangible assets	613	586
- net reversals of/accruals to provisions for risks and charges and other costs/revenue (+/-)	(331)	635
- unsettled taxes and tax assets (+/-)	25,586	(9,789)
- net impairment losses/reversals of impairment losses on non-current assets held for sale and disposal groups, net of tax (+/-)	(115)	113
- other adjustments (+/-)	39,818	32,550
2. Cash flows generated by/used for financial assets	**260,053**	**(342,056)**
- financial assets held for trading	-	-
- financial assets at fair value through profit or loss	-	-
- other assets mandatorily measured at fair value	3,266	(29,974)
- financial assets at fair value through other comprehensive income	3,516	3,002
- financial assets at amortised cost	242,936	(348,464)
- other assets	10,334	33,380
3. Cash flows generated by/used for financial liabilities	**(325,266)**	**295,878**
- financial liabilities at amortised cost	(279,270)	276,274
- financial liabilities held for trading	-	-
- financial liabilities at fair value through profit or loss	(2,696)	-
- other liabilities	(43,301)	19,604
Net cash flows generated by operating activities	**21,667**	**4,538**

Continued - STATEMENT OF CASH FLOWS – (indirect method)

(€'000)

	Amount	
	2020	**2019**
B. INVESTING ACTIVITIES		
1. Cash flows generated by	**119**	**-**
- sales of equity investments	-	-
- dividends from equity investments	-	-
- sales of property, equipment and investment property	119	-
- sales of intangible assets	-	-
- sales of business units	-	-
2. Cash flows used to acquire	**(1,515)**	**(110,591)**
- equity investments	(6)	-
- property, equipment and investment property	(722)	(9,677)
- intangible assets	(787)	(100,914)
- business units	-	-
Net cash flows used in investing activities	**(1,396)**	**(110,591)**
C. FINANCING ACTIVITIES		
- issue/repurchase of treasury shares	(120,000)	-
- issue/purchase of equity instruments	120,000	120,000
- dividend and other distributions	-	-
Net cash flows generated by financing activities	**-**	**120,000**
NET CASH FLOWS FOR THE YEAR	**20,271**	**13,947**

Key: (+) generated (-) used

RECONCILIATION

(€'000)

Financial statements captions	2020	2019
Opening cash and cash equivalents	72,875	58,929
Total net cash flows for the year	20,271	13,946
Cash and cash equivalents: exchange gains (losses)	-	-
Closing cash and cash equivalents	**93,145**	**72,875**

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

CREDITO FONDIARIO

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 2020 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 (sixth revision of 30 November 2018), 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 do not differ from those adopted for the consolidated financial statements at 31 December 2019.

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 2020 are as follows:

Name	Issue date	Effective date	EU endorsing regulation and publication date
Amendments to references to the conceptual framework in IFRS standards	March 2018	1 January 2020	29 November 2019 (EU) 2019/2075 – 6 December 2019
Definition of material (Amendments to IAS 1 and IAS 8)	October 2018	1 January 2020	29 November 2019 (EU) 2019/2104 – 10 December 2019
Interest rate benchmark reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	September 2019	1 January 2020	15 January 2020 (EU) 2020/34 – 16 January 2020
Definition of a business (Amendments to IFRS 3)	October 2018	1 January 2020	21 April 2020 (EU) 2020/551 – 22 April 2020
Covid-19-related rent concessions (Amendment to IFRS 16)	May 2020	1 June 2020	9 October 2020 (EU) 2020/1434 – 12 October 2020

The standards and related IFRIC applicable starting from periods that begin after 1 January 2021 are as follows:

Name	Issue date	Effective date	EU endorsing regulation and publication date
Extension of the temporary exemption from applying IFRS 9 (Amendments to IFRS 4)	June 2020	1 January 2021	15 December 2020 (EU) 2020/2097 – 16 December 2020
Interest rate benchmark reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	August 2020	1 January 2021	13 January 2021 (EU) 2021/25 – 14 January 2021

New standards or amendments issued by the IASB and not uet endorsed by the European Union are as follows (they will only become applicable after being endorsed by the EU):

Name	Issue date	Effective date	EU endorsing regulation and publication date
Property, plant and equipment: proceeds before intended use (Amendments to IAS 16)	May 2020	1 January 2022	H2 2021
Onerous contracts - Cost of fulfilling a contract (Amendments to IAS 37)	May 2020	1 January 2022	H2 2021
Annual improvements to IFRSs (2018-2020 cycle) [Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41]	May 2020	1 January 2022	H2 2021
Reference to the conceptual framework (Amendments to IFRS 3)	May 2020	1 January 2022	H2 2021
IFRS 17 "Insurance contracts + Amendments to IFRS 17	May 2017 June 2020	1 January 2023	TBD
Classification of liabilities as current or non-current (amendments to IAS 1) + Deferral effective date	January 2020 July 2020	1 January 2023	TBD

The consolidated financial statements show the figures as at and for the year ended 31 December 2020 and the following comparative information:
• statement of financial position at 31 December 2019;
• income statement for the year ended 31 December 2019;
• statement of comprehensive income for the year ended 31 December 2019;
• statement of changes in equity for the year ended 31 December 2019;
• statement of cash flows for the year ended 31 December 2019;

The comparative income statement figures have been reclassified in accordance with IFRS 5 to account for the effect of the discontinued operation.

The reconciliation between the 2019 published income statement figures and those reclassified in accordance with IFRS 5 is as follows:

(importi in Euro migliaia)

		2019 pre-IFRS 5 A	Effect of application of IFRS 5 B	2019 Reclassified figures A-B
10.	Interest and similar income	73,931	(37,053)	36,878
	including: interest calculated using the effective interest method	73,846	(37,053)	36,793
20.	Interest and similar expense	(20,274)	2,331	(17,943)
30.	**Net interest income**	**53,657**	**(34,722)**	**18,935**
40.	Fee and commission income	44,033	(42,395)	1,638
50.	Fee and commission expense	(5,379)	3,896	(1,483)
60.	**Net fee and commission income**	**38,654**	**(38,499)**	**155**
70.	Dividends and similar income	-	-	-
80.	Net trading income	553	-	553
90.	Net hedging income (expense)	-		-
100.	Net gain from sales or repurchases of:	9	-	9
	a) financial assets at amortised cost	-		-
	b) financial assets at fair value through other comprehensive income	*9*	-	*9*
	c) financial liabilities	-	-	-
110.	Net gain on other financial assets and liabilities at fair value through profit or loss	1,645	-	1,645
	a) financial assets and liabilities designated at fair value	-	-	-
	b) other financial assets mandatorily measured at fair value	*1,645*	-	*1,645*
120.	**Total income**	**94,517**	**(73,222)**	**21,296**
130.	Net impairment losses/gains for credit risk associated with:	(9,237)	20,994	11,757
	a) financial assets at amortised cost	*(9,242)*	*20,994*	*11,752*
	b) financial assets at fair value through other comprehensive income	*5*	-	*5*
150.	**Net financial income**	**85,281**	**(52,228)**	**33,053**
190.	Administrative expenses:	(65,923)	45,151	(20,772)
	a) personnel expense	*(39,025)*	*32,752*	*(6,273)*
	b) other administrative expenses	*(26,899)*	*12,399*	*(14,499)*
200.	Net accruals to provisions for risks and charges	(635)	-	(635)
	b) other	*(635)*	-	*(635)*
210.	Depreciation and net impairment losses on property, equipment and investment property	(1,692)	1,416	(277)
220.	Amortisation and net impairment losses on intangible assets	(10,450)	10,140	(310)
230.	Other operating income, net	24,207	(23,743)	464
240.	**Operating costs**	**(54,494)**	**32,964**	**(21,530)**
290.	**Pre-tax profit from continuing operations**	**30,787**	**(19,263)**	**11,524**
300.	Income taxes	9,789	(7,230)	2,559
310.	**Post-tax profit from continuing operations**	**40,576**	**(26,493)**	**14,083**
320.	Post-tax profit from discontinued operations	-	26,493	26,493
330.	**Profit for the year**	**40,576**	**-**	**40,576**
340.	Profit for the year attributable to non-controlling interests	323	-	323
350.	**Profit for the year attributable to the owners of the parent**	**40,253**	**-**	**40,253**

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, financial performance 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 separate financial statements is disclosed, including qualitative when deemed useful for understanding, 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:

	Registered and Head office	Type of relation-ship (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	1	Credito Fondiario S.p.A.	100%	100%
CF Special Servicing S.p.A.	Rome	1	Credito Fondiario S.p.A.	100%	100%
CF Master Servicing S.p.A.	Rome	1	Credito Fondiario S.p.A.	100%	100%
CF Asset Management S.p.A.	Rome	1	Credito Fondiario S.p.A.	100%	100%
LeaseCo One S.r.l.	Rome	1	Credito Fondiario S.p.A.	100%	100%
LeaseCo Europa 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.	-	-
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%
Lutezia SPV S.r.l.	Rome	4	Credito Fondiario S.p.A.	80%	80%
Tiberina SPV S.r.l.	Rome	4	Credito Fondiario S.p.A.	60%	60%
Fairway SPV S.r.l.	Rome	4	Credito Fondiario S.p.A.	-	-
Liberio SPV S.r.l.	Rome	4	Credito Fondiario S.p.A.	-	-
Aventino SPV S.r.l.	Rome	4	Credito Fondiario S.p.A.	-	-
Palatino SPV S.r.l.	Rome	4	Credito Fondiario S.p.A.	-	-
Domizia SPV S.r.l.	Rome	4	Credito Fondiario S.p.A.	-	-

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 control as per article 39.1 of Legislative decree no. 136/215
6= common control as per article 39.2 of Legislative decree no. 136/215
(2) Voting rights at general meetings, distinguishing between effective and potential

The parent has prepared consolidated financial statements in accordance with Legislative decree no. 136/2015 and IFRS 10. It has de facto control of the vehicles used for investment transactions, of which it holds a significant portion of junior notes and in which it has the majority of the voting rights at general meetings.

As part of the above-mentioned Project 3.0, the parent intends to dispose of its controlling investments in CFLS Liberty Servicing S.p.A., CF Special Servicing S.r.l., CF Master Servicing S.r.l., CF Asset Management S.r.l. and Leaseco Europa S.r.l. and in the securitisation vehicles Domizia SPV S.r.l., Palatino SPV Sr.l. and Tiberina SPV S.r.l.. Accordingly, since they will be deconsolidated, all their assets, liabilities, costs and revenue have been reclassified to the captions "Non-current assets held for sale and disposal groups", "Liabilities associated with disposal groups" and "Post-tax profit from discontinued operations". However, these subsidiaries continue to be consolidated at 31 December 2020.

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 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. Fairway SPV S.r.l.;
9. Sesto SPV S.r.l.;

10. Lucullo SPV S.r.l.;
11. Resloc SPV S.r.l.;
12. Bramito SPV S.r.l.;
13. Artemide SPV S.r.l.;
14. Vette SPV S.r.l.;
15. Palatino SPV S.r.l.;
16. Domizia SPV S.r.l.;
17. Liberio SPV S.r.l.;
18. Lutezia SPV S.r.l.;
19. Tiberina SPV S.r.l;
20. Aventino SPV S.r.l.

Except for Resloc SPV S.r.l., Fairway SPV S.r.l., Palatino SPV S.r.l., Domizia SPV S.r.l., Liberio SPV S.r.l. and Aventino SPV S.r.l., the parent owns 60% of the above vehicles' quota capital. It holds 100% (95% in the case of Liberio SPV S.r.l. and Tiberina SPV S.r.l.) of the junior notes they issued as part of securitisation transactions.

Basis of consolidation
The current consolidation method entails, inter alia:
• 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".

3. Investments in subsidiaries with significant non-controlling interests

3.1 Non-controlling interests, their voting rights and dividends

	Non-controlling interests	Voting rights % (1)	Dividends
CF Liberty Servicing S.p.A.	30%	30%	-

(1) Voting rights at general meetings.

(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, upfront 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.

3.2 Equity investments with significant non-controlling interests: breakdown

Denominazione	Total assets	Cash and cash equivalents	Financial assets	Property, equipment and investment property and intangible assets	Financial liabilities	Equity	Net interest 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 (2)	Comprehensive income (3) = (1) + (2)
CF Liverty Servicing S.p.A.	27,426	-	21,180	3,428	3,009	13,924	(93)	25,456	(11,549)	13,907	10,137	-	10,137	(15)	10,122

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 non-controlling 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 are taken with the favourable vote of the two main noteholders.

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. 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.

Section 5 – Other issues

Use of accounting estimates

Application of IFRS 5

In 2020, the group formalised Project 3.0, which sets out its plans to demerge and sell assets that qualify as a disposal group under IFRS 5, i.e., a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction and the liabilities directly associated with those assets. At the date of preparation of these consolidated financial statements, the project's implementation is highly probable, given the parent's board of directors' resolution of 24 June 2020 approving the application to be submitted to Bank of Italy for its authorisation (submitted on 1 March 2021), as well as the actions taken by management and discussions with the supervisory body. The transaction should be closed within 12 months of 31 December 2020. Therefore, the assets, liabilities, revenue and costs associated with the disposal group have been reclassified into the specific statement of financial position and income statement captions in order to comply with IFRS 5.

The 2019 comparative income statement figures have been reclassified in accordance with IFRS 5 to account for the effect of the discontinued operations.The reconciliation between the 2019 published income statement figures and those reclassified in accordance with IFRS 5 is as follows:

(€'000)

		31/12/2019 pre-IFRS 5 A	Effect of application of IFRS 5 B	31/12/2019 Reclassified figures A-B
10.	Interest and similar income	73,931	(37,053)	36,878
	including: interest calculated using the effective interest method	73,846	(37,053)	36,793
20.	Interest and similar expense	(20,274)	2,331	(17,943)
30.	**Net interest income**	**53,657**	**(34,722)**	**18,935**
40.	Fee and commission income	44,033	(42,395)	1,638
50.	Fee and commission expense	(5,379)	3,896	(1,483)
60.	**Net fee and commission income**	**38,654**	**(38,499)**	**155**
70.	Dividends and similar income	-	-	-
80.	Net trading income	553	-	553
90.	Net hedging income (expense)	-		-
100.	Net gain from sales or repurchases of:	9	-	9
	a) financial assets at amortised cost	-		-
	b) financial assets at fair value through other comprehensive income	*9*	-	*9*
	c) financial liabilities	-	-	-
110.	Net gain on other financial assets and liabilities at fair value through profit or loss	1,645	-	1,645
	a) financial assets and liabilities designated at fair value	-	-	-
	b) other financial assets mandatorily measured at fair value	*1,645*	-	*1,645*
120.	**Total income**	**94,517**	**(73,222)**	**21,296**
130.	Net impairment losses/gains for credit risk associated with:	(9,237)	20,994	11,757
	a) financial assets at amortised cost	*(9,242)*	*20,994*	*11,752*
	b) financial assets at fair value through other comprehensive income	*5*	-	*5*
150.	**Net financial income**	**85,281**	**(52,228)**	**33,053**
190.	Administrative expenses:	(65,923)	45,151	(20,772)
	a) personnel expense	*(39,025)*	*32,752*	*(6,273)*
	b) other administrative expenses	*(26,899)*	*12,399*	*(14,499)*
200.	Net accruals to provisions for risks and charges	(635)	-	(635)
	b) other	*(635)*	-	*(635)*
210.	Depreciation and net impairment losses on property, equipment and investment property	(1,692)	1,416	(277)
220.	Amortisation and net impairment losses on intangible assets	(10,450)	10,140	(310)
230.	Other operating income, net	24,207	(23,743)	464
240.	**Operating costs**	**(54,494)**	**32,964**	**(21,530)**
290.	**Pre-tax profit from continuing operations**	**30,787**	**(19,263)**	**11,524**
300.	Income taxes	9,789	(7,230)	2,559
310.	**Post-tax profit from continuing operations**	**40,576**	**(26,493)**	**14,083**
320.	Post-tax profit from discontinued operations	-	26,493	26,493
330.	**Profit for the year**	**40,576**	**-**	**40,576**
340.	Profit for the year attributable to non-controlling interests	323	-	323
350.	**Profit for the year attributable to the owners of the parent**	**40,253**	**-**	**40,253**

The impact of Covid-19 of the group's financial position and financial performance

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 prolonged 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.

At the date of this report, the 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.

<u>Nature and amount of changes in estimates with a significant impact</u>

The group's 2020 performance was affected by the ongoing public health emergency during the year as illustrated in this section.

Net fair value gains (losses) on ABS

Covid-19 triggered extreme volatility on financial markets. The group reviewed its business plans for investments, which led to the recognition of net fair value losses on the ABS due to the postponement of the collection dates (see caption 110. Net gain (loss) on other financial assets and liabilities at fair value through profit or loss showing a net loss of €201 thousand compared to a net gain of €1,845 million in 2019).

Net impairment losses on loans to customers

IFRS 9 requires an entity to consider relevant forward looking information when measuring credit impairment and not only historical and current information, as it deems that it can affect the recoverability of the credit exposures.

The group's update of the macro-economic scenarios based on Bank of Italy's projections, changes in the rating and staging of the exposures to be measured and the review of the business plan for the POCI portfolios led it to increase the impairment losses on financial assets measured at amortised cost and recognised in profit or loss to €34.6 million compared to €9.3 million for the previous year.

Operating costs

During the year, the group carried out some non-recurring work related to building management, support operating services and physical safety at its offices to ensure the safety of its employees, consultants and customers. The related costs of these activities incurred specifically to deal with the Covid-19 emergency (office sanitisation, purchases of hand sanitiser gels, masks, single-use gloves and infrared thermometers) were immaterial.

Impairment of equity investments, intangible assets with finite and indefinite useful lives and deferred tax assets

Given the repercussions of Covid-19, the group updated its impairment test to check the recoverable amounts of its equity investments, intangible assets with finite useful lives, goodwill and deferred tax assets, which led to the recognition of an impairment loss of €1.5 million on the intangible assets relating to the Gerica platform. The tests on the other assets confirmed their carrying amounts at the reporting date.

Use of accounting estimates

Application of the IFRS to financial reporting 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 ABS held by the parent;
• use of valuation models to calculate the fair value of financial instruments not quoted on active markets;
• 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 parent's 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 separate financial statements

On 25 March 2021, the directors approved the draft separate 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 the separate financial statements is 24 March 2021, 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 re-

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classification 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 (loss) 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 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. Capitalised software development 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 non-controlling 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 – Non-current assets held for sale, disposal groups and associated liabilities

Recognition - classification

Asset caption "120 - Non-current assets held for sale and disposal groups" and liability caption "70 - Liabilities associated with disposal groups" include the non-current assets and liabilities and groups of assets and liabilities for which the group is committed to a plan to sell and the sale is highly probable. To qualify for classification as such, a non-current asset or liability (or disposal group) must be available for immediate sale and an active programme to locate a buyer and complete the plan must have been initiated on which basis its sale is considered to be highly probable within one year from when it is classified as held for sale.

Measurement

These assets and liabilities are measured at the lower of carrying amount and fair value less costs to sell, except for certain types of assets (e.g., financial assets within the scope of IFRS 9), which are measured in accordance with the requirements of the relevant standards.

Derecognition

Non-current assets/liabilities held for sale and disposal groups are derecognised when they are sold.

Recognition of costs and revenue

The post-tax profits and losses from discontinued operations are shown separately in the income statement.

9 – 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.

10 – 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 reversals of (accruals to) provisions for risks and charges".

11 – 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 short, 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, although 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, it 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 non-controlling 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, non-controlling 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

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 reporting period.

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.

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)

	31.12.2020			31.12.2019		
	L1	L2	L3	L1	L2	L3
1. Financial assets at fair value through profit or loss, of which	-	-	-	-	-	-
a) held for trading	-	-	638	-	-	729
b) designated at fair value	-	-	-	-	-	-
c) mandatorily measured at fair value	-	-	121,029	-	-	162,283
2. Financial assets at fair value through other comprehensive income	-	-	-	3,514	-	-
3. Hedging derivatives	-	-	-	-	-	-
4. Property, equipment and investment property	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	**-**	**-**	**121,667**	**3,514**	**-**	**163,012**
1. Financial liabilities held for trading	-	-	-	-	-	-
2. Financial liabilities at fair value through profit or loss	-	-	2,696	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
Total	**-**	**-**	2,696	**-**	**-**	**-**

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	**163,012**	**729**	**-**	**162,283**	**3,514**	**-**	**-**	**-**
2. Increases	**-**	**-**		**-**				
2.1 Purchases	-	-	-	-	-	-	-	-
2.2 Gains recognised in:	-	-	-	-	-	-	-	-
2.2.1 Profit or loss	-	-	-	-	-	-	-	-
- including gains	13,763	-	-	13,763	2	-	-	-
2.2.2 Equity	-	X	X	X	-	-	-	-
2.3 Transfers from other levels	-	-	-	-	-	-	-	-
2.4 Other increases	-	-	-	-	-	-	-	-
3. Decreases	**-**			**-**	**-**			
3.1 Sales	-	-	-	-	-	-	-	-
3.2 Repayments	-	-	-	-	(3,510)	-	-	-
3.3 Losses recognised in:	-	-	-	-	-	-	-	-
3.3.1 Profit or loss	(14,053)	(91)	-	(13,962)	(6)	-	-	-
- including losses	(91)	(91)	-	-	(6)	-	-	-
3.3.2 Equity	-	X	X	X	-	-	-	-
3.4 Transfers to other levels	-	-	-	-	-	-	-	-
3.5 Other decreases	(41,055)	-	-	(41,055)	-	-	-	-
4. Closing balance	**121,667**	**638**	**-**	**121,029**	**-**	**-**	**-**	**-**

Other decreases mostly refer to the Fairway securities, which are fully consolidated as of 1 January 2020, after Credito Fondiario S.p.A. became master servicer, while it already held 100% of the notes issued by the vehicle in 2019.

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)

	31.12.2020				31.12.2019			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Financial assets at amortised cost	622,415	107,901	-	518,296	1,114,427	135,779	-	861,096
2. Investment property	-	-	-	-	-	-	-	-
3. Non-current assets held for sale and disposal groups	868,575	-	-	868,575	-	-	-	-
Total	**1,490,989**	**107,901**	**-**	**1,386,870**	**1,114,427**	**135,779**	**-**	**861,096**
1. Financial liabilities at amortised cost	952,606	-	-	952,597	1,096,494	-	-	1,187,586
2. Liabilities associated with disposal groups	340,633	-	-	340,630	-	-	-	-
Total	**1,293,239**	**-**	**-**	**1,293,227**	**1,096,494**	**-**	**-**	**1,187,586**

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)

	31.12.2020	31.12.2019
a) Cash	3	4
b) Demand deposits with central banks	93,142	72,871
Total	**93,145**	**72,875**

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. The caption's significant balance is due to the available liquidity invested in this account (€93,142 thousand).

Section 2

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

2.1 Financial assets held for trading: breakdown by type

(€'000)

	31.12.2020			31.12.2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
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	-	-	638	-	-	729
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	**-**	**-**	**638**	**-**	**-**	**729**
Total (A+B)	**-**	**-**	**638**	**-**	**-**	**729**

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)

Voci/Valori	31.12.2020	31.12.2019
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	638	729
Total B	**638**	**729**
Total (A+B)	**638**	**729**

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

(€'000)

	31.12.2020			31.12.2019		
	L1	L2	L3	L1	L2	L3
1. Debt instruments						
1.1 Structured	-	-	-	-	-	-
1.2 Other	-	-	120,754	-	-	162,010
2. Equity instruments	-	-	275	-	-	273
3. OEIC units	-	-	-	-	-	-
4. Financing	-	-		-	-	
4.1 Reverse repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total	**-**	**-**	**121,029**	**-**	**-**	**162,283**

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 €275 thousand issued by Banca Carige;
• ABS of non-consolidated securitisations of €120,754 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)

	31.12.2020	31.12.2019
1. Equity instruments		
of which: banks	-	-
of which: other financial companies	275	273
of which: non-financial companies	-	-
2. Debt instruments		
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	120,754	162,010
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	**121,029**	**162,283**

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)

	31.12.2020			31.12.2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt instruments	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Structured	-	-	-	-	-	-
1.2 Other	-	-	-	3,514	-	-
2. Equity instruments	**-**	**-**	**-**	**-**	**-**	**-**
3. Financing	**-**	**-**	**-**	**-**	**-**	**-**
Total	**-**	**-**	**-**	**3,514**	**-**	**-**

During 2020, the group sold the HTCS securities purchased for treasury purposes.

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

(€'000)

	31.12.2020	31.12.2019
1. Debt instruments		
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	3,514
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**

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

(€'000)

	Gross carrying amount				Total impairment losses			Partial/ total write-offs(*)
	Stage 1	of which: instruments with a low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt instruments	-	-	-	-	-	-	-	-
Financing	-	-	-	-	-	-	-	-
Total 31.12.2020	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total 31.12.2019	**3,514**	**-**	**-**	**-**	**(2)**	**-**	**-**	**-**
of which: purchased or originated credit-impaired financial assets	X	X	-	-	X	-	-	-

* To be shown for disclosure purposes

During 2020, the group sold the HTCS securities purchased for treasury purposes.

3.3a Financial assets at fair value through other comprehensive income subject to Covid-19-related measures: gross carrying amount and total impairment losses

None.

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)

	31.12.2020						31.12.2019					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Stages 1 and 2	Stage 3	of which: purchased or originated credit-impaired	L1	L2	L3	Stages 1 and 2	Sta-ge 3	of which: purchased or originated credit-impaired	L1	L2	L3
A. Loans and receivables with central banks												
1. Term deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Minimum reserve	2,545	-	-	X	X	X	2,429	-	-	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 demand deposits	72,997	-	-	X	X	X	88,904	-	-	X	X	X
1.2. Term deposits	-	-	-	X	X	X	20,000	-	-	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	521	-	-	X	X	X	6,799	-	-	X	X	X
2. Debt instruments												
2.1 Structured	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other	-	-	-	-	-	-	-	-	-	-	-	-
Total	**76,063**	**-**	**-**	**-**	**-**	**76,063**	**118,132**	**-**	**-**	**-**	**-**	**118,132**

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 demand deposits" include liquidity deposited in the SPVs' current accounts up to the payment dates provided for by the related securitisations.

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

(€'000)

	31.12.2020						31.12.2019					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Stages 1 and 2	Stage 3	of which: purchased or originated credit-impaired	L1	L2	L3	Stages 1 and 2	Stage 3	of which: purchased or originated credit-impaired	L1	L2	L3
Financing												
1.1. Current accounts	20,384	10,810	10,810	X	X	X	23,604	48,421	48,421	X	X	X
1.2. Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
1.3. Loans	37,057	93,763	128,444	X	X	X	44,937	298,423	340,005	X	X	X
1.4. Credit cards, personal loans and salary-backed loans	178	-	-	X	X	X	229	2,124	2,124	X	X	X
1.5. Net investments in leases	7,760	69,576	67,760	X	X	X	7,138	274,510	271,912	X	X	X
1.6. Factoring	-	-	-	X	X	X	-	-	-	X	X	X
1.7. Other financing	118,636	68,221	68,578	X	X	X	84,714	50,201	91,072	X	X	X
Debt instruments												
1.1. Structured	-	-	-	-	-	-	-	-	-	-	-	-
1.2. Other	119,967	-	-	107,901	-	13,264	161,995	-	-	135,779	-	26,795
Total	**303,983**	**242,369**	**275,592**	**107,901**		**13,264**	**322,617**	**673,680**	**753,534**	**135,779**		**26,795**

Loans and receivables with customers amount to €546,352 thousand, net of impairment losses. The caption is net of loss allowances of €37,190 thousand.

Debt instruments include senior securities of €12,845 issued by non-consolidated securitisation vehicles.

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

(€'000)

	31.12.2020			31.12.2019		
	Stages 1 and 2	Stage 3	of which: purchased or originated credit-impaired	Stages 1 and 2	Stage 3	of which: purchased or originated credit-impaired
1. Debt instruments						
a) Public administrations	107,122	-	-	135,034	-	-
b) Other financial companies	12,845	-	-	26,961	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	-	-	-	-	-	-
2. Financing to:						
a) Public administrations	88,062	62,550	62,550	40,645	-	40,645
b) Other financial companies	20,384	20,176	20,166	40,149	4,069	4,069
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	39,463	123,858	122,400	37,407	506,852	505,171
d) Households	36,107	35,785	70,475	42,420	162,759	203,649
Total	**303,983**	**242,369**	**275,592**	**322,616**	**673,680**	**753,534**

Financing to public administrations include the tax assets purchase by the vehicles Convento SPV S.r.l. and Fairway S.r.l. (stage 1) and the past due trade receivables purchased by the vehicle Liberio SPV S.r.l. (stage 3).

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

(€'000)

	Gross carrying amount				Total impairment losses			Partial/ total write-offs*
	Stage 1		Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
		of which: instruments with a low credit risk						
Debt instruments	120,213	-	-	-	(246)	-	-	-
Financing	222,510	-	34,213	282,458	(1,146)	4,503	(40,089)	(1,176)
Total 31.12.2020	**342,723**	**-**	**34,213**	**282,458**	**(1,393)**	**4,503**	**(40,089)**	**(1,176)**
Total 31.12.2019	**417,214**	**-**	**12,724**	**766,156**	**8,765**	**2,045**	**(92,477)**	**(7,388)**
of which: purchased or originated credit-impaired financial assets	X	X	32,433	278,478	X	4,610	(40,060)	(1,176)

(*) To be shown for disclosure purposes

4.4A Financial assets at amortised cost subject to Covid-19-related measures: gross carrying amount and total impairment losses

(€'000)

	Gross carrying amount				Total impairment losses			Partial/ total write-offs(*)
	Stage 1		Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
		of which: instruments with a low credit risk						
1. EBA-compliant moratoria	4,775	-	4,752	2,949	(104)	366	(193)	-
2. Other forbearance measures	-	-	4,098	4,355	-	1,183	412	-
3. New financing	-	-	-	-	-	-	-	-
Total (T)	**4,775**	**-**	**8,850**	**7,304**	**(104)**	**1,549**	**219**	**-**
Total (T-1)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Section 5

Hedging derivatives – Caption 50

None.

Section 6

Macro-hedged financial assets - Caption 60

None.

Section 9

Property, equipment and investment property – Caption 90

9.1 Property and equipment: assets measured at cost

(€'000)

	31.12.2020	31.12.2019
1. Owned	**239**	**1,567**
a) land	-	-
b) buildings	-	-
c) furniture	205	619
d) electronic systems	-	-
e) other	34	948
2. Right-of-use	**1,068**	**7,732**
a) land	-	-
b) buildings	1,017	7,667
c) furniture	-	-
d) electronic systems	-	-
e) other	51	65
Total	**1,307**	**9,299**
of which: obtained through enforcement of guarantees received	-	-

This caption comprises the right-of-use assets of €1,068 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	**-**	**8,916**	**1,298**	**-**	**2,403**	**12,618**
A.1 Accumulated depreciation and net impairment losses	-	(1,249)	(679)	-	(1,391)	(3,320)
A.2 Net opening balance	**-**	**7,667**	**619**	**-**	**1,013**	**9,299**
B. Increases:	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Purchases	-	-	437	-	285	722
B.2 Capitalised improvement costs	-	-	-	-	-	-
B.3 Reversals of impairment losses	-	-	-	-	-	-
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	-	-	486	-	-	486
C. Decreases:	**-**	**-**	**-**	**-**	**-**	**-**
C.1 Sales	-	-	(9)	-	-	(9)
C.2 Depreciation	-	(290)	(37)	-	(54)	(381)
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	-	(5,542)	(1,302)	-	(413)	(7,257)
C.7 Other decreases	-	(818)	(90)	-	(645)	(1,553)
D. Net closing balance	**-**	**1,017**	**104**	**-**	**186**	**1,307**
D.1 Accumulated depreciation and net impairment losses	-	(487)	(184)	-	(274)	(945)
D.2 Gross closing balance	**-**	**1,504**	**288**	**-**	**460**	**2,252**
E. Measurement at cost	**-**	**1,504**	**288**	**-**	**460**	**2,252**

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.

As required by IFRS 16.53.h), it is noted that the group companies did not make any significant additions to their right-of-use assets as lessees.

Transfers to non-current assets held for sale and disposal groups show those assets reclassified thereto as they are covered by the demerger plan.

Section 10

Intangible assets – Caption 100

10.1 Intangible assets: breakdown by asset

(€'000)

	31.12.2020		31.12.2019	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	**x**	**906**	**x**	**67,408**
A.1.1 attributable to the owners of the parent	-	906	-	67,408
A.1.2 attributable to non-controlling interests	-	-	-	-
A.2 Other intangible assets	**192**	**-**	**96,695**	**-**
A.2.1 Assets measured at cost:	192	-	96,695	-
a) internally developed assets	-	-	-	-
b) other	192	-	96,695	-
A.2.2 Assets measured at fair value:	-	-	-	-
a) internally developed assets	-	-	-	-
b) other	-	-	-	-
Total	**192**	**906**	**96,695**	**67,408**

Goodwill of €906 thousand relates to:
• the acquisition of Be Credit Management (€0.8 million);
• goodwill recognised by Be Credit Management S.p.A. (€0.1 million).

The other intangible assets relate to software (€192 thousand).

10.2 Intangible assets: changes

(€'000)

	Goodwill	Other intangible assets: internally-generated		Other intangible assets: other		Total
		FINITE	INDEF.	FINITE	INDEF.	
A. Opening balance	**67,408**	**-**	**-**	**114,760**	**-**	**182,168**
A.1 Accumulated amortisation and net impairment losses	-	-	-	(18,066)	-	(18,066)
A.2 Net opening balance	**67,408**	**-**	**-**	**96,694**	**-**	**164,102**
B. Increases	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Purchases	-	-	-	787	-	787
B.2 Increase in internally-generated assets	x	-	-	-	-	-
B.3 Reversals of impairment losses	x	-	-	-	-	-
B.4 Fair value gains:						
- through equity	x	-	-	-	-	-
- through profit or loss	x	-	-	-	-	-
B.5 Exchange rate gains	-	-	-	-	-	-
B.6 Other increases	-	-	-	11,627	-	11,627
C. Decreases	**-**	**-**	**-**	**-**	**-**	**-**
C.1 Sales	-	-	-	-	-	-
C.2 Impairment losses						
- Amortisation	x	-	-	(232)	-	(232)
- Impairment losses:						
+ equity	x	-	-	-	-	-
+ profit or loss	-	-	-	-	-	-
C.3 Fair value losses:	-	-	-	-	-	-
- through equity	x	-	-	-	-	-
- through profit or loss	x	-	-	-	-	-
C.4 Transfers to disposal groups	(66,502)	-	-	(108,684)	-	(175,186)
C.5 Exchange rate losses	-	-	-	-	-	-
C.6 Other decreases	-	-	-	(6,427)	-	(6,427)
D. Net closing balance	**906**	**-**	**-**	**192**	**-**	**1,098**
D.1 Accumulated amortisation and net impairment losses	-	-	-	(244)	-	(244)
E. Gross closing balance	**906**	**-**	**-**	**436**	**-**	**1,342**
F. Measurement at cost	906	-	-	436	-	1,342

Key
FINITE: finite life
INDEF.: 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 €2,182 thousand have mostly been recognised on carryforward tax losses (€1,579 thousand) and the ACE benefit (€199 thousand) estimated on the basis of the parent's demerger plan. 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 and the ACE benefit at 31 December 2018 and 2019.

The deferred tax assets of €395 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.

11.2 Deferred tax liabilities: breakdown

The group recognised deferred tax liabilities of €10,972 thousand on the consolidation adjustments and its share of the SPVs' profit or loss.

The decrease on the previous year end is mostly due to the reclassification of the deferred tax liabilities calculated on the intangible asset recognised after the acquisition of CF Liberty Servicing (€22,536 thousand) as liabilities associated with disposal groups.

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

(€'000)

	2020	2019
1. Opening balance	**32,304**	**17,924**
2. Increases		
2.1 Deferred tax assets recognised in the year		
a) related to previous years	-	20,799
b) due to changes in accounting policies	-	-
c) reversals of impairment losses	-	-
d) other	28,180	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)
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	-	-
b) other	(58,302)	-
4. Closing balance	**2,182**	**32,304**

In June 2020, the parent recognised deferred tax assets of €28,180 thousand after it had paid substitute taxes of €15,983 thousand to bring the carrying amount of certain intangible assets and goodwill it acquired in 2019 as part of its acquisition of a 70% investment in CF Liberty Servicing ("CFLS") into line with their tax base.

Moreover, in December 2020, the parent transformed deferred tax assets amounting to €23,970 thousand, calculated on carryforward tax losses, into current tax assets as per Decree law no. 18/2020, converted with amendments into Law no.27/2020 (the "Cura Italia" decree) and applicable to the assignment of exposures to Palatino SPV S.r.l. and Domizia SPV S.r.l.. Indeed, the parent assigned bank loan and lease portfolios to the two SPVs in December.

In addition to the above, "Other decreases b) other" comprise deferred tax assets through profit or loss of €34,369 thousand covered by the demerger plan.

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

(€'000)

	2020	2019
1. Opening balance	**1,513**	**1,513**
2. Increases	**-**	**-**
3. Decreases		
3.1 Reversals	-	-
3.2 Conversions into tax assets		
a) arising on losses for the year	-	-
b) arising on tax losses	-	-
3.3 Other decreases	(1,118)	-
4. Closing balance	**395**	**1,513**

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

(€'000)

	2020	2019
1. Opening balance	**32,670**	**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	171	25,509
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	(1,043)	(1,043)
b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Decrease in tax rates	-	-
3.3 Other decreases	(20,825)	-
4. Closing balance	**10,972**	**32,670**

11.6 Changes in deferred tax assets (recognised in equity)

(€'000)

	2020	2019
1. Opening balance	**24**	**11**
2. Increases	-	-
2.1 Deferred tax assets recognised in the year		
a) related to previous years	-	-
b) due to changes in accounting policies	-	-
c) other	11	13
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases	**-**	**-**
3.1 Deferred tax assets 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	(26)	-
4. Closing balance	**9**	**24**

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	3,576
2	Virtual stamp duty paid on account	3,656
3	IRAP from conversion of ACE tax asset	115
4	Asset as per Law no. 214/2011 on the conversion of deferred tax assets	70
6	IRAP from reverse merger	92
7	IRES from reverse merger	22
8	VAT	1,712
9	IRES paid on account	7
10	Assets as per the Cura Italia decree	6,263
11	Recoverable substitute tax	32
	Total	**15,545**

Section 12 Non-current assets held for sale, disposal groups and associated liabilities – Caption 120 of assets and Caption 70 of liabilities

12.1 Non-current assets held for sale and disposal groups: breakdown by asset

(€'000)

	31.12.2020	31.12.2019
A. Assets held for sale	-	-
A.1 Financial assets	-	-
A.2 Equity investments	-	-
A.3 Property, equipment and investment property	-	-
of which: obtained through enforcement of guarantees received	-	-
A.4 Intangible assets	-	-
A.5 Other non-current assets	-	-
Total A	**-**	**-**
of which: at cost	-	-
of which: at fair value level 1	-	-
of which: at fair value level 2	-	-
of which: at fair value level 3	-	-
B. Disposal groups	-	-
B.1 Financial assets at fair value through profit or loss	-	-
- held for trading	-	-
- designated at fair value	-	-
- mandatorily measured at fair value	-	-
B.2 Financial assets at fair value through other comprehensive income	-	-
B.3 Financial assets at amortised cost	644,884	-
B.4 Equity investments	6	-
B.5 Property, equipment and investment property	7,257	-
of which: obtained through enforcement of guarantees received	-	-
B.6 Intangible assets	152,186	-
B.7 Other assets	64,242	-
Total B	**868,575**	**-**
of which: at cost	868,575	-
of which: at fair value level 1	-	-
of which: at fair value level 2	-	-
of which: at fair value level 3	-	-

Table 12.1 continues

(€'000)

	31.12.2020	31.12.2019
C. Liabilities associated with assets held for sale	-	-
C.1 Financial liabilities	-	-
C.2 Securities	-	-
C.3 Other liabilities	-	-
Total C	**-**	**-**
of which: at cost	-	-
of which: at fair value level 1	-	-
of which: at fair value level 2	-	-
of which: at fair value level 3	-	-
D. Liabilities associated with disposal groups	-	-
D.1 Financial liabilities at amortised cost	291,891	-
D.2 Financial liabilities held for trading	-	-
D.3 Financial liabilities at fair value through profit or loss	-	-
D.4 Provisions	-	-
D.5 Other liabilities	48,742	-
Total D	**340,633**	**-**
of which: at cost	340,633	-
of which: at fair value level 1	-	-
of which: at fair value level 2	-	-
of which: at fair value level 3	-	-

As discussed in more detail in the "Approval of Project 3.0" section of the directors' report, in 2020, the parent formalised Project 3.0, which sets out its plans to demerge and sell assets that qualify as a disposal group under IFRS 5, i.e., a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction and the liabilities directly associated with those assets. At the date of preparation of these consolidated financial statements, the project's implementation is highly probable, given the parent's board of directors' resolution of 24 June 2020 approving the application to be submitted to Bank of Italy for its authorisation (submitted on 1 March 2021). The transaction should be closed within 12 months of 31 December 2020. Therefore, the assets, liabilities, revenue and costs associated with the disposal group have been reclassified into the specific statement of financial position and income statement captions in order to comply with IFRS 5.

The reclassifications were made on the basis of the project approved by the board of directors on 24 June 2020 and the estimates available at the date of preparation of these consolidated financial statements. The assumptions used are described below.

Specifically, the servicing business will no longer be part of the group's operations. All the related assets and associated income and expense have been reclassified into the relevant statement of financial position and income statement captions. They include trade receivables for the fees received by the parent for its role as corporate, master and special servicer as well as other roles; the investments in CF Master Servicing S.p.A., CF Asset Management S.p.A., CF Special Servicing, CF Liberty Servicing, LeaseCo One, LeaseCo Europa and those in the securitisation vehicles part of the VAT group and included in the disposal group; the intangible assets (goodwill and other intangible assets) related to the Gerica servicing platform, acquired from Banca Carige in 2018; software used to perform servicing activities; deferred tax assets related to the substitute tax paid on the other intangible assets and goodwill recognised in the consolidated financial statements on the acquisition of 70% of CF Liberty Servicing to bring their carrying amount into line with their tax base.

The notes and/or loans of the vehicles Tiberina, Palatino and Domizia will be transferred as part of the demerger project, possibly after their restructuring. This may happen before the demergers and is an essential part thereof.

With respect to the other assets and liabilities, they were reclassified using criteria deemed appropriate at the date of preparation of these consolidated financial statements given the number of resources allocated to the disposal group (property, equipment and investment property, post-employment benefits and liabilities for employees) or on a proportionate basis considering the vehicles' equity (current and deferred tax assets and liabilities).

With respect to the income statement, all the items specifically related to the servicing business (mostly fee and commission income and expense, amortisation, depreciation and impairment losses on property, equipment and investment property and intangible assets and other operating costs) and the equity investments that will be excluded from the group's consolidation scope (interest income, fair value gains and losses and expected credit losses) were reclassified to the profit from discontinued operations. Personnel expenses were recognised in line with the resources allocated to the disposal group while the administrative expenses were allocated directly to the cost centres, when possible or in line with specific drivers (pro rata to personnel or based on revenue).

Based on the assumptions described earlier, the following items were reclassified to non-current assets held for sale and disposal groups for €868.6 million in the consolidated financial statements:
• loans and receivables with customers of €553.8 million, relating to the Palatino portfolio (€234.9 million, the Domizia portfolio (€185.2 million), the Tiberina portfolio (€110.6 million) and the parent's and CF Liberty Servicing's trade receivables for servicing fees already invoiced or yet to be invoiced (€23.1 million);
• loans and receivables with banks of €91 million, comprising the portion of the parent's liquidity that is expected to be transferred to the disposal group (€23 million) as well as that of CF Liberty Servicing and the vehicles Palatino, Domizia and Tiberina;
• the equity investments in the companies that will be transferred (€6 thousand);
• property, equipment and investment property and intangible assets of €152.2 million, including goodwill of €66.5 million and other intangible assets of €85 million;
• deferred tax assets of €34.4 million, which include those arising on the alignment of the investee CFLS' carrying amounts with their tax bases (€34.4 million) and those on carryforward tax losses (€4.5 million);
• current tax assets of €18.3 million, including the converted deferred tax assets mentioned earlier (€17.7 million).

Liabilities associated with assets held for sale of €340.6 million include:
• liabilities at amortised cost of €291.9 million, including those relating to repurchase agreements for securities being disposed of (€79.4 million), Domizia's senior securities subscribed by third parties (€78.3 million), bank loans (€42 million) and leases (€5.6 million);
• deferred tax liabilities of €0.5 million associated with Gerica's goodwill;
• other liabilities of €23.6 million, including those relating to post-employment benefits (€3.7 million), other employee benefits (€19.9 million) and trade payables associated with the disposal group (most of the remainder).

A breakdown of financial assets at amortised cost that are part of the disposal group by risk stage is as follows:

(€'000)

	Gross carrying amount				Total impairment losses		
	Stage 1	of which: instruments with a low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Debt instruments	-	-	-	-	-	-	-
Financing	114,520	-	933	532,167	(319)	(202)	(2,215)
Total 31/12/2020	**114,520**	**-**	**933**	**532,167**	**(319)**	**(202)**	**(2,215)**
of which: purchased or originated credit-impaired financial assets	x	x	933	532,167	x	(202)	(2,215)

Section 13 Other assets – Caption 130

13.1 Other assets: breakdown

(€'000)

	31/12/2020	31/12/2019
Advance for subscription of ABS	50	-
Contribution to the assets earmarked for a specific business: "Cube Gardenia"	-	100
Contribution to the assets earmarked for a specific business: "Este"	-	50
Contribution to the assets earmarked for a specific business: "Gimli"	-	50
"Cube" intercreditor agreement	12,396	7,399
Deposit for Liberty transaction	-	-
Grants for subsidised loans	118	4
Amounts due from INPS	-	62
Loans and receivables with assets earmarked for a specific business: "Cube Gardenia"	-	-
Loans and receivables with assets earmarked for a specific business: "Este"	-	96
Guarantee deposits	90	139
Coins	-	4
Loans and receivables with assets earmarked for a specific business: leases	5,016	-
Prepayments and accrued income	274	4,313
Other	809	5,684
Total	**18,753**	**17,901**

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)

	31.12.2020				31.12.2019			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Due to central banks	**-**	**x**	**x**	**x**	**-**	**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	-	x	x	x
2.3 Financing	-	x	x	x	-	x	x	x
2.3.1 Repurchase agreements	77,853	x	x	x	142,029	x	x	x
2.3.2 Other	70,673	x	x	x	79,857	x	x	x
2.4 Commitments to repurchase own equity instruments	-	x	x	x	-	x	x	x
2.5 Lease liabilities	-	x	x	x	749	x	x	x
2.6 Other financial liabilities	21,568	x	x	x	23,019	x	x	x
Total	**170,094**			**170,094**	**245,654**			**245,654**

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

The repurchase agreements of €77,853 thousand refer to funding with ABS given as security.

"Financing - Other" comprises drawdowns of committed credit lines of €70,673 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 (€3,141 thousand) and the portfolios purchased by the SPVs Ponente and New Levante (€17,637 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)

	31.12.2020				31.12.2019			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1 Current accounts and demand deposits	25,324	x	x	x	14,297	x	x	x
2 Term deposits	736,344	x	x	x	684,481	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	1,176	x	x	x	7,487	x	x	x
6 Other financial liabilities	16,465	x	x	x	34,072	x	x	x
Total	**779,309**			**779,309**	**740,337**			**740,337**

Key:
CA=Carrying amount
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 (€25,324 thousand).

The term deposits continue to grow strongly due to the increasing popularity of the parent's 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 €730,572 thousand (31 December 2019: €678,908 thousand, deposits for which the time deposit letter had not been signed of €25,324 thousand and accrued interest of €3,264 thousand. Due to customers includes 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 of works on behalf of a vehicle. The balance also comprises deposits for the sale of leases securing loans of €140 thousand.

The caption includes lease liabilities recognised in accordance with IFRS 16 (€1,176 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)

	31.12.2020				31.12.2019			
	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 structured	-	x	x	x	-	x	x	x
1.2 other	3,203	x	x	3,194	110,503	x	x	110,594
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	**3,203**			**3,194**	**110,503**			**110,594**

Securities issued include the notes issued by the SPVs and subscribed by third party companies and, specifically, 5% of the notes issued by Liberio SPV S.r.l..

1.4 Breakdown of subordinated liabilities/junior securities

Securities issued are comprised of the junior notes of €3,203 thousand issued by Liberio SPV S.r.l. and subscribed by a third party investor (they account for 5% of the junior notes issued by the SPV).

1.5. Breakdown of structured liabilities

None.

1.6 Lease liabilities

The group's lease liabilities amount to €1,176 thousand at the reporting date and principally relate to leases of the group companies' offices and, for the remainder, company cars.

Section 3

Financial liabilities at fair value through profit or loss – Caption 30

3.1 Financial Liabilities at fair value through profit or loss: breakdown by type

(€'000)

	31.12.2020					31.12.2019				
	Nominal amount	Fair value			Fair Value (*)	Nominal amount	Fair value			Fair Value (*)
		L1	L2	L3			L1	L2	L3	
1. Due to banks	-	-	-	-	x	-	-	-	-	x
1.1. structured	-	-	-	-	x	-	-	-	-	x
1.2. other, including:	-	-	-	-	x	-	-	-	-	x
- loan commitments	-	x	x	x	x	-	x	x	x	x
- financial guarantees given	-	x	x	x	x	-	x	x	x	x
2. Due to customers	-	-	-	-	x	-	-	-	-	x
2.1 structured	-	-	-	-	x	-	-	-	-	x
2.2 other, including:	2,696	-	-	2,696	x	-	-	-	-	x
- loan commitments	-	-	-	-	x	-	-	-	-	x
- financial guarantees given	-	-	-	-	x	-	-	-	-	x
3. Debt instruments	-	-	-	-	x	-	-	-	-	x
3.1 structured	-	-	-	-	x	-	-	-	-	x
3.2 other	-	-	-	-	x	-	-	-	-	x
TOTAL	**2,696**	**-**	**-**	**2,696**	**-**	**-**	**-**	**-**	**-**	**-**

Key

Fair value* = calculated excluding gains or losses caused by variations in the issuer's credit rating from the issue date

Section 6

Tax liabilities – Caption 60

See section 11 of Assets.

Section 8

Other liabilities – Caption 80

8.1 Other liabilities: breakdown

(€'000)

	31/12/2020	31/12/2019
Amounts to be credited to current accounts	-	63
Remuneration due to employees	1,067	12,005
VAT liability	-	306
Social security contributions to be paid	404	2,422
Sundry liabilities for the on-line term deposit account product	5,842	4,838
Sundry investment liabilities	-	852
Sundry lease liabilities	3,648	3,098
Sundry amounts due to SPVs	-	90
Amounts due to Cassa Depositi e Prestiti	-	-
Trade payables	5,274	15,073
Trade payables from merger	-	144
Amounts due to "Gimli"	-	32
Accrued expenses and deferred income	-	354
Withholding taxes to be paid	245	1,184
Amounts due to SPVs for promissory note planning	-	-
Purchase suspense account	-	5,558
Collection suspense account	1,406	1,145
Sums to be settled	3,100	-
Guarantee deposits	3,575	142
Other liabilities	142	928
Total	**24,703**	**48,235**

Section 9

Post-employment benefits – Caption 90

9.1 Post-employment benefits: changes

(€'000)

	2020	2019
A. Opening balance	**4,079**	**2,343**
B. Increases	**-**	**2,712**
B.1 Accruals	199	951
B.2 Other increases	-	1,761
C. Decreases	**3,847**	**976**
C.1 Payments	194	976
C.2 Other decreases	3,653	-
D. Closing balance	**431**	**4,079**
Total	**431**	**4,079**

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 0.40% (31 December 2019: 0.75%);
- expected inflation rate of 1% (31 December 2019: 1%).

Section 10

Provisions for risks and charges – Caption 100

10.1 Provisions for risks and charges: breakdown

(€'000)

	31.12.2020	31.12.2019
1. Provisions for credit risk for loan commitments and financial guarantees given	-	-
2. Provisions for other commitments and other guarantees given	-	-
3. Internal pension funds	-	-
4. Other provisions		
4.1 legal and tax disputes	1,416	1,712
4.2 personnel	4	97
4.3 other	-	49
Total	**1,420**	**1,858**

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	**-**	**-**	**1,858**	**1,858**
B. Increases				
B.1 Accruals	-	-	144	144
B.2 Changes due to passage of time	-	-	-	-
B.3 Changes due to variations in discount rate	-	-	-	-
B.4 Other increases	-	-	4	4
C. Decreases				
C.1 Utilisations	-	-	14	14
C.2 Changes due to variations in discount rate	-	-	-	-
C.3 Other decreases	-	-	572	572
D. Closing balance	**-**	**-**	**1,420**	**1,420**

10.6 Provisions for risks and charges - other provisions

These provisions comprise:

	Amount
Provision for legal fees	€851 thousand
Provision for amounts to be returned to courts	€24 thousand
Provision for litigation	€542 thousand
Other provisions	€3 thousand
Total	**1,420 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.

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 54,189,669 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	**37,785**	**-**
- fully paid-up	37,785	-
- not fully paid-up	-	-
A.1 Treasury shares (-)	-	-
A.2 Outstanding shares: opening balance	**37,785**	**-**
B. Increases	**-**	**-**
B.1 New issues	-	-
- against payment:	16,405	-
- business combinations	-	-
- bond conversions	-	-
- exercise of warrants	-	-
- other	-	-
- bonus:	-	-
- for employees	-	-
- for directors	-	-
- other	-	-
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	**54,190**	**-**
D.1 Treasury shares (+)	-	-
D.2 Closing balance	-	-
- fully paid-up	-	-
- 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 equity reserve are described below:
• Legal reserve: this legally-required reserve amounts to €4,070 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 €58,079 thousand and comprise prior year profits allocated thereto. Their objective is to protect the parent's financial solidity.
• IFRS 9 FTA reserve: this reserve of €6,074 thousand includes the negative reserve of €5,814 thousand, due to the restatement of the ABS with a different IRR depending on their class, and a negative reserve of €259 thousand, related to the different calculation of impairment losses compared to previous years.
• IFRS 9 reserve: this reserve includes the fair value loss of €5,656 thousand on the Carige shares sold early in 2018 as per IFRS 9.5.7.5.
• Capital injection reserve: this reserve of €13,950 thousand originally included the €52,862 thousand injection by the former shareholder EPAL as per the agreement to sell its shares of the parent in 2013 and €2,693 thousand received on 7 February 2014 as the adjustment, net of utilisation of the reserve to cover the 2013-2017 losses of €41,605 thousand. In 2019, Tiber Investments s.à r.l. injected €120,000 thousand in conjunction with the acquisition of the investment in CFLS, which was converted into share capital and share premium during 2020;
• the consolidated companies' income-related reserves of €15,459 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 €243,578 thousand. During the year, it increased by €103,595 thousand as a result of the above-mentioned capital increase.

Section 14 - Equity attributable to non-controlling interests – Caption 190

(€'000)

	31.12.2020	31.12.2019
Investments in subsidiaries with significant non-controlling interests	**19,999**	**18,646**
CF Liberty Servicing S.p.A.	19,999	18,572
Be Credit Management S.p.A.	-	74
Other equity investments (SPVs)	**115**	**59**
Total	**20,114**	**18,705**

Equity attributable to non-controlling interests relates to CF Liberty Servicing S.p.A. and Be Credit Management S.p.A..

Other information

6. 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 consolidated companies	-
2. Other securities	-
b) third party securities on deposit (excluding asset management): other	-
1. Securities issued by consolidated companies	-
2. Other securities	-
c) third party securities deposited with third parties	9,892
d) securities owned by the group deposited with third parties	957,401
4. Other	**-**

At 31 December 2020, 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	2020	2019
1. Financial assets at fair value through profit or loss:	**9,910**	**-**	**-**	**9,910**	**10,147**
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	9,910	-	-	9,910	10,147
2. Financial assets at fair value through other comprehensive income	**3**	**-**	**x**	**3**	**85**
3. Financial assets at amortised cost:	**4,329**	**43,272**	**-**	**47,601**	**90,873**
3.1 Loans and receivables with banks	-	5	x	5	836
3.2 Loans and receivables with customers	4,329	43,267	x	47,596	25,810
4. Hedging derivatives	**x**	**x**	**-**	**-**	**-**
5. Other assets	**x**	**x**	**-**	**-**	**-**
6. Financial liabilities	**x**	**x**	**x**	**-**	**-**
Total	**14,242**	**43,272**	**-**	**57,514**	**36,878**
including: interest income on credit-impaired financial assets	-	28,073	-	28,073	26,443
including: interest income on finance leases	-	10,301	x	10,301	4,987

Interest income of €57,514 thousand includes gains on investments (mainly financing) of €43,272 thousand and interest accrued on non-consolidated ABS of €12,115 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 tran-sactions	2020	2019
1. Financial liabilities at amortised cost					
1.1 Due to central banks	-	x	-	-	39
1.2 Due to banks	560	x	-	560	657
1.3 Due to customers	18,093	x	-	18,093	14,938
1.4 Securities issued	x	4,058	-	4,058	2,309
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities at fair value through profit or loss	122	-	-	122	-
4. Other liabilities and provisions	x	x	-	-	-
5. Hedging derivatives	x	x	-	-	-
6. Financial assets	x	x	x	-	-
Total	**18,775**	**4,058**	**-**	**22,833**	**17,943**
including: interest expense on lease liabilities	32			32	408

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)

	2020	2019
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	-	-
e) servicing services for securitisations	249	420
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	700	1,218
Total	**949**	**1,638**

Fee and commission income earned on servicing activities relates to the group companies' services provided as part of the securitisations of third party portfolios.

Fee and commission income on other services comprise, inter alia, one-off commissions of €700 thousand.

2.3 Fee and commission expense: breakdown

(€'000)

	2020	2019
a) guarantees received	2	2
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	2,505	8
4. securities custody and administration	-	-
5. placement of financial instruments	-	-
6. off-premises distribution of financial instruments, products and services	10	37
d) collection and payment services	62	53
e) other services	166	1,383
Total	**2,745**	**1,483**

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 4

Net trading loss – Caption 80

4.1 Net trading loss: breakdown

(€'000)

	Unrealised gains (A)	Trading income (B)	Unrealised losses (C)	Trading losses (D)	Net loss [(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	-	-	(91)	-	(91)
- On currencies and gold	x	x	x	x	-
- Other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges associated with the fair value option	-	-	-	-	-
Total	**-**	**-**	**(91)**	**-**	**(91)**

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.

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Section 6

Net gain from sales/repurchases – Caption 100

6.1 Net gain from sales/repurchases: breakdown

(€'000)

	2020			2019		
	Gain	Loss	Net gain (loss)	Gain	Loss	Net gain (loss)
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)	**-**	**-**	**-**	**14**	**(5)**	**9**
B. Financial liabilities at amortised cost	**-**	**-**	**-**	**-**	**-**	**-**
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	-	-	-	-	-	-
Total liabilities (B)	**-**	**-**	**-**	**-**	**-**	**-**

Section 7

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

7.1 Net loss on other financial assets and liabilities at fair value through profit or loss: breakdown of financial assets and liabilities designated at fair value

(€'000)

	Unrealised gains (A)	Realised gains (B)	Unrealised losses (C)	Realised losses (D)	Net loss [(A+B) - (C+D)]
1. Financial assets					
1.1 Debt instruments	-	-	-	-	-
1.2 Financing	-	-	-	-	-
2. Financial liabilities					
2.1 Securities issued					
2.2 Due to banks	-	-	-	-	-
2.3 Due to customers	-	-	(2)	-	(2)
3. Foreign currency financial assets and liabilities: exchange gains (losses)	**x**	**x**	**x**	**x**	**x**
Total	**-**	**-**	**(2)**	**-**	**(2)**

The net loss of €2 thousand on amounts due to customers relates to the parent. Their fair value varies according to the collections of a group of loans and receivables included in a consolidated SPV's portfolio.

7.2 Net loss 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 loss [(A+B) - (C+D)]
1. Financial assets					
1.1 Debt instruments	14,290	-	(14,491)	-	(201)
1.2 Equity instruments	2	-	-	-	2
1.3 OEIC units	-	-	-	-	-
1.4 Financing	-	-	-	-	-
2. Foreign currency financial assets: exchange gains (losses)	**x**	**x**	**x**	**x**	**-**
Total	**14,292**	**-**	**(14,491)**	**-**	**(199)**

Financial assets mandatorily measured at fair value include the notes issued by non-consolidated securitisation vehicles that did not pass the SPPI test. The group recognised net fair value losses of €199 thousand on financial assets at fair value. They include the amendments to the business plans.

Section 8

Net impairment losses/gains – Caption 130

8.1 Net impairment losses for credit risk associated with financial assets at amortised cost: breakdown

(€'000)

	Impairment losses			Impairment gains (2)		2020	2019
	Stages 1 and 2	Stage 3					
		Write-offs	Other	Stages 1 and 2	Stage 3		
A. Loans and receivables with banks							
- financing	(219)	-	-	-	-	**(219)**	**218**
- debt instruments	-	-	-	-	-	**-**	**-**
of which: purchased or originated credit-impaired	-	-	-	-	-	**-**	**-**
B. Loans and receivables with customers:	-	-	-	-	-	**-**	**-**
- financing	(4,115)	(1,176)	(23,696)	2,733	17,401	**(8,853)**	**(9,378)**
- debt instruments	(161)	-	-	1,088	-	**927**	**(77)**
of which: purchased or originated credit-impaired	(3,411)	(1,176)	(23,291)	2,733	17,398	**(7,747)**	**(18,130)**
C. Total	**(4,495)**	**(1,176)**	**(23,696)**	**3,821**	**17,401**	**(8,145)**	**(9,237)**

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

8.1.a Net impairment losses on financial assets at amortised cost subject to Covid-19-related measures: breakdown

(€'000)

	Impairment losses (1)			Impairment gains (2)		Total 2020	Total 2019
	Stages 1 and 2	Stage 3		Stages 1 and 2	Stage 3		
		Write-offs	Other				
1. EBA-compliant moratoria	(424)	(21)	(324)	164	-	**(605)**	**-**
2. Other forbearance measures	(367)	(244)	-	233	301	**(77)**	**-**
3. New financing	-	-	-	-	-	**-**	**-**
C. Total	**(791)**	**(265)**	**(324)**	**397**	**301**	**(682)**	**-**

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

(€'000)

	Impairment losses (1)			Impairment gains (2)		2020	2019
	Stages 1 and 2	Stage 3		Stages 1 and 2	Stage 3		
		write-off	Other				
A. Debt instruments	-	-	-	2	-	**2**	**5**
B. Financing:	-	-	-	-	-	**-**	**-**
- to customers	-	-	-	-	-	**-**	**-**
- to banks	-	-	-	-	-	**-**	**-**
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	**-**	**-**
C. Total	**-**	**-**	**-**	**-**	**-**	**2**	**5**

Section 12

Administrative expenses – Caption 190

12.1 Personnel expense: breakdown

(€'000)

	2020	2019
1) Employees		
a) wages and salaries	3,517	3,353
b) social security contributions	1,017	1,194
c) termination benefits	-	1
d) pension costs	10	-
e) accrual for post-employment benefits	198	163
f) accrual for pension and similar provisions:	-	-
- defined contribution plans	-	-
- defined benefit plans	-	-
g) payments to external supplementary pension funds:	-	-
- defined contribution plans	-	-
- defined benefit plans	-	-
h) costs of share-based payment plans	-	-
i) other employee benefits	377	1,304
2) Other personnel	-	-
3) Directors and statutory auditors	360	256
Total	**5,479**	**6,272**

Personnel expense amounts to €5,479 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	22
b) junior managers	187
c) other employees	171
Other personnel	-

At the reporting date, the group had 374 employees.

The portion of personnel expense attributable to discontinued operations has been reclassified to income statement caption 320 "Post-tax profit from discontinued operations".

12.4 Other employee benefits

(€'000)

	2020	2019
MBO bonuses	223	302
Other bonuses	56	89
Insurance policies	50	68
Healthcare	-	67
Canteen subsidy and lunch vouchers	20	57
Refresher courses	-	53
Other long-term benefits	-	601
Other	28	66
Total	**377**	**1,304**

12.5 Other administrative expenses: breakdown

(€'000)

	2020	2019
Business development, ICT development and due diligences	2,111	1,140
Taxes and duties	1,543	1,655
Professional services	690	844
Sundry consultancies	4,275	1,800
Insurance	569	13
Building leases and management fees	210	262
Payroll services	47	37
IT costs	1,406	1,173
Maintenance	1,405	1,498
Audit fees	471	113
Rating agency fees	144	82
Posting and telephone	300	277
Furniture and hardware leases and rentals	17	35
Cleaning and related supplies	122	93
Information services	330	222
Pro rata deductible/non-deductible VAT	276	144
Contribution to resolution funds	155	56
Advertising	73	97
Sundry lease costs	346	374
Contribution to the Interbank Deposit Protection Fund	964	530
DOL customer assistance	795	1,326
Other	1,657	2,728
Total	**17,905**	**14,499**

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 reversals of (accruals to) provisions for risks and charges – Caption 200

13.3 Net reversals of (accruals to) other provisions for risks and charges: breakdown

(€'000)

	2020	2019
Accrual to the restructuring provision	-	(3)
Reversal of (accrual to) the provision for litigation	331	(633)
Total	**331**	**(635)**

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 and equipment				
1 Property and equipment				
- owned	81	-	-	81
- right-of-use	300	-	-	300
2 Investment property				
- owned	-	-	-	-
- right-of-use	X	-	-	-
3 Inventories				
Total	**381**	**-**	**-**	**381**

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	232	-	-	232
A.2 Right-of-use	-	-	-	-
Total	**232**	**-**	**-**	**232**

Section 16

Other operating income, net – Caption 230

16.1 Other operating expense: breakdown

(€'000)

	2020	2019
Legal disputes	3,100	-
Irrecoverable VAT	-	-
Other	181	3
Total	**3,281**	**3**

16.2 Other operating income: breakdown

(€'000)

	2020	2019
Compensation for AUM transactions	-	-
Cost recoveries from vehicles	-	-
Recovery of social security contributions	51	30
Smaller prior year expense	852	-
Reimbursement of due diligence expenses	-	-
Sundry lease income	27	60
Cost recoveries on promissory note management	-	-
Legal cost recoveries	8	1
Cost recharges to CF Liberty	-	-
Other	468	375
Total	**1,406**	**467**

Section 21

Income taxes – Caption 300

21.1 Income taxes: breakdown

(€'000)

	2020	2019
1. Current taxes (-)	(95)	(1,876)
2. Change in current taxes from previous years (+/-)	-	-
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 (+/-)	(2,640)	4,435
5. Change in deferred tax liabilities (+/-)	-	-
6. Tax expense for the year (-) (-1+/-2+3+3bis+/-4+/-5)	(2,735)	2,559

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 22

Post-tax profit from discontinued operations – Caption 320

22.1 Post-tax profit from discontinued operations: breakdown

(€'000)

	2020	2019
1. Income	102,062	103,191
2. Expense	(58,616)	(51,378)
3. Net unrealised losses on the disposal group and associated liabilities	(39,819)	(32,550)
4. Net gains (losses) on sales	-	-
5. Taxes and duties	13,072	7,230
Net profit	**16,699**	**26,493**

The net profit from discontinued operations of €16.7 million includes:
• interest income of €56.5 million accrued on the portfolios included in the disposal group;
• interest expense accrued on the financial liabilities at amortised cost associated with the disposal group (€4.2 million);
• net impairment losses on the portfolios included in the disposal group (€26.5 million);
• net servicing fees of €41.4 million;
• operating costs of €63.6 million, comprising €3.2 million related to personnel expense associated with the disposal group, other administrative expenses of €21.5 million incurred for the discontinued operations, amortisation, depreciation and net impairment losses on property, equipment and investment property and intangible assets of €13.4 million and other income of €2.5 million;
• an income tax benefit of €13.1 million, arising from the aforesaid recognition of deferred tax assets following the payment of a substitute tax to bring the carrying amount of certain intangible assets and goodwill recognised after the acquisition of CFLS into line with their tax base.

Reference should be made to the "Approval of Project 3.0" and "Financial performance and position - Application of IFRS 5" sections of the directors' report and Section 4 "Other issues - Application of IFRS 5" of Part A and Section 11 "Non-current assets held for sale, disposal groups and associated liabilities" of Part B of these notes for additional information about Project 3.0 and key drivers.

A breakdown of impairment losses and gains on financial assets at amortised cost that are part of a disposal group under IFRS 5 by risk stage is as follows:

(€'000)

	Impairment losses (1)			Impairment gains (2)		2020	2019
		Terzo stadio					
	Stages 1 and 2	Write-off	Other	Stages 1 and 2	Stage 3		
A. Loans and receivables with banks	-	-	-	-	-	**-**	**-**
- financing	(8)	-	-	-	-	**(8)**	**-**
- debt instruments	-	-	-	-	-	**-**	**-**
of which: purchased or originated credit-impaired	-	-	-	-	-	**-**	**-**
B. Loans and receivables with customers:	-	-	-	-	-	**-**	**-**
- financing	(11,009)	(4,157)	(109,293)	9,299	88,707	**(26,453)**	**(20,994)**
- debt instruments	-	-	-	-	-	**-**	**-**
of which: purchased or originated credit-impaired	(10,972)	(4,157)	(109,293)	9,299	88,707	**(21,858)**	**(20,947)**
C. Total	**(11,017)**	**(4,157)**	**(109,293)**	**9,299**	**88,707**	**(26,461)**	**(20,994)**

22.2 Breakdown of income taxes on discontinued operations

(€'000)

	2020	2019
1. Current taxes (-)	(4,138)	(8,243)
2. Change in deferred tax assets (+/-)	15,135	14,259
3. Change in deferred tax liabilities (-/+)	2,075	1,214
4. Income tax benefit (-1+/-2+/-3)	**13,072**	**7,230**

Section 23

Profit for the year attributable to non-controlling interests – Caption 340

23.1 Profit for the year attributable to non-controlling interests

(€'000)

	2020	2019
Consolidated equity investments with significant non-controlling interests	-	-
CF Liberty Servicing S.p.A.	1,432	302
Be Credit Management S.p.A.	-	21
Other	21	-
Total	**1,432**	**323**

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

BREAKDOWN OF COMPREHENSIVE INCOME

(€'000)

		2020	2019
10.	**Profit for the year**	**12,873**	**40,576**
	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	(60)	(73)
80.	Non-current assets held for sale and disposal groups	-	-
90.	Share of valuation reserves of equity-accounted investees	-	-
100.	Related tax	16	-
	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)	(8)	37
	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**	**(52)**	**(36)**
200.	**Comprehensive income (captions 10 + 190)**	**12,821**	**40,541**
210.	Comprehensive income attributable to non-controlling interests	1,427	308
220.	**Comprehensive income attributable to the owners of the parent**	**11,394**	**40,233**

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 audit 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 also 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 a clear presentation of the group's total risk profile and its financial strength 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.

In order to provide comprehensive information, the actions taken by the group in 2020 to address the Covid-19 phenomenon are summarised below.

Specifically, following the spread of the coronavirus in Italy and the related risks and uncertainties concerning both public health and the group's strategic and business operations, the group took the following actions:
- in order to protect the health of all its personnel, customers and suppliers, Credito Fondiario implemented specific safety and monitoring protocols, introducing remote working as a precautionary measure;
- the Esagon promotional campaign for the funding service was launched solely in an online version;
- the possible impacts in terms of business process slowdowns as a result of both internal and external factors are constantly monitored by the group's management committees and governance bodies, in order to promptly update strategies and policies (including risk policies) in response to the changing context;
- the current and forward-looking internal capital and liquidity adequacy assessment processes (ICAAP and ILAAP) will be carried out taking into account the financial impacts of the spread of the coronavirus, in order to incorporate the most recent forecasting updates into the group's risk models; in addition, actions to restore viability will be tested in order to respond promptly, where necessary, with policies already in place;
- in accordance with Bank of Italy's request to financial institutions, the risk management department collected reports from all the parent's departments on any operating losses occurring after 1 March 2020 and attributable to Covid-19;
- Furthermore, the spread of Covid-19 did not lead to any significant changes in the pursuit of the group's objectives and strategies in 2020.

Reference should be made to the Pillar 3 report for the disclosure required by EBA guidelines of 2 June 2020.

Sezione 1 – RISCHIO DEL CONSOLIDATO CONTABILE

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	Other performing exposures	Non-performing exposures	Total
1. Financial assets at amortised cost	129,868	49,036	63,465	-	380,046	622,415
2. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-
3. Financial assets at fair value through profit or loss	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-	120,754	120,754
5. Financial assets held for sale	417,003	111,376	1,573	-	114,932	644,884
31.12.2020	**546,871**	**160,412**	**65,038**	**-**	**615,732**	**1,388,053**
31.12.2019	**602,163**	**70,161**	**1,356**	**-**	**606,272**	**1,279,952**

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

(€'000)

	Bad exposures	Unlikely to pay exposures	Non-performing past due exposures	Other performing exposures	Other non-performing exposures	Total
A. Financing at amortised cost	-	-	-	-	-	-
A.1 EBA-compliant moratoria	-	2,756	-	-	9,544	12,300
A.2 Other forbearance measures	18	5,176	73	-	5,282	10,549
A.3 New financing	-	-	-	-	-	-
B. Financing measured at fair value through other comprehensive income	-	-	-	-	-	-
B.1 EBA-compliant moratoria	-	-	-	-	-	-
B.2 Other forbearance measures	-	-	-	-	-	-
B.3 New financing	-	-	-	-	-	-
Total 31.12.2020	**18**	**7,932**	**73**	**-**	**14,826**	**22,849**
Total 31.12.2019	**-**	**-**	**-**	**-**	**-**	**-**

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	282,458	(40,089)	242,369	(1,176)	377,346	2,700	380,046	622,415
2. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-
3. Financial assets at fair value through profit or loss	-	-	-	-	x	x	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-	x	x	120,754	120,754
5. Financial assets held for sale	532,167	(2,215)	529,952	(4,157)	115,453	(521)	114,932	644,884
31.12.2020	**814,625**	**(42,304)**	**772,321**	**(5,333)**	**492,799**	**2,179**	**615,732**	**1,388,053**
31.12.2019	**766,156**	**(92,477)**	**673,679**	**(3,153)**	**433,457**	**10,805**	**606,272**	**1,279,951**

(€'000)

	Assets with poor credit quality		Other assets
	Accumulated losses	Carrying amount	Carrying amount
1. Financial assets held for trading	-	-	638
2. Hedging derivatives	-	-	-
31.12.2020	**-**	**-**	**638**
31.12.2019	**-**	**-**	**729**

* 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:

(€'000)

	Purchase price	Nominal amount	Difference
Bad exposures	651,704	3,672,659	3,020,955
Unlikely to pay exposures	160,264	406,674	246,410
Non-performing past due exposures	55,730	292,091	236,361
Performing exposures	28,785	60,082	31,297

B. Structured entities (other than securitisation vehicles)

Nothing to report.

Section 2 – PRUDENTIAL CONSOLIDATION RISK

1 Credit risk

QUALITATIVE DISCLOSURE

1. General information

Credit risk mostly arises on the parent's investments in securities, 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 2020 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.

On 26 April 2019, a new EU regulation governing pillar I treatment for NPEs became effective. This regulation complements existing prudential rules by requiring a deduction from own funds where NPEs are not sufficiently covered by provisions or other adjustments. To facilitate the smooth transition to the new prudential requirements, the regulation provides that the new rules will not apply to exposures originated before its effective date. The group is assessing the main financial, business and organisational impacts of this legislation on its operations.

As of 1 January 2021, the new definition of default set out in the European Regulation on prudential requirements for credit institutions and investment firms (article 178 of Regulation (EU) 575/2013) is expected to come into force. The new definition introduces criteria that are, in some cases, more stringent than those provided to date.

The definition of default concerns the way in which banks and financial intermediaries must classify customers for prudential purposes. The new definition of default provides that, for the purposes of calculating the minimum regulatory capital requirements for banks and financial intermediaries, debtors are classified as impaired (default) if at least one of the following conditions is met:
a) the obligor is more than 90 days (in some cases 180 days, e.g. government) in arrears on a material obligation;
b) the parent considers that it is unlikely that the obligor will perform its obligation in full without recourse to actions such as the enforcement of collaterals.
Condition b) is already in force and does not change in any way. With respect to condition a), a past due debt should be considered material when the amount of the arrears exceeds both of the following thresholds:
i) €100 for retail exposures and €500 for non-retail exposures (absolute materiality threshold);
ii) 1% of the total exposure to the counterparty (relative materiality threshold).

Once both thresholds are exceeded, 90 (or 180) consecutive days of past due status are counted, beyond which the debtor is classified as in default for the entire exposure. The main changes include the elimination of the possibility of offsetting past due amounts against existing and unused credit lines (available amounts). To do this, the debtor must take action, using the unused credit lines to make past due payments.

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;
- 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 analyses 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 recognise 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 fol-

lowing 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 rating agencies' 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 overdrawn/past due 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.

Impairment testing aims at identifying impairment losses due to deterioration in the counterparty's credit rating in a timely manner by using appropriate models to determine their amount.

Non-performing loans and receivables (bad, unlikely to pay and overdue or past due) are tested for impairment individually. The impairment loss is calculated by discounting the expected future cash flows of principal and interest net of recovery costs considering any guarantees.

1. 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.
2. The parent revises the business plans used for the measurement of the financial assets every six months or more frequently, if appropriate. The business plan review performed during 2020 was inevitably affected by the Covid-19 public health emergency, both in terms of recovery timing and amounts.
3. The group checks that the impairment losses 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, which account for the effects of the ongoing pandemic (court-appointed experts' appraisals, prices set for auctions and sales prices at auctions).
4. 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.

Impacts of the Covid-19 pandemic

With regard to the classification of exposures, the pandemic has primarily led to the need, recognised by the banking system and institutions (governments and regulators), to grant customers with performing exposures generalised measures to suspend payments (moratoria) with simplified procedures and without penalising those involved, i.e., banks and customers. These measures, partly governed by national rules and partly decided independently by banks, were subject to a specific regulation, summarised in the specific EBA Guidelines ("Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the Covid-19 crisis"). According to EBA, moratoria shall meet certain specific requirements; essentially they must:
- be offered indiscriminately by the parent to a range of parties (performing) or pursuant to legal requirements;
- not provide for a waiver of interest or principal, but merely a deferral/extension of payments.

Following the activation of an "EBA compliant" moratorium, the count of the past due days to identify past due loans is suspended (in particular the classification as non-performing past due). Since the moratorium is not automatically viewed as a forbearance measure, it is not a trigger for a significant increase in the credit risk that would lead to a reclassification from stage 1 to stage 2 under IFRS 9.

The parent has adopted the provisions of the legislation issued by the regulators (ECB, EBA, Bank of Italy), although only a few of its customers have applied for a moratorium.

Assessment of a significant increase in credit risk (SICR)
IFRS Foundation published "Covid-19 - Accounting for expected credit losses applying IFRS 9 Financial Instruments in the light of current uncertainty resulting from the Covid-19 pandemic", which, although it does not amend IFRS 9, provides an interpretation key in the current pandemic environment. It clarifies that entities should not continue to uncritically apply the existing methodology for determining ECL given the evident complexity of incorporating both pandemic effects and related government support into the models. Therefore, where banks are in this situation, post-model management adjustments are permitted.

The group's granting of loan moratoria to customers did not automatically mean that all their contracts have undergone a significant increase in credit risk (SICR).

Measurement of expected credit losses
IFRS 9 requires an entity to consider relevant forward looking information when measuring credit impairment and not only historical and current information, as it deems that it can affect the recoverability of the credit exposures.

Accordingly, the group considered the following:
• its update of the macro-economic scenarios, using a base and an adverse scenario, which reflect the high uncertainty regarding the negative effects of Covid-19 on the real economy and financial markets. In particular, the real GDP forecasts for the base scenario are derived from the European Commission's update of the Economic forecast for Italy (November 2020), while those for the adverse scenario are taken from the Bank of Italy's June 2020 Macroeconomic projections for the Italian economy;
• changes in the rating and staging of the exposures to be measured;
• the review of the business plan for the POCI portfolios, primarily due to the postponement of the collection dates.

2.4. Credit risk mitigation techniques

In order to mitigate credit risk in line with the regulations, the group uses the CRM (Credit Risk Mitigation) techniques, set out in Bank of Italy's Circular no. 285/2013, as subsequently amended, and Regulation (EU) no. 575/2013 (Capital Requirements Regulation – CRR).

Specifically, the group makes use of personal guarantees (sureties, personal guarantees, credit derivatives), financial collateral (liens on cash and/or listed securities and master netting agreements) and property collateral (residential and non-residential property mortgages).

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

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., lease 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 structured 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-offs

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, unlikely to pay and non-performing past due 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).

As the department in charge of performing the second level controls, the risk management department checks that the business plan reviews of all portfolios carried out by the portfolio management office with the support of the individual asset managers has been carried out using a systematic and accurate review process (individual and/or collective) of collection flow projections.

At this time, the risk management department reviews the underlying assumptions by position clusters (defined according to uniform categories of strategy/recovery phase), where they are applied collectively to all portfolios/positions not pipelined by the manager.
The department is informed of the above assumptions in special meetings with the portfolio management office and, where it deems it appropriate, carries out an in-depth analysis of certain portfolios/positions, including through discussions with the various portfolio managers, with the aim of checking the effectiveness/completeness of the process and the consistency between the analyses carried out/the resulting evidence and the relevant business plan projections.

In 2020, the business plan review was affected by the public health emergency caused by the spread of Covid-19 starting from the first quarter of the year and the related government measures taken to contain it.

In performing its latest review, the risk management department focused on the following main drivers:
• consistency between actual collections and those forecast for the second half of the year;
• impact of the underlying assumptions, in terms of changes in the future collection curve and weighted average life ("WAL"), on the various clusters and on the total portfolios in comparison with the previous business plan review's forecasts.

The review covers both the portfolios' overall performance and more analytical checks of portfolios whose performance differs significantly from expectations and/or with significant impacts in terms of GDP and WAL.

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:

(€'000)

	Securitised assets						
	Actual collections	Original BP collections	Variation	Variation %	Carrying amount	Purchase price	Nominal amount
Bank loans	71,558	68,386	3,172	4.64%	490,753	498,994	3,179,889
Leases	25,481	33,618	(8,137)	(24.20%)	256,754	344,744	943,168
Trade receivables	8,275	3,910	4,365	111.64%	62,600	53,812	284,902

The above table includes exposures recognised as financial assets at amortised cost and non-current assets held for sale and disposal groups.

4. Renegotiated financial assets and forborne exposures

None.

Following the urgent measures on public health protection, support to workers and businesses, justice and security, related to the Covid-19 epidemiological emergency issued by the government and the European Central Bank, the figures from the latest supervisory moratoria report at 25 December 2020 (last report of 2020) on the number of applications for moratoria received, approved and rejected as of 28 February 2020, including SPVs managed by the parent, are set out below:

	Applications received			Of which: approved			Of which: rejected			Of which: not yet processed		
	Number of applications	Gross carrying amount	Total exposure (€'m)	Number of applications	Gross carrying amount	Total exposure (€'m)	Number of applications	Gross carrying amount	Total exposure (€'m)	Number of applications	Gross carrying amount	Total exposure (€'m)
Table 1												
Total applications	403		86	313		43	75		17	15		26
Of which: Non-financial companies	136		64	116		27	13		12	7		25
Of which: Small and medium-sized enterprises ("SMEs")	123		59	105		23	11		11	7		25
Of which: Loans collateralised by commercial immovable property	104		52	90		18	8		9	6		25
Of which: Households	267		22	197		15	62		6	8		1
Of which: Loans collateralised by residential immovable property	267		22	197		15	62		6	8		1
Of which: Credit for consumption	-		-	-		-	-		-	-		-
Table 2 - Decree law no. 18 of 17 March 2020 (converted by Law no. 27 of 30 April 2020)												
Article 56.2.a SMEs	-		-	-		-	-		-	-		-
Article 56.2.b SMEs	-		-	-		-	-		-	-		-
Article 56.2.c SMEs	11		-	11		-	-		-	-		-
Article 54 Retail/households	65		6	51		4	12		1	2		-
Article 54-quater Usury victims	-		-	-		-	-		-	-		-
Table 3 - ABI and ASSOFIN moratoria												
ABI "Imprese in Ripresa 2.0" BUSINESSES	1		-	1		-	-		-	-		-
ABI - 21 April 2020 Retail/households	8		-	7		-	1		-	-		-
Assofin - Credit for consumption Retail/households	-		-	-		-	-		-	-		-
Other applications compliant with EBA guidelines' "General payment moratorium" definition	-		-	-		-	-		-	-		-

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		
	Up to 30 days	From 30 to 90 days	After 90 days	Up to 30 days	From 30 to 90 days	After 90 days	Up to 30 days	From 30 to 90 days	After 90 days
1. Financial assets at amortised cost	3	-	-	3,245	1,030	5,395	-	-	242,330
2. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	420	-	-	529,992
31.12.2020	**3**			**3,245**	**1,030**	**5,815**	**-**	**-**	**772,322**
31.12.2019	**2,390**			**642**	**937**	**5,299**	**2,390**	**346**	**670,944**

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

(€'000)

	Total impairment losses																Total provisioning on loan commitments and financial guarantees given			Total
	Stage 1					Stage 2					Stage 3					Of which: purchased or originated credi-timpaired financial assets				
	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income	Financial assets held for sale	of which: individual impairment	of which: collective impairment	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income	Financial assets held for sale	of which: individual impairment	of which: collective impairment	Financial assets at amortised cost	Financial assets at fair value through other comprehensive income	Financial assets held for sale	of which: individual impairment	of which: collective impairment		Stage 1	Stage 2	Stage 3	
Opening balance	**8,765**	**(3)**	**-**	**-**	**8,762**	**(2,045)**	**-**	**-**	**2,727**	**(4,772)**	**(92,477)**	**-**	**-**	**(92,477)**	**-**	**(91,762)**	**-**	**-**	**-**	**(85,760)**
Increase in purchased or originated financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Cancellations other than write-offs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Net impairment losses/gains for credit risk (+/-)	(379)	3	(562)	-	(938)	(295)	-	-	-	(295)	(7,471)	-	(25,899)	(33,370)	-	(33,370)	-	-	-	**(34,603)**
Modification gains/losses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Changes in estimation methodology	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Write-offs not directly recognised in profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Other changes	(10,189)	-	243	-	(9,946)	6,843	-	(202)	2,134	4,507	59,859	-	23,684	83,543	-	83,544	-	-	-	**80,238**
Closing balance	**(1,803)**	**-**	**(319)**	**-**	**(2,122)**	**4,503**	**-**	**(202)**	**4,861**	**(560)**	**(40,089)**	**-**	**(2,215)**	**(42,304)**	**-**	**(41,588)**	**-**	**-**	**-**	**(40,125)**
Collections of written-off financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Write-offs recognised directly in profit or loss	-	-	-	-	-	-	-	-	-	-	(1.176)	-	(4.157)	(5.333)	-	(5.333)	-	-	-	**(5.333)**

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	378	1,742	15,468	-	12	-
2. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-
4. Loan commitments and financial guarantees given	-	-	-	-	-	-
31.12.2020	**378**	**1,742**	**15,468**	**-**	**12**	**-**
31.12.2019	**677**	**2,483**	**2,483**	**631**	**686**	**117**

A.1.3a Financial assets at amortised cost subject to Covid-19-related measures: 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
A. Financing at amortised cost	356	1,262	-	-	-	-
A.1 EBA-compliant moratoria	-	-	-	-	-	-
A.2 Other forbearance measures	-	-	-	-	-	-
A.3 New financing	-		-	-	-	-
B. Financing at fair value through other comprehensive income	-	-	-	-	-	-
B.1 EBA-compliant moratoria	-	-	-	-	-	-
B.2 Other forbearance measures	-	-	-	-	-	-
B.3 New financing	-	-	-	-	-	-
TOTAL 31/12/2020	**356**	**1,262**	**-**	**-**	**-**	**-**
TOTAL 31/12/2019	**-**	**-**	**-**	**-**	**-**	**-**

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 provisioning	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	167,523	(410)	167,113	-
- including: forborne exposures	x	-	-	-	-
TOTAL (A)	**-**	**167,523**	**(410)**	**167,113**	**-**
B. OFF-STATEMENT OF FINANCIAL POSITION					
a) Non-performing	-	x	-	-	-
b) Performing	x	-	-	-	-
TOTAL (B)	**-**	**167,523**	**(410)**	**167,113**	**-**
TOTAL (A+B)	**-**	**167,523**	**(410)**	**167,113**	**-**

* Valore da esporre a fini informativi

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 provisioning	Carrying amount	Partial/total write-offs*
	Non-performing	Performing			
A. ON-STATEMENT OF FINANCIAL POSITION					
a) Bad exposures	590,280	x	(43,409)	546,871	(5,117)
- including: forborne exposures	18,937	x	(6,817)	12,120	(12)
b) Unlikely to pay exposures	161,891	x	(1,478)	160,413	(216)
- including: forborne exposures	23,525	x	(670)	22,855	-
c) Non-performing past due exposures	62,454	x	2,584	65,038	-
- including: forborne exposures	196	x	73	269	-
d) Performing past due exposures	x	7,882	904	8,785	-
- including: forborne exposures	x	2,809	598	3,407	-
e) Other performing exposures	x	436,164	3,488	439,652	-
- including: forborne exposures	x	14,852	1,641	16,493	-
TOTAL (A)	**814,625**	**444,046**	**(37,912)**	**1,220,760**	**(5,333)**
B. OFF-STATEMENT OF FINANCIAL POSITION					
a) Non-performing	-	x	-	-	-
b) Performing	x	-	-	-	-
TOTAL (B)	**814,625**	**444,046**	**(37,912)**	**1,220,760**	**(5,333)**
TOTAL (A+B)	**814,625**	**444,046**	**(37,912)**	**1,220,760**	**(5,333)**

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.1.5a On-statement of financial position exposures with customers subject to Covid-19-related measures: gross amount and carrying amount

(€'000)

	Gross amount	Total impairment losses and provisioning	Carrying amount	Partial/total write-offs*
A. BAD EXPOSURES	620	(46)	574	-
a) EBA-compliant moratoria	-	-	-	-
b) Other forbearance measures	620	(46)	574	-
c) New financing	-	-	-	-
B. UNLIKELY TO PAY EXPOSURES	7,285	191	7,476	-
a) EBA-compliant moratoria	2,949	(193)	2,756	-
b) Other forbearance measures	4,336	384	4,720	-
c) New financing	-	-	-	-
C) NON-PERFORMING PAST DUE EXPOSURES	49	24	73	-
a) EBA-compliant moratoria	49	24	73	-
b) Other forbearance measures	-	-	-	-
c) New financing	-	-	-	-
D) PERFORMING PAST DUE EXPOSURES	-	-	-	-
a) EBA-compliant moratoria	-	-	-	-
b) Other forbearance measures	-	-	-	-
c) New financing	-	-	-	-
E) OTHER PERFORMING EXPOSURES	13,691	1,445	15,136	-
a) EBA-compliant moratoria	9,527	262	9,789	-
b) Other forbearance measures	4,164	1,183	5,347	-
c) New financing	-	-	-	-
TOTAL (A+B+C+D+E)	21,645	1,614	23,259	-

* To be shown for disclosure purposes

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

None.

A.1.6 bis 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	**692,248**	**69,595**	**1,313**
- including: exposures transferred but not derecognised	-	-	-
B. Increases	**64,662**	**126,117**	**70,800**
B.1 from performing exposures	367	4	563
B.2 from purchased or originated credit-impaired exposures	5,877	113,677	64,463
B.3 transfers from other non-performing categories	10,680	486	-
B.4 modification losses	-	-	-
B.5 other increases	47,738	11,950	5,774
C. Decreases	**(166,630)**	**(33,821)**	**(9,659)**
C.1 to performing exposures	-	(1,175)	(1,262)
C.2 write-offs	(5,117)	(216)	-
C.3 collections	(69,733)	(11,928)	(8,374)
C.4 sales	-	-	-
C.5 losses on sales	-	-	-
C.6 transfers to other non-performing categories	(461)	(9,500)	(23)
C.7 modification gains	-	-	-
C.8 other decreases	(91,318)	(11,003)	-
D. Gross closing balance	**590,280**	**161,891**	**62,454**
- including: exposures transferred but not derecognised	-	-	-

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

(€'000)

	Forborne non-performing exposures	Forborne performing exposures
A. Gross opening balance	**83,385**	**10,557**
- including: exposures transferred but not derecognised	-	-
B. Increases	**6,339**	**11,177**
B.1 from non-forborne performing exposures	-	7,236
B.2 from forborne performing exposures	-	-
B.3 from forborne non-performing exposures	x	-
B.4 from non-forborne non-performing exposures	139	-
B.5 other increases	6,200	3,941
C. Decreases	**(47,066)**	**(4,073)**
C.1 to non-forborne performing exposures	x	(1,339)
C.2 to forborne performing exposures	-	x
C. 3 to forborne non-performing exposures	x	(139)
C.4 write-offs	(10)	(2)
C.5 collections	(7,535)	(1,635)
C.6 sales	-	(957)
C.7 losses on sales	-	-
C.8 other decreases	(39,521)	-
D. Gross closing balance	**42,658**	**17,661**
- 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 Prudential consolidation - On-statement of financial position non-performing exposures with customers: changes in impaired positions

(€'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	**90,579**	**18,143**	**(566)**	**(1,055)**	**(43)**	**(13)**
- including: exposures transferred but not derecognised	-	-	-	-	-	-
B. Increases	**153,960**	**6,863**	**9,919**	**3,611**	**74**	**48**
B.1 from purchased or originated credit-impaired exposures	133,866	x	5,257	-	39	-
B.2 other impairment losses	6,385	3,765	1,074	2,456	1	14
B.3 losses on sales	-	-	-	-	-	-
B.4 transfers from other non-performing categories	173	-	20	-	-	-
B.5 modification losses	-	x	-	x	-	x
B.6 other increases	13,536	3,098	3,568	1,154	34	34
C. Decreases	**(201,130)**	**(18,189)**	**(7,875)**	**(1,885)**	**(2,615)**	**(108)**
C.1 fair value gains	(90,943)	(1,523)	(698)	(551)	(2,355)	(52)
C.2 impairment gains due to collections	(14,812)	(1,021)	(4,512)	(483)	-	-
C.3 gains on sales	-	-	-	-	-	-
C.4 write-offs	(5,117)	(12)	(216)	-	-	-
C.5 transfers to other non-performing categories	(42)	-	(173)	(3)	20	(2)
C.6 modification gains	-	x	-	x	-	x
C.7 other decreases	(90,215)	(15,633)	(2,276)	(848)	(280)	(54)
D. Closing balance	**43,409**	**6,817**	**1,478**	**670**	**(2,584)**	**(73)**
- 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	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Stage 1	-	-	378,238	-	-	-	77,322	455,560
- Stage 2	-	-	-	-	-	-	35,143	35,143
- Stage 3	-	-	-	-	-	-	814,622	814,622
B. Financial assets at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Stage 1	-	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
C. Financial assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Stage 1	-	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
Total (A + B + C)	**-**	**-**	**378,238**	**-**	**-**	**-**	**927,087**	**1,305,325**
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	-	-
D. Loan commitments and financial guarantees given	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Stage 1	-	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
Total (D)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A + B + C + D)	**-**	**-**	**378,238**	**-**	**-**	**-**	**927,087**	**1,305,325**

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 amoun	Collateral (1)				Personal guarantees (2)									Total (1)+(2)
							Credit derivatives					Endorsement credits				
								Other derivatives								
			Mortgaged property	Net investments in property leases	Securities	Other collateral	CLN	Central counterpar-ties	Banks	Other financial companies	Other	Public administrations	Banks	Other financial companies	Other	
1. On-statement of financial position guaranteed exposures:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.1 fully guaranteed	175,856	169,845	476,987	1,520	568	21,339	-	-	-	-	-	-	-	-	-	500,414
- including non-performing	153,675	150,104	448,877	1,520	568	11,036	-	-	-	-	-	-	-	-	-	462,001
1.2 partly guaranteed	31,869	25,733	126,574	704	525	-	-	-	-	-	-	-	-	-	-	127,803
- including non-performing	11,473	5,755	60,878	704	425	2,234	-	-	-	-	-	-	-	-	-	64,241
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 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		Non-financial companies		Households	
	Carrying amount	Total imp. losses	Carrying amount	Total imp. losses	Carrying amount	Total imp. losses	Carrying amount	Total imp. losses	Carrying amount	Total imp. losses
A. On-statement of financial position										
A.1 Bad exposures	-	-	22,903	2,082	-	-	397,752	(15,342)	126,216	(30,149)
- including: forborne exposures	-	-	-	-	-	-	9,044	(2,213)	3,076	(4,604)
A.2 Unlikely to pay exposures	-	-	20	2	-	-	145,643	(2,700)	14,749	1,220
- including: forborne exposures	-	-	-	-	-	-	16,518	(1,290)	6,337	620
A.3 Non-performing past due exposures	62,550	2,248	-	-	-	-	1,574	49	914	287
- including: forborne exposures	-	-	-	-	-	-	-	-	269	73
A.4 Performing exposures	195,184	(371)	208,098	(132)	-	-	44,164	(2,834)	991	6,337
- including: forborne exposures	-	-	-	-	-	-	6,525	59	13,375	2,180
Total (A)	**257,734**	**1,877**	**231,021**	**1,952**	**-**	**-**	**589,133**	**(20,827)**	**142,871**	**(22,305)**
B. Off-statement of financial position"										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	-	-	-	-	-	-	-	-	-	-
Total (B)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B) (T)	**257,734**	**1,877**	**231,021**	**1,952**	**-**	**-**	**589,133**	**(20,827)**	**142,871**	**(22,305)**
Total (A+B) (T-1)	**175,679**	**3,582**	**253,847**	**(276)**	**-**	**-**	**544,259**	**(58,811)**	**205,179**	**(26,109)**

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.Bad exposures	546,154	(43,073)	709	(2)	5	(335)	-	-	3	1
A.2 Unlikely to pay exposures	160,413	(1,478)	-	-	-	-	-	-	-	-
A.3 Non-performing past due exposures	65,028	2,584	10	-	-	-	-	-	-	-
A.4 Performing exposures	439,570	3,203	8,869	(203)	-	-	-	-	-	-
Total (A)	**1,211,165**	**(38,764)**	**9,589**	**(205)**	**5**	**(335)**	**-**	**-**	**3**	**1**
B. Off-statement of financial position										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	-	-	-	-	-	-	-	-	-	-
Total (B)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31.12.2020	**1,211,165**	**(38,764)**	**9,589**	**(205)**	**5**	**(335)**	**-**	**-**	**3**	**1**
Total (A+B) 31.12.2019	**1,169,363**	**(80,782)**	**9,595**	**(461)**	**4**	**-**	**-**	**-**	**2**	**(335)**

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.1 Bad exposures	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay exposures	-	-	-	-	-	-	-	-	-	-
A.3 Non-performing past due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	163,328	(409)	-	-	3,785	(1)	-	-	-	-
Total (A)	**163,328**	**(409)**	**-**	**-**	**3,785**	**(1)**	**-**	**-**	**-**	**-**
B. Off-statement of financial position										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	-	-	-	-	-	-	-	-	-	-
Total (B)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31.12.2020	**163,328**	**(409)**	**-**	**-**	**3,785**	**(1)**	**-**	**-**	**-**	**-**
Total (A+B) 31.12.2019	**118,125**	**(87)**	**3,609**	**(1)**	**-**	**-**	**-**	**-**	**-**	**-**

B.4 Large exposures

(€'000)

Large exposures	31/12/2020
Carrying amount	506,668
Weighted amount	102,195
No. of positions	6

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 disclosures of banks" report, a breakdown of the assets and related weighting factors used to calculate credit risk is set out below.

(€'000)

Assets	Nominal amount	Weighing	Weighted amount
Exposures with or guaranteed by central administrations or central banks	353,511,080	0%	-
	1,533,768	100%	1,533,768
	24,451,017	250%	61,127,543
Exposures with or guaranteed by local administrations or authorities	17,214,372	150%	25,821,558
Exposures with or guaranteed by public sector bodies	26,567	100%	26,567
	43,474,678	150%	65,212,017
Exposures with or guaranteed by bodies	208,949,156	20%	41,789,831
	13,946,614	100%	13,946,614
Exposures with or guaranteed by companies	50,607,526	100%	50,607,526
Exposures guaranteed by mortgages on properties	3,363,406	35%	1,177,192
	17,923,627	50%	8,961,814
Defaulting exposures	509,579,754	100%	509,579,754
	106,163,097	150%	159,244,646
Equity instruments	275,266	100%	275,266
	6,003	250%	15,008
Other exposures	5,821	0%	-
	565,399	20%	113,080
	38,538,515	100%	38,538,515
Exposures with securitisations	48,909,339	75%	36,682,004
	1,578,605	81%	1,278,670
	73,763,647	100%	73,763,647
	27,693,075	104%	28,800,798
	24,747,990	105%	25,985,389
	53,343,016	112%	59,744,178
	1,028,141	150%	1,542,211
TOTAL WEIGHTED ASSETS			**1,205,767,595**

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.) and 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 "self"-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						Financial guarantees given						Credit facilities					
	Senior		Mezzanine		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	**12,845**	**-**	**14,413**	**-**	**106,341**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**		**-**

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

C.3 Securitisation vehicles

(€'000)

	Registe-red office	Consolidation	Assets			Liabilities		
			Loans and receivables	Debt instruments	Other	Senior	Mezzanine	Junior
DANUBIO S.R.L.	Rome - Italy	no	38,303	-	3,801	-	-	16,009
RESLOC IT 1 S.R.L.	Rome - Italy	yes	71,767	-	5,974	30,190	45,000	23,550
RESLOC IT 2 S.R.L.	Rome - Italy	yes	1,748	-	71	1,583	-	200
RESTART SPV S.R.L.	Rome - Italy	equity-accounted	16,916	-	9,323	7,982	14,821	-
ITALIAN CREDIT RECYCLE SPV S.R.L.	Rome - Italy	equity-accounted	10,619	-	2,129	-	10	-
FEDAIA SPV S.R.L.	Rome - Italy	no	172,358	-	6,937	21,808	227,280	-
RIENZA SPV S.R.L.	Rome - Italy	no	134,503	-	10,000	-	52,683	-
GARDENIA SPV S.R.L.	Rome - Italy	no	168,317	-	16,159	47,520	-	182,119
BRAMITO SPV S.R.L.	Rome - Italy	yes	11,099	-	10,010	-	-	27,407
PONENTE SPV S.R.L.	Rome - Italy	yes	36,361	-	1,592	17,940	-	5,564
NEW LEVANTE SPV S.R.L.	Rome - Italy	yes	15,136	-	509	7,024	-	2,606
COSMO SPV 1 S.R.L.	Rome - Italy	yes	16,264	-	608	9,838	-	4,514
CONVENTO SPV S.R.L.	Rome - Italy	yes	59,832	-	23,937	46,506	-	30,122
VETTE TV SPV S.R.L.	Rome - Italy	yes	41,660	-	7,774	-	-	24,367
APPIA TV SPV S.R.L.	Rome - Italy	yes	55,000	-	728	55,000	-	-
FAIRWAY 1	Rome - Italy	yes	16,130	-	2,529	14,806	-	7,903
FAIRWAY 2	Rome - Italy	yes	16,715	-	2,646	12,217	-	4,907
PALATINO SPV S.R.L.	Rome - Italy	yes	182,280	-	33,719	32,714	-	236,001
DOMIZIA SPV S.r.l.	Rome - Italy	yes	174,242	-	20,688	82,393	-	117,759
LIBERIO SPV S.R.L.	Rome - Italy	yes	50,740	-	1,882	34,908	-	-
TIBERINA SPV S.R.L.	Rome - Italy	yes	122,807	-	9,940	84,084	27,087	9,004

The information in the table is updated to 31 December 2020.

C.4. Non-consolidated securitisation vehicles

(€'000)

	Credito Fondiario classification			CA			Maximum loss risk
	Senior	Mezzanine	Junior	Senior	Mezzanine	Junior	
DANUBIO S.R.L.	N/A	N/A	FAFVTPL	-	-	1,028	1,028
FEDAIA SPV S.R.L.	FAAC	N/A	FAFVTPL	878	-	44,320	45,198
RIENZA SPV S.R.L.	N/A	N/A	FAFVTPL	-	-	27,693	27,693
GARDENIA SPV S.R.L.	FAAC	N/A	FAFVTPL	177	-	30,545	30,722
APPIA TV SPV S.R.L.	FAFVTPL	N/A	N/A	-	-	2,755	-
ITALIAN CREDIT RECYCLE S.R.L.	FAFVTPL	N/A	N/A	5,297	8,146	-	5,297
RESTART SPV S.R.L.	FAFVTPL	N/A	N/A	6,493	6,267	-	6,493

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
New Levante SPV	Leases	15,653	1,537	6,726	100%	-	N/A	5,319	100%
Ponente SPV	Bank loans	41,345	851	18,038	100%	-	N/A	10,419	100%
Cosmo SPV 1 PTF	Bank loans	17,592	-	9,834	100%	-	N/A	6,600	100%
Convento SPV	Tax assets	-	62,550	46,505	100%	-	N/A	33,455	100%
Fairway SPV S.r.l. 1 PTF	Tax assets	-	12,420	14,887	100%	-	N/A	5,315	100%
Fairway SPV S.r.l. 2 PTF	Tax assets	-	13,438	13,238	100%	-	N/A	2,436	100%
Resloc SPV 1 PTF	Bank loans	16,667	33,911	29,421	100%	18,216	100%	1,289	100%
Resloc SPV 2 PTF	Bank loans	547	827	1,523	100%	-	N/A	70	100%
Bramito SPV	Bank loans	18,908	-	-	N/A	-	N/A	27,435	100%
Vette SPV	Leases	42,361	-	-	N/A	-	N/A	24,748	100%
Liberio SPV S.r.l.	Trade receivables	62,550	-	-	N/A	-	N/A	60,689	95%
Palatino SPV S.r.l.	Bank loans	234,236	666	-	100%	-	N/A	-	100%
Domizia SPV S.r.l.	Leases	185,179	3,857	-	5%	-	N/A	-	100%
Tiberina SPV S.r.l.	Bank loans	110,577	-	-	-	25,727	N/A	8,593	95%
Total		**745,615**	**130,057**	**140,172**	**-**	**58,356**	**-**	**186,368**	**-**

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 fully derecognised

Qualitative disclosure

None.

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 whole 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 fully derecognised: fair value

None.

B Financial assets transferred and fully derecognised 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, exchange 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 a call option for a company deemed of strategic interest. This option does 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 does not have 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 bracket 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, ensuring consistency with the identified measurement methods and rules.

The risk management department checks the group's risk exposure every six months.

QUANTITATIVE DISCLOSURE

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

(€'000)

	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	After 10 years	Open term
1. Assets								
1.1 Debt instruments								
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	27,644	11,441	47,828	108,218	21,237	24,352	-
1.2 Financing to banks	164,569	2,545	-	-	-	-	-	-
1.3 Financing to customers								
- current accounts	20,754	1,908	3,164	6,174	40,003	3,994	532	-
- other financing	-	-	-	-	-	-	-	-
- with early repayment option	-	2,289	73	12,661	564	15,998	489	-
- other	3,810	63,935	49,109	141,941	555,721	54,854	2,245	-
2. Liabilities								
2.1 Due to customers								
- current accounts	65	-	-	2,000	281	-	-	-
- other liabilities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	25,966	63,866	29,560	125,399	532,870	7,523	80	-
2.2 Due to banks								
- current accounts	-	-	-	-	-	-	-	-
- other liabilities	-	-	-	-	-	-	-	-
2.3 Debt instruments								
- with early repayment option	-	-	-	-	-	-	-	-
- other	129	78,661	1,430	27,214	59,773	9	-	-
2.4 Other liabilities								
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ long positions	-	-	-	-	638	-	-	-
+ 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	-	-	-	-	-	-	-	-

A ±200 basis point change would decrease or increase net interest income, respectively (and hence the profit for the year and equity) by approximately €10,759 thousand.

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

The parent does not use internal models for its sensitive analyses but the methods provided for by Bank of Italy's Circular no. 285/2013, as subsequently amended.

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 a call option for a company it deems is of strategic interest.

A. Financial derivatives

A.1 Trading financial derivatives: reporting date notional amounts

(€'000)

	Total 2020				Total 2019			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Debt instruments and interest rates								
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity instruments and share indexes								
a) Options	-	-	*638*	-	-	-	*729*	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold								
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forwards	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other								
4. Commodities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
5. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**-**	**-**	**638**	**-**	**-**	**-**	**729**	**-**

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

(€'000)

	Total 2020				Total 2019			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		Without central counterparties	Without netting agreements			With netting agreements	Without netting agreements	
1. Positive fair value								
a) Options	-	-	*638*	-	-	-	*729*	-
b) Interest rate swaps	-	-	-	-	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	**-**	**-**	**638**	**-**	**-**	**-**	**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*	-	*638*	-
- *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	-	-
A.3 Financial derivatives on currencies and gold	-	-	-	-
A.4 Financial derivatives on commodities	-	-	-	-
A.5 Other financial derivatives	-	-	-	-
Total 31.12.2020	**-**	**200**	**-**	**-**
Total 31.12.2019	**-**	**200**	**-**	**-**

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).

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 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 group'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 monitors 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 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.

Impacts of the Covid-19 pandemic

The public health emergency caused by the Covid-19 pandemic created significant liquidity risk issues and the parent has taken all necessary pre-emptive management and control measures to mitigate the potential deterioration of its liquidity since the beginning of the emergency.

The group has adopted a funding diversification strategy that gives it access to a wide variety of sources of funds and a funding mix to avail of the best long-term market conditions.

Its main source of funds consists of retail customers' deposits, but, at the same time, the parent 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.

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	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	After 5 years	Open term
Assets										
A.1 Government bonds	-	-	-	-	-	10,000	45,000	50,000	-	-
A.2 Other debt instruments	-	-	-	48	4,572	1,333	2,432	79,626	45,600	-
A.3 OEIC units	-	-	-	-	-	-	-	-	-	-
A.4 Financing										
- banks	255,701	-	-	-	2,014	-	-	-	-	-
- customers	24,772	-	-	11,150	21,390	30,551	101,708	402,068	56,475	-
Liabilities										
B.1 Deposits and current accounts										
- banks	-	-	-	-	5,000	36,250	22,250	49,500	-	-
- customers	25,354	2,602	5,459	11,173	50,687	33,821	129,627	508,999	6,869	-
B.2 Debt instruments	-	-	-	-	122	20,519	39,429	112,475	605	-
B.3 Other liabilities	642	-	-	1,425	95,678	1,461	9,346	96,217	2,760	-
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 principal										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

Both regulatory indicators, liquidity coverage ratio (LCR) and net stable funding ratio (NSFR), are well above supervisory requirements. In December 2020, the LCR was again considerably higher than 100% (5,445.6%) while the NSFR stood at 116.1%.

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) and conduct risk (i.e. the risk of losses resulting from inappropriate supply of financial services and the resulting litigation costs, including wilful or negligent conduct). 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.

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.

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
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 basic indicator approach to calculate the regulatory capital requirement, whereby it calculates the related capital requirement by applying a 15% factor 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 group 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.

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 €1,416 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.

The parent improved its loss data collection process by using a strictly bottom-up approach, in order to allow the recognition and mapping of actual or potential losses arising from operational risk events. The purpose of this framework is to feed the group's operational risk database with the necessary information: (a) the identification of the loss-generating events (risk factors); (b) the identification of mitigation actions and retention and transfer strategies; (c) the reporting/analysis, as part of the regular reporting, of operational risk events. This process is based on a decentralised loss data collection model, whereby the reporting and validating risk owners, with the support of the risk management and accounting department, collect the information necessary to feed the operational loss database on the basis of a defined data model.

Over the years, the parent has also 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.

Impacts of the Covid-19 pandemic

The group introduced remote working to ensure the safety of its employees and customers in February for the northern Italy offices and March for the Rome office. In order to protect the health of all its personnel, customers and suppliers, Credito Fondiario has implemented specific safety and monitoring protocols, introducing remote working as a precautionary measure.

It immediately adopted business continuity measures in order to continue to operate as normal while guaranteeing the best possible safety conditions.

The group rolled out a procedure to remotely monitor and report on the working of its operating systems and related risks. It concurrently checked that its key suppliers can continue to provide their services on a remote working basis. It found that the new system is fully functional and none of its work processes has been delayed or upset by the move out of the office. All the group offices were equipped with measures to ensure compliance with the hygiene rules introduced as a result of the emergency situation.

The possible impacts in terms of business process slowdowns as a result of both internal and external factors are constantly monitored by the group's management committees and governance bodies, in order to promptly update strategies and policies (including risk policies) in response to the changing context.

Moreover, during the year, in accordance with Bank of Italy's request to financial institutions to provide information on the actions taken to minimise the impact of Covid-19 on their ordinary operations and the risk of interruption/quality deficiency of services to customers, supported by other departments, the parent's risk management department collected bi-weekly reports from all the parent's departments on any operating losses occurring after 1 March 2020 and attributable to the spread of Covid-19.

These reports were made to Bank of Italy from March to June 2020.

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 is €13,959 thousand at the reporting date.

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	57,812	-	-	(3,622)	54,190
2. Share premium	243,578	-	-	-	243,578
3. Reserves	68,641	-	-	11,803	80,444
3.5 Interim dividends (-)					
4. Equity instruments	-	-	-	-	-
5. (Treasury shares)					
6. Valuation reserves	-	-	-	-	-
- 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	-	-	-	-	-
- Property, equipment and investment property	-	-	-	-	-
- Intangible assets	-	-	-	-	-
- Hedges of investments in foreign operations	-	-	-	-	-
- Cash flow hedges	-	-	-	-	-
- Hedging instruments (non-designated items)	-	-	-	-	-
- Exchange gains (losses)	-	-	-	-	-
- Non-current assets held for sale and disposal groups	-	-	-	-	-
- Liabilities at fair value through profit or loss (changes in own credit rating)	-	-	-	-	-
- Actuarial losses on defined benefit pension plans	(160)	-	-	20	(140)
- Share of valuation reserves of equity-accounted investees	-	-	-	-	-
- Special revaluation laws	-	-	-	-	-
7. Profit for the year attributable to the owners of the parent and non-controlling interests	30,743	-	-	(19,302)	11,441
Total	**400,614**	**-**	**-**	**(11,101)**	**389,513**

B.2 Fair value reserves: breakdown

The group does not have any financial assets at fair value through other comprehensive income at the reporting date.

B.3 Fair value reserves: changes

(€'000)

	Debt instruments	Equity instruments	Financing
1. Opening balance	**8**	**-**	**-**
2. Increases			
2.1 Fair value gains	-	-	-
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	(2)	-	-
3.2 Impairment gains for credit risk	-	-	-
3.3 Reclassification of fair value gains to profit or loss: on sale	(6)	x	-
3.4 Transfers to other equity reserves (equity instruments)	-	-	-
3.5 Other decreases	-	-	-
4. Closing balance	**-**	**-**	**-**

B.4 Actuarial reserves: changes

The group recognised actuarial losses of €44 thousand on post-employment benefits during the year. The net actuarial losses accumulated on defined benefit plans amounted to €140 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

The group did not carry out any business combinations during the year.

Part H: Related party transactions

1. Key management personnel's remuneration

Pursuant to IAS 24.16, a table showing the total fees of the board of directors, the board of statutory auditors and key management personnel for 2020 is set out below:

(€'000)

	Directors	Statutory auditors	Other key management personnel
a) Short-term benefits	664	250	2,377
b) Post-employment benefits			205
c) Other long-term benefits	-	-	322
d) Termination benefits	-	-	-
e) Share-based payments	-	-	-

The group recognised €246 thousand and €20 thousand due to its statutory auditors and directors, respectively, as other liabilities.

No other 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 operations.

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 2020 are set out below.

The amounts are net of VAT and out-of-pocket expenses.

(€'000)

	Beneficiary	Provider: independent auditors	Total fees
Audit of the separate financial statements	Credito Fondiario S.p.A.	KPMG S.p.A.	102
Audit of the financial statements	CF Liberty Servicing	KPMG S.p.A.	35
Audit of the financial statements	BE Credit Management S.p.A.	KPMG S.p.A.	18
Audit of the financial statements	CF Master Servicing S.p.A.	KPMG S.p.A.	2.5
Audit of the financial statements	CF Special Servicing S.p.A.	KPMG S.p.A.	2.5
Audit of the financial statements	CF Asset Management S.p.A.	KPMG S.p.A.	2.5
Audit of the financial statements	New Levante SPV S.r.l.	KPMG S.p.A.	30.2
Audit of the financial statements	Ponente SPV S.r.l.	KPMG S.p.A.	60.3
Audit of the financial statements	Cosmo SPV S.r.l.	KPMG S.p.A.	30.2
Audit of the financial statements	Convento SPV S.r.l.	KPMG S.p.A.	30.2
Audit of the financial statements	Resloc SPV S.r.l.	KPMG S.p.A.	34.4
Audit of the financial statements	Bramito SPV S.r.l.	KPMG S.p.A.	40
Audit of the financial statements	Vette SPV S.r.l.	KPMG S.p.A.	15
Audit of the financial statements	Palatino SPV S.r.l.	KPMG S.p.A.	160
Audit of the financial statements	Domizia SPV S.r.l.	KPMG S.p.A.	30
Audit of the financial statements	Tiberina SPV S.r.l.	KPMG S.p.A.	45
Audit of the financial statements	Liberio SPV S.r.l.	KPMG S.p.A.	35
Audit of the financial statements	Fairway SPV S.r.l.	KPMG S.p.A.	33
Audit of the consolidated financial statements	Credito Fondiario S.p.A.	KPMG S.p.A.	55
Review of the condensed interim consolidated financial statements	Credito Fondiario S.p.A.	KPMG S.p.A.	35
Review of the interim financial reporting package	CF Liberty Servicing	KPMG S.p.A.	10
Attestation services on tax returns	Credito Fondiario S.p.A.	KPMG S.p.A.	3
Other services	Credito Fondiario S.p.A.	KPMG Advisory S.p.A.	354
Audit of the financial statements	Restart SPV S.r.l.	KPMG S.p.A.	25
Audit of the financial statements	Italian Credit Recycle S.r.l.	KPMG S.p.A.	35
Audit of the financial statements	Leaseco Europa S.r.l.	KPMG S.p.A.	5

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 was settled in cash in 2020 rather than in shares, as originally provided for. Accordingly, the amount due that was presented under "Other liabilities" has been derecognised.

Quantitative disclosure

1. Changes

No options for the shares were exercised during the year.

2. Other information

The above benefits, which, originally, were to be settled in shares, were settled in cash in 2020 (€3,782 thousand).

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 B, 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:

(€'000)

	Office premises	Buildings for residential use	Company cars	Printers	31/12/2020
a) depreciation of right-of-use assets	1,789	30	54	5	**1,877**
b) interest expense on lease liabilities	195	2	3	-	**201**
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	1,984	32	57	5	**2,078**
h) additions to right-of-use assets	-	-	-	-	**-**
i) gains or losses from sale and leaseback transactions	-	-	-	-	**-**
j) closing balance of right-of-use assets	6,472	87	158	147	**6,864**

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 six lease portfolios in its consolidated financial statements, five 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

2.1. 2.1.Breakdown of lease payments receivable by due date and reconciliation with the net investment in the lease recognised under assets

(€'000)

	31/12/2020	31/12/2019
	Lease payments receivable	Lease payments receivable
Up to 1 year	97,804	50,005
From 1 to 2 years	105,957	119,988
From 2 to 3 years	95,999	138,972
From 3 to 4 years	12,663	45,849
From 4 to 5 years	4,786	18,689
After 5 years	9,583	17,539
Total lease payments receivable	326,791	391,042
RECONCILIATION WITH NET INVESTMENT IN LEASES	-	-
Unaccrued interest income (-)	(60,419)	(111,737)
Unguaranteed residual value (-)	-	-
Net investments in leases	266,373	279,305

2.2 Other information

None.

3. Operating leases

3.1 Breakdown of lease payments receivable by due date

None.

3.2 Other disclosures

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.

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 €28,320 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
Operating assets	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 €2,041 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 parent decided to give the assets earmarked for a specific business 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 €96 thousand while the outstanding special loan amounted to €150 thousand.

REPORT OF THE BOARD OF STATUTORY AUDITORS ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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

CREDITO FONDIARIO S.p.A.

REPORT OF THE BOARD OF STATUTORY AUDITORS ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

Dear shareholders,

Our duty is to report to the shareholders of Credito Fondiario S.p.A. ("Credito Fondiario" or the "parent") called, inter alia, to examine the consolidated financial statements as at and for the year ended 31 December 2020. We report on our supervisory activities and any omissions or objectionable actions identified. Although we are not responsible for the statutory audit of the consolidated financial statements, we are nevertheless required to report on our supervisory activities.

During the year, we held 24 meetings, participated in 14 board of directors' meetings and attended the shareholders' meeting of 29 April 2020. Starting from November 2018, we have been entrusted with the duties of the supervisory body set up by the parent as per Legislative decree no. 231/2001 to comply with the provisions about companies' administrative liability.

We performed our mandatory duties in accordance with the Italian Civil Code, Legislative decree no. 385/1993 (the Consolidated Banking Act) and related implementing measures, the parent's by-laws, other special legislative requirements and the provisions issued by the Italian and EU regulators.

During the year, we obtained pertinent information to allow us to carry out our general supervisory activities by analysing the parent's complex information system, participating in the board of directors' meetings and by meeting general management, the internal control departments, the chief financial officer ("CFO"), the manager in charge of financial reporting, the independent auditors and the key internal departments.

1. Compliance with the law and the by-laws

Based on the information available and obtained, we can reasonably believe that the key transactions carried out by the group were in compliance with principles of correct administration, the law and the parent's by-laws, were not openly imprudent, risky or contrary to the resolutions taken by the shareholders or that would jeopardise the group's assets. When necessary, the related resolutions were based on structured analyses and legal, technical and financial due diligences and appraisals of the assets, loans and receivables and guarantees securing the NPE portfolios purchased. The parent was assisted in this respect by external experts.

Information about the key transactions is provided in the directors' report that accompanies the consolidated financial statements, to which reference should be made.

The parent became the head of a banking group in 2019 and has consolidated and developed the operations of the group's two core businesses:
- the debt servicing business' original amount of non-performing exposures totalled €52.8 billion at year end;
- the debt purchasing business' investments totalled €1,074 million.

Total funding amounted to €1,029 million, including €759.2 million from retail customers (Esagon account).

The consolidation scope includes CF Liberty Servicing S.p.A., BE Credit Management S.p.A., 25 SPVs and the (currently inactive) companies covered by Project 3.0, namely CF Master Servicing S.p.A. (which applied for authorisation to carry out the activities set out in article 106 of the Consolidated Banking Act on 1 March 2021), CF Special Servicer S.p.A. and CF Asset Management S.p.A. (which applied for authorisation to carry out alternative investment fund management activities on 1 March 2021). Moreover, the consolidated financial statements includes two equity-accounted SPVs.

The key transactions and events of 2020 included:
a) as a result of the public health emergency, which then turned into a pandemic, that characterised the year from February 2020, the parent took appropriate measures and precautions for its personnel and to ensure business continuity, as well as to handle moratorium applications from customers;
b) on 29 April 2020, the parent's shareholders approved a capital increase fully subscribed by Tiber Investments S.a.r.l. which paid in the entire amount by using all its earmarked reserve, as the other shareholders waived their right of first refusal and pre-emptive right pursuant to article 2441.1/3, respectively, of the Italian Civil Code. As a result of the transaction, the parent's share capital amounts to €54,189,669.00 split into 54,189,669 ordinary shares and is 87.1% held by Tiber Investments S.a.r.l. (related to the US institutional investor Elliott Management Corporation);
c) partly as a result of the new rules on prudential backstop and calendar provisioning and in order to pursue the new growth and development opportunities in the servicing market, which is seeing consolidation, on 24 June 2020, the board of directors resolved to reorganise the banking group. The aim is (i) to redefine the parent's mission and (ii) to set up a non-banking group specialised in debt purchasing and debt servicing in order to focus on these businesses and benefit from greater competitiveness and efficiency ("Project 3.0"). To this end, the parent set up the (currently inactive) newcos CF Master Servicing S.p.A., CF Asset Management S.p.A. and CF Special Servicing S.p.A. which will be transferred to CF HoldCo S.p.A., a company incorporated in 2020 and owned by the same investors as the parent's, upon completion of the transaction, which is expected to occur in 2021;
d) on 11 December 2020, the parent completed its acquisition of 100% of BE Credit Management S.p.A., specialised in the analysis and servicing of tax assets, by exercising its call option obtained in 2018, when it acquired 35% thereof;
e) during the year, the parent invested in both non-performing loans, including by acquiring ABS issued by the related SPV "Liberio" (€65.9 million) and as part of the "Django" project (€34 million), and in tax assets, including by acquiring ABS issued by Convento (€85 million);
f) the parent streamlined its investments in securitisations through two transactions completed in June ("Gemini 1" which led to the combination of seven SPVs with the SPV Bramito) and December by setting up the SPVs Palatino, which received the Bramito and Lutezia portfolios ("Gemini 2"), and Domizia, which received the Vette portfolio. These transactions, whereby the parent purchased the SPVs' portfolios and then sold them, improved the its financial position as they gave it access to third party funds. The latter transactions allowed the parent to avail of the option introduced by Decree law no. 18/2020 to transform deferred tax assets into a tax asset of €23.9 million. These transactions do not meet the IFRS 9 requirements for the derecognition of the sold portfolios (as a matter of fact, the Palatino transaction qualifies as a self-securitisation as the parent holds all the notes issued). Accordingly, the securitised loans are recognised as securitisations (Palatino) and assets sold but not derecognised (Domizia) for €234.9 million and €185.2 million, respectively.
g) the parent recognised deferred tax assets of €28.2 million in accordance with IAS 12, after it paid the substitute tax of €16.0 million to align the carrying amount and tax base of goodwill and intangible assets;
h) it acquired new master, special and corporate servicing mandates, in particular the cooperative banks' multi-originator transaction (POP NPLs 2020) of €0.6 billion;
i) it acted as servicer to a number of securitisations organised by related parties.

In 2020, the parent was directly affected by the pandemic (reduction in credit collection commissions due to the slowdown of court and out-of-court activities). It was also indirectly hit by the Covid-19 engendered crisis, as it had to revise the business plans of each transaction, in terms of future cash inflows and related timing.

The directors' report provides information about the more significant transactions and events that have taken place since the reporting date (Events after the reporting date and outlook section). We would like to draw your attention to the application relating to Project 3.0 submitted to Bank of Italy on 1 March 2021.

As set out in the relevant paragraph of the directors' report, the directors have prepared the consolidated financial statements 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. Notwithstanding the pandemic that led to a reduction in its projected cash inflows from credit collection activities (both on its own behalf and on behalf of third parties) and commission income, the group was able to maintain financial stability and, as part of Project 3.0, it will retain the banking business and all the resources, organisational structure and capital necessary to meet its obligations arising from funding activities, as well as the relevant prudential and organisational requirements.

We have no comments to make on that set out above and note that, as shown by the main transactions of the year, the group has continued its development and growth plan in line with the shareholders' strategies and its business plans, especially as regards the NPE debt servicing and debt purchasing segments, which gave rise to an increase in its retail funding. In tandem, it paved the way for growth in the tax and other assets segments. This enabled the group to launch a reorganisation project, which will be completed with the partial proportional demerger planned for 2021, as a result of which the parent's and the new group's shareholding structures will be completely separate.

2. Financial position, financial performance and cash flows

Following the approval of Project 3. 0 and the start of the implementation activities, which make its completion "highly probable", due to the planned demerger and sale, the assets relating to the NPE servicing and investment activities qualify for classification as "assets held for sale" under IFRS 5. Therefore, in the draft consolidated financial statements, the asset, liability and profit or loss items attributable to the disposal group have been reclassified to the specific captions of the statement of financial position and income statement in accordance with IFRS 5, based on the project approved by the board of directors in June 2020.

As detailed in the "Financial performance and position - Application of IFRS 5" section of the directors' report accompanying the consolidated financial statements, a portion of the notes and/or loans of the vehicles Tiberina and Domizia will be transferred as part of the demerger project, possibly after their restructuring. This may happen before the demerger and is an essential part thereof.

In the above section, the directors also specified the methods and assumptions used for the "separation" of the captions reclassified to the specific captions of the statement of financial position (asset caption 110 "Non-current assets held for sale and disposal groups" and liability caption 70 "Liabilities associated with disposal groups") and income statement (caption 290 "Profit from discontinued operations"), as well as the reconciliations between the statement of financial position and the income statement before application of IFRS 5 and the statement of financial position and income statement included in the consolidated financial statements with a description of the assets held for sale, the associated liabilities and the profit from discontinued operations. The assets held for sale and associated liabilities totalled €868.6 million and €340.6 million, respectively, while the profit from discontinued operations was €16.7 million. Reference should be made to sections 12 and 22 of the notes to the statement of financial position and income statement, respectively, for additional information.

Although the reclassification is based on currently available best estimates, its aim is not to provide users of financial statements with forward-looking information about the two post-reorganisation entities' income generating potential and financial position. Moreover, the classification required by IFRS 5 can be reversed.

That being said, the group's pro forma (pre-IFRS 5) income statement shows total income of €126.3 million (€94.5 million in 2019), a pre-tax profit of €2.5 million (€30.8 million in 2019) and a profit for the year attributable to the owners of the parent of €11.4 million (€40.3 million in 2019).

As discussed in the directors' report, the profit for the year was affected, inter alia, by the negative effects of Covid-19 on both the group's investment portfolio (it recognised impairment losses on financial assets and fair value losses on ABS totalling €26.7 million) and servicing fees (as gross collections were more than 30% less than expected), non-recurring costs relating to legal disputes and impairment losses, non-recurring costs for Project 3.0 and resecuritisations (€10.3 million) and a tax benefit of €12.2 million arising after the parent paid the substitute tax to align the carrying amount and tax base of goodwill.

The group's total assets rose by €160.7 million to €1,744.7 million at the end of 2020. The increase is mainly attributable to its debt purchasing business, offset by its funding from online deposits and asset-backed funding from banks.

3. Correct administration and suitability of the organisational structure

To the extent of our duties, we obtained information about and checked that the parent complied with the principles of correct administration and the suitability of its organisational structure. One of us attended the risk committee's meetings, improving the efficiency of our supervisory duties.

We also discussed, when appropriate, the proposed transactions and their effects on the parent's financial position and performance with general management, senior management and during board meetings.

We noted that these bodies and departments carry out their activities in accordance with the principles of correct administration and to protect the group's assets. We also checked that, like for the key transactions, appropriate and detailed analyses and valuations were performed of the main aspects of the other transactions authorised by the board of directors and that external experts were involved, when necessary.

We focused on analysing and assessing Project 3.0, in order to gain an understanding of both its future impact on the various post-demerger entities and the organisational and internal control risks arising from the project and its subsequent implementation. Specifically, we closely monitored the post-demerger accounting information system's design evolution.

Including in our capacity as the parent's supervisory body, we constantly and thoroughly monitored all Covid-19 related aspects, in respect of both the group's ability to continue as a going concern and the protection of its personnel's health and safety, without identifying any critical issues. Indeed, the group has been equipped to operate remotely for some time and has solid business continuity and security systems. Moreover, since the beginning of the public health emergency, it has paid utmost attention to the protection of employees, not only by promptly implementing the required measures and protocols, but also by adopting procedures and additional safeguards for employees and consultants, considering, in particular, the importance of social values to the parent.

We do not have any comments and/or remarks to make with respect to the administrative management of the parent nor does any other of the internal control bodies.

During the year, we continued to monitor the group's prompt response to the regulator's requests. We also checked the introduction of the measures implementing the general or specific recommendations made by the regulator.

We monitored the process to define (i) the risk appetite and related ceilings and indicators (RAF , RAS), (ii) the regulatory capital planning and (iii) liquidity (ICAAP/ILAAP), as well as the consistency of their indicators and parameters and their compliance with the supervisory and SREP limits. As required by the regulator, the 2020 ICAAP/ILAAP reports included stress testing exercises based on two scenarios, characterised by a different degree of severity in relation to the potential impact of the pandemic on the real economy. Moreover, again in accordance with the regulator's requirements, we identified any feasible remedies that could improve the financial position and financial performance in the worst case scenarios.

We also checked compliance with the communicated SREP limits and the RAF ceilings adopted during the year. The parent's reporting-date total capital ratio was 24.86%, well above the limits set by the supervisory regulations. Tiber Investments consolidates the group for supervisory reporting purposes.

Moreover, with reference to the Bank of Italy's recommendations on the dividend distribution and variable remu-

neration policies of banks issued on 27 March and 16 December 2020, we found that:
- the parent and the group companies strictly complied with the recommendations and did not distribute dividends in 2020. Likewise, the proposed allocation of the profit for 2020 does not include any distributions;
- the remuneration and incentive policy, which was amended in December 2019, is based on reasonable and prudent criteria, while maintaining a certain degree of reward and retention policies

During the year, the parent continued to add to and revise its internal regulations. The internal regulations have different levels, the higher of which (policies and regulations) are approved by the board of directors.

When it became the parent of a banking group, the parent adopted a plan for the definition of group regulations, which were duly applied by CFLS that adopted operating procedures and policies in line with the parent's guidelines and processes, as mentioned above.

As a result of the changes to the parent's corporate governance structure and changes in its organisation, especially as regards the business support departments, the parent has had to amend its regulations and organisational chart.

The parent has two independent directors and one board committee (the risk control committee). Some of the directors are members of inter-departmental committees.

The group's headcount increased to 374 at the end of 2020.

Comments on the group's outlook and ability to continue as a going concern are provided in a specific section of the directors' report while section 10 of liabilities of the notes to the consolidated financial statements describes the pending disputes and their related risks.

In this respect, we believe that the reorganisation project currently underway, whereby the parent's core business under the current business model (from an organisational, financial statements volumes and net revenue perspective) will be demerged and transferred to a new group, is a key issue:
- the implementation of Project 3.0 presents some challenges in relation to personnel management and administrative, accounting and IT issues. However, the parent has promptly launched the preliminary activities for the demerger and reorganisation, addressing both organisational and technological and administrative infrastructural issues. We will continue to closely monitor the identification of the assets and liabilities that will be demerged and how this complex transfer of assets and liabilities to the new group that will manage the NPE servicing and investment activities will take place. We will focus, in particular, on the demerger value and transfer price, and, since the latter carries a potential conflict of interest, we will specifically concentrate on the fair value measurement of all transferred assets and liabilities;
- as set out in the directors' report ("Approval of Project 3.0" section), according to the new business model, the future CF NewBank will continue to manage some NPE portfolios on a run-off basis and to work in the tax asset segment. It will also develop its foothold in new sectors and segments in which it currently operates but that are not its core business. It will be a challenger bank with a revisited business object in order to become a specialised lender for performing (or re-performing) loans, and an innovative player in the specialised corporate lending sector for high potential market segments not currently fully covered by the major banks. On the other hand, the parent will retain its retail funding up to maturity.
Other risks to which the group is exposed are:
- reputation and operational risks related to its servicing business, which are augmented by risks related to the performance of the group's counterparties that transfer or have committed to transferring NPEs for servicing, especially when there are long-term agreements involved;
- risks related to the enhancement and management of the collateral underlying the secured exposures and estimates of the expected credit collection inflows that affect calculation of the fair value of the portfolio notes and the exposures' carrying amounts.

4. Internal controls and risk management

We checked the adequacy of the internal controls by meeting the parent's senior management to examine the internal controls and risk management system. We also met the control departments and the chief risk officer

("CRO") to assess how they plan their work, based on the identification and valuation of the main risks inherent in the processes and departments and by checking the procedures and regular reports prepared by the control departments. We also reviewed the information provided about the monitoring activities and the implementation of identified remedial actions by the departments as well as discussing our work with the independent auditors. The parent has policies for each internal control department, information flows, interaction with the internal controls, the internal control system, the roles and responsibilities of the corporate bodies and control departments and the coordination among these departments in compliance with the model set out in Bank of Italy's Circular no. 285/2013.

The parent extended its internal controls to CFLS. Its internal control unit heads are now responsible for CLFS' internal controls and it identified CFLS' local internal control staff who report to the board of directors and are responsible for the internal control checks performed there and remotely.

In addition, the parent completed its revision of the integrated risk assessment in 2020 after which it updated its and its main subsidiary's , CFLS, organisational and management models as per Legislative decree no. 231/2001 in December 2020, which now cover the additional predicate crimes added by the law.

The parent continued standardising the results of its checks and action plans and implementing its internal control application. Moreover, like in 2019, at the end of the year, it adopted an internal control plan which also includes the areas covered by the individual units and the supervisory body at both parent and group level.

We monitored closely the internal control system, working with management and corporate bodies, fostering its ongoing implementation and risk management, in line with the parent's and group's operating and business growth.

Some development and implementation projects did not make the expected progress partly due to the entire project portfolio and partly to their different prioritisation as a result of the pandemic, as well staff shortages. It is worth mentioning the importance we placed on the projects covering operational risks and second-level controls of financial assets and related classification and assessment processes. The very complex current macroeconomic scenario, which presents many opportunities but also many challenges, and the strategic outlook related to legislative and regulatory changes in the sector in which the group operates require an increasingly sophisticated and properly equipped internal control system.

During the year, we supervised the assets earmarked for a specific business called Cube and Este, including as per the request received from Bank of Italy to provide our independent assessment on the quarterly updates it receives from the control departments. The central bank had requested an initial assessment of the process to manage, monitor and supervise the assets earmarked for a specific business (coverage mechanisms, compensation, coverage of operational risks, monitoring of outsourced service providers, alignment mechanisms and information shared by the project players) to be accompanied by our independent valuation given the new technical and legal form of this type of set up. Bank of Italy required our opinion on the completeness of the quarterly information that the parent sends it about: (i) the identification of any unexpected (including potential only) risks and losses; (ii) difficulties and/or disputes arising from the activation of one or more of the provided-for contractual, insurance coverage and compensation mechanisms and the required liquidity; (iii) the amount actually collected on the contracts transferred to Cube and Este and any differences compared to the forecasts.

During the initial set up in 2017, we had asked for detailed information on the management of Cube and Este and whether the parent would provide additional services to the securitisations from the internal departments, as well as about the planned measures to strengthen Cube and Este and the related timing and tactics to ensure the correct performance of the transactions, including in the short term. We also asked the internal audit and compliance departments for their opinions on the adequacy of the controls over Cube and Este and the additional services provided by the parent.

We regularly checked the transactions' performance, the quarterly reports on specific issues prepared by the relevant manager and the CRO, the checks performed by the internal audit department and the opinions of the compliance and AML departments during specific meetings with the relevant departments (business, support and control). We summarised our analyses, findings and recommendations made to the internal departments for the four quarters of 2020 in our reports dated 30 April, 31 July and 30 October 2020 and 29 January 2021.

Our analysis of the above reports and communications issued at the set dates showed that the adjustment of the administrative and accounting data after their migration to the parent's systems was completed successfully and, at the date of this report, no losses or expenses have been identified for the parent. As a result of amendments to the guidelines for the assessment and management of portfolios by the investor, the two servicers (one of which is CF) have prepared new business plans for the two transactions, one of which has not yet been approved due to a series of external events. Moreover, checks of the external servicer were carried out.

With respect to the work performed by the risk management department, we acknowledged the positive results of its checks of Cube and Este, including the stress tests of the expected cash flows and back testing, encouraging, where necessary, further process improvements.

5. The administrative accounting system and the financial reporting process

We checked the adequacy of the administrative and accounting system and its reliability in correctly presenting the group's operations by obtaining information from the competent department heads, reviewing the more important internal documents and analysing the results of the work performed by the independent auditors, KPMG S.p.A., the CFO, the manager in charge of financial reporting and the internal audit department.

Given our duties with respect to financial reporting, we worked closely with the CFO and the administration, tax, regulatory and planning department, whose head is also the manager in charge of financial reporting.

We supervised accounting and reporting updates made to the information system to resolve inefficiencies and previous situations, especially as regards some accounting stages that require manual intervention and additional controls, and the development of internal data warehouses for the performance of additional checks, mostly completed during 2020

We discussed the main reporting issues of the separate and consolidated financial statements with the parent's CFO, the manager in charge of financial reporting and the independent auditors, including:
- the progress and completion of the accounting and reporting automation and consolidation projects;
- the consolidation scope and procedures;
- the impairment tests;
- the fair value measurement of the ABS in portfolio;
- the Domizia and Palatino resecuritisations;
- the supervisory reporting on securitisations;
- the application of IFRS 5;
- the transformation of deferred tax assets into tax assets.

The individual reports on the three groups of assets earmarked for a specific business set aside by the parent pursuant to article 2447-bis and following articles of the Italian Civil Code are attached to the consolidated financial statements. The specific business in question is the en bloc purchase as per article 58 of the Consolidated Banking Act of the contracts arising from securitised lease exposures and the related assets ("Cube – Gardenia", "Este – Restart" and "Gimli").

During the year, the parent also continued fine-tuning its administrative procedures for the preparation of the consolidated financial statements, including as a result of the significant extension of the consolidation scope, as well as its amortised cost and fair value calculation processes.

The independent auditors checked the administrative and accounting procedures and did not identify any issues with their reliability. They also checked the correctness of the accounting entries, operating results and the completeness of the information and accounting policies applied to prepare the separate and consolidated financial statements. They did not identify any issues to be brought to the parent's attention.

Although we are not required to perform the statutory audit as per Legislative decree no. 39/2010, as this is performed by the independent auditors, we note that, based on the information provided by the independent auditors, the manager in charge of financial reporting and our checks performed in accordance with article 2403 and following articles of the Italian Civil Code, the administrative and accounting system as a whole is adequate and reliable and the group's operations are correctly recorded on a timely basis.

6. Atypical and/or unusual transactions with related parties and conflicts of interest

Parts H of the notes to the consolidated financial statements show that no atypical and/or unusual transactions with related parties took place during the year. Moreover, no atypical and/or unusual transactions with third parties or subsidiaries took place.

The same section of the notes provide extensive information about other related party transactions. As far as we are aware, these transactions were performed in the parent's and group's interests and we do not have any comments about their suitability as they were part of the parent's and group's normal operations.

The group adopted a policy to manage related party transactions and transactions giving rise to conflicts of interest, which was most recently updated in December 2020, to monitor the risk that the familiarity of certain parties to the parent's and group's decision-makers could compromise the objectivity and impartiality of decisions about the granting of loans and other transactions with those parties. This could affect the allocation of resources, the parent's and group's exposure to risks that are not sufficiently measured or monitored and potential damage to deposit holders and shareholders. The policy is also designed to ensure that the group adopts all reasonable measures to avoid conflicts of interest that could harm its customers' interests.

The most significant related party transactions include the purchase of notes for €65.9 million and acting as servicer to a number of securitisations in which the parent's controlling shareholder has invested. Based on our checks, we have nothing to report.

6. Statutory audit

In accordance with article 19 of Legislative decree no. 39/2010, in our capacity as the "Internal audit committee", we carried out the required checks of the independent auditors' work. We analysed and approved the audit plan, monitored its implementation and, as far as was relevant to our duties, supervised the financial reporting process, checked the efficiency of the internal controls over quality, the internal audit and risk management related to this information, the statutory audit of the separate and consolidated financial statements and the independence of the auditors, including as provided for in Regulation (EU) 537/2014.

We regularly met the independent auditors to exchange information. We checked the application of the accounting policies and the correct recognition and presentation of the main financial statements captions with them. We also analysed and discussed the parent's new IFRS transition project.

Overall, we did not identify any irregularities, critical issues or omissions to be brought to the shareholders' attention based on our discussions with the independent auditors.

Pursuant to Legislative decree no. 39 of 27 January 2010 and Regulation (EU) 537/2014, the shareholders appointed KPMG S.p.A. ("KPMG") as the parent's independent auditors for the statutory audit of its financial statements for the nine-year period from 2013 to 2021 in their meeting of 10 December 2013.

On 13 April 2021, KPMG issued its audit report on the consolidated financial statements pursuant to article 14 of Legislative decree no. 39/2010 and article 10 of Regulation (EU) 537/2014, which does not include any emphasis of matter paragraphs. The independent auditors stated that the consolidated financial statements provide a true and fair view of the group's financial position as at 31 December 2020 and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/2005 and article 43 of Legislative decree no. 136/2015. They also stated that the directors' report which accompanies the consolidated financial statements is consistent with the consolidated financial statements and has been prepared in accordance with the law. They had nothing to report as regards any material misstatements in the directors' report based on their knowledge and understanding of the group and its context acquired during the audit.

In accordance with the applicable regulations, the audit report refers to the auditing standards applied and sets out the key audit matters that were identified during the audit. These matters referred to: (i) the measurement of loans and receivables with customers recognised under financial assets at amortised cost and discontinued operations and (ii) the recoverability of intangible assets held for sale. The audit procedures applied for each matter are specified.

On the same date, KPMG provided us with its report as per article 11 of Regulation (EU) 537/2014, which did not mention any material deficiencies in the internal controls over financial reporting or other issues to be brought to the attention of those charged with governance.

The independent auditors also provided us with the statement of their independence as required by article 6 of Regulation (EU) 537/2014, which did not refer to any situations that could compromise their independence. We acknowledge the transparency report published by the independent auditors on their website as required by article 13 of Regulation (EU) 537/2014.

The parent is not required to comply with the provisions of Legislative decree no. 254/2016 which transposed Directive 2014/95/EU into Italian law and, therefore, it did not prepare a consolidated non-financial statement.

Pursuant to the specific regulations, we acknowledge the fees paid by the parent to KPMG for its statutory audit services in 2020 disclosed in the relevant section of the notes.

After having received the statement of independence from the independent auditors in accordance with article 6 of Regulation (EU) 537/2014, we do not deem that critical issues exist with respect to their independence or incompatibility as per articles 10, 10-bis and 17 of the Italian Consolidated Statutory Audit Act and related implementing measures.

7. Complaints, statements, reports and opinions

We did not receive any complaints as per article 2408 of the Italian Civil Code during the year or up until the date of this report.

We did not receive any statements or other forms of complaints from the group's shareholders or customers during the year.

During 2020 and up to the date of this report, we expressed our opinion, where required by law, on the parent's by-laws and supervisory regulations. The opinions and comments made in compliance with supervisory requirements include the assessment of the ICAAP and ILAAP 2020 process (required by Bank of Italy's Circular no. 285/2013, Part 1, Title III, Chapter 1 and Circular no. 263 of 27 December 2006, Title V, Chapter 7), comments on the outsourcing report (Bank of Italy Circular no. 263/2006, Title V, Chapter 7), the opinions required by Bank of Italy Circular no. 285/2013, Part I, Chapter 1, Section III, the comments on the planning of their activities by the internal control bodies and their reports required by Bank of Italy Circular no. 285/2013 (Title V, Chapter 3) and Bank of Italy's Measure of 11 March 2011.

8. Conclusions

Dear shareholders,

We confirm that we performed our activities with the full collaboration of the corporate bodies, the heads of the administration and operating departments, the control departments, the independent auditors, the manager in charge of financial reporting and the other internal control departments.

We did not identify any omissions, objectionable actions, imprudent or other situations that would require your attention or that of the regulators or mention herein.

As stated in the notes, no events have taken place after the reporting date that would have required changes to the approved data, the results or additional information to be provided. Specifically, no significant events have taken place in the period from the reporting date to the date of approval of the consolidated financial statements that would have affected the group's financial position, financial performance and cash flows.

Reference should be made to the directors' report accompanying the consolidated financial statements for information on the main risks and uncertainties faced by the parent and the group, their ability to continue as going concerns and their outlook.

The consolidated financial statements show a profit of €11,441 thousand and equity attributable to the owners of the parent of €389,513 thousand.

They have been prepared on a going concern basis. The parent did not make any departures from the accounting policies and the independent auditors expressed an unqualified opinion without emphasis of matters thereon. We have no issues to report in this respect.

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., which is the ultimate parent.

In conclusion, we have no comments to make about the consolidated financial statements as they stand.

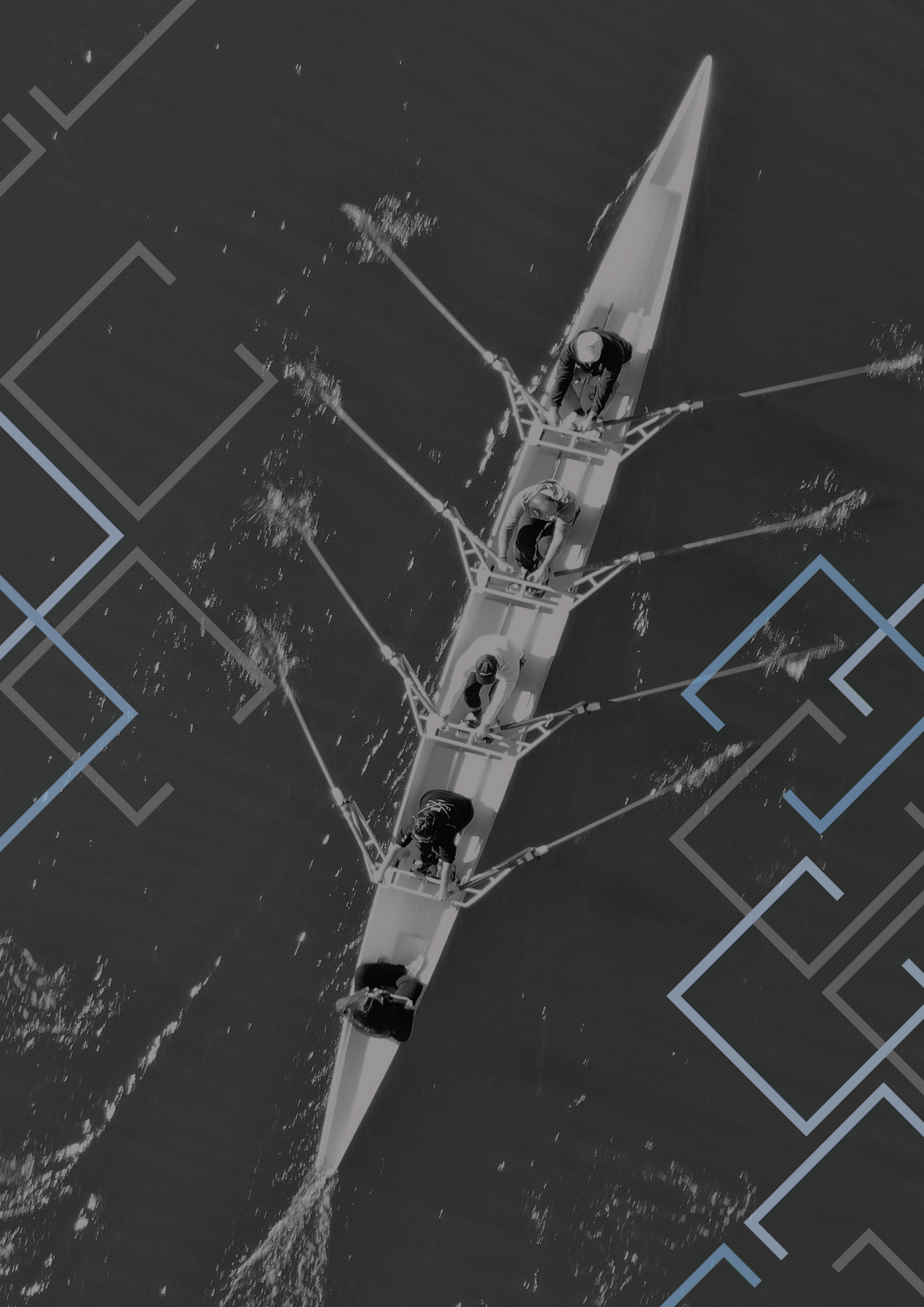
Milan and Rome, 13 April 2021.

Board of statutory auditors

Antonio MELE (signed on the original)

Giuseppina PISANTI (signed on the original)

Franco VEZZANI (signed on the original)



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 2020, 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 2020 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.

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 and discontinued operations

Notes to the consolidated financial statements "Part A - Accounting policies": paragraph A.1 section 5 "Other matters"

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 A - Accounting policies": paragraph A.2.8 "Non-current assets held for sale and disposal groups and liabilities associated with disposal groups"

Notes to the consolidated financial statements "Part A - Accounting policies": paragraph A.2.11 "Other information"

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 B - Notes to the statement of financial position - Assets": section 12 "Non-current assets held for sale and disposal groups and liabilities associated with disposal groups"

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

Notes to the consolidated financial statements "Part C - Notes to the income statement": section 22 "Post-tax profit from discontinued operations"

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

Credito Fondiario Group
Independent auditors' report
31 December 2020

Loans and receivables with customers totalled €1,100 million at 31 December 2020. They are recognised under assets at amortised cost (€546.3 million) and under non-current assets held for sale and disposal groups (€553.8 million) and account for 63% of total assets. They include exposures (the "portfolios") underlying the ABS subscribed by the parent. Following the reorganisation project approved by the parent's board of directors on 24 June 2020 ("Project 3.0"), the directors plan to dispose of loans and receivables with customers amounting to €553.8 million, including portfolios underlying the ABS subscribed by the parent of €534.5 million. Accordingly, the directors believed that the IFRS 5 requirements for classification as non-current assets held for sale and disposal groups had been met. Project 3.0 is subject to Bank of Italy's authorisation, which is expected to be received during 2021. 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 loans and receivables in 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. The complexity of the above procedure has increased in 2020 due to the Covid-19 emergency which has severely affected economic conditions and potential future macroeconomic scenarios. 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, as well as the adjustments made as a result of the effects of the Covid-19 pandemic. 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; — obtaining and analysing Project 3.0, which was approved by the parent's board of directors on 24 June 2020, including through discussions with the department heads; — obtaining and analysing the documentation relating to the disposal of loans and receivables with customers in order to check whether the classification requirements of IFRS 5 had been met; — analysing the events after the reporting date that provide information useful for an assessment of the main assumptions used to measure the ABS; — assessing the appropriateness of the disclosures about loans and receivables with customers, also in the light of the increased disclosure requirements currently applicable as a result of the Covid-19 pandemic.

Recoverability of intangible assets held for sale

Notes to the consolidated financial statements "Part A - Accounting policies": paragraph A.1 section 5 "Other matters"

Notes to the consolidated financial statements "Part A - Accounting policies": paragraph A.2.6 "Intangible assets"

Notes to the consolidated financial statements "Part A - Accounting policies": paragraph A.2.8 "Non-current assets held for sale and disposal groups and liabilities associated with disposal groups"

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 B - Notes to the statement of financial position - Assets": section 12 "Non-current assets held for sale and disposal groups and liabilities associated with disposal groups"

Notes to the consolidated financial statements "Part C - Notes to the income statement": section 22 "Post-tax profit from discontinued operations"

Key audit matter	Audit procedures addressing the key audit matter

Credito Fondiario Group
Independent auditors' report
31 December 2020

Following the reorganisation project approved by the parent's board of directors on 24 June 2020 ("Project 3.0"), the directors plan to dispose of intangible assets amounting to €152.2 million, including the finite-life asset relating to the servicing agreements signed with Banco BPM S.p.A. (€73.3 million), assets relating to the servicing agreement signed with Banca Carige S.p.A. (€11.6 million), goodwill arising from the acquisition of 70% of CF Liberty Servicing S.p.A. and calculated using the partial goodwill method (€57.2 million) and goodwill arising from the acquisition of a business unit that manages and collects non-performing exposures from Banca Carige S.p.A. (€9.3 million). Since the directors believed that the IFRS 5 requirements had been met, when preparing the consolidated financial statements at 31 December 2020, they classified these intangible assets as non-current assets held for sale and measured them at the lower of their carrying amount and fair value less costs to sell. Assisted by external experts, the directors determined the intangible assets' fair value less costs to sell. Since the estimated realisable value of the asset relating to the servicing agreement with Banca Carige S.p.A. is lower than its carrying amount, the directors impaired the non-current assets held for sale by €1.5 million. Determining a realisable value 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 asset with a finite useful life, forecast on the basis of its residual useful life; — the financial parameters used to calculate the discount rate. The complexity of the above procedure has increased in 2020 due to the Covid-19 emergency which has severely affected economic conditions and potential future macroeconomic scenarios. For the above reasons, we believe that the intangible assets classified as non-current assets held for sale are a key audit matter.	Our audit procedures included: — obtaining and reading the minutes of the internal bodies' meetings; — analysing the report prepared by the external experts engaged by the parent to measure the fair value of intangible assets; — discussing the measurement model and main assumptions used with management; — involving experts of the KPMG network in the assessment of the appropriateness and reasonableness of the measurement methods and models used, as well as checking the reasonableness of the main underlying assumptions, including by means of a comparison with external data and information, and analysing the adjustments made as a result of the effects of the Covid-19 pandemic; — obtaining and analysing Project 3.0, which was approved by the parent's board of directors on 24 June 2020, including through discussions with the department heads; — obtaining and analysing the documentation relating to the disposal of the intangible assets arising from the acquisition of CF Liberty Servicing S.p.A. and the servicing agreements with Banca Carige S.p.A. and Banco BPM S.p.A. in order to check whether the classification requirements of IFRS 5 had been met; — analysing the events after the reporting date that provide information useful for an assessment of the main assumptions used to measure the intangible assets; — assessing the appropriateness of the disclosures about the recoverability of intangible assets held for sale, also in the light of the increased disclosure requirements currently applicable as a result of the Covid-19 pandemic.

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.

Credito Fondiario Group
Independent auditors' report
31 December 2020

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;
- 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.

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 2020 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 2020 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 2020 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, 13 April 2021

KPMG S.p.A.

(signed on the original)

Riccardo De Angelis
Director of Audit

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