CREDITO FONDIARIO

2019 ANNUAL REPORT

YOUR INVESTMENT
AND SERVICING
PARTNER

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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
Statutory Auditors:	Paolo CARBONE
	Fabio Maria VENEGONI

Management

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

DIRECTORS' REPORT

Competitive position

Credito Fondiario ("CF" or the "bank") heads up the Credito Fondiario Group, which is a major player in the Italian credit sector. Its integrated model allows it to operate as a debt purchaser and debt servicer for all categories of non-performing exposures, bad exposures, unlikely to pay (UTP) exposures, bank loans and leases. Its mission is to provide customers with specialist assistance in the credit market using state-of-the art technological systems and a comprehensive, integrated range of products.

Credito Fondiario is a fully licenced Italian bank and a member of the Interbank Deposit Protection Fund.

Founded in Cagliari on 28 April 1898 to specialise in mortgage loans, the bank underwent a strategic repositioning as part of a project rolled out by Tages Holding and its management team at the end of 2013, which continued into 2014 and 2015 leading to the bank's major turnaround, regaining its historical role and entering the rising secondary credit market in Italy. This strategy was reinforced in 2016 with the entry of the new shareholder Tiber Investment s.a r.l., part of the Elliott Management Corporation Group, which obtained control over the bank in 2018. Credito Fondiario became a banking group in 2019.

CF currently offers banks, financial companies and investors a wide range of integrated services:
- debt purchasing: CF invests in non-performing loan portfolios and, when requested, acts as a co-investor together with its institutional customers be they banks or investors;
- debt servicing: CF is a 360-degree credit manager, with professionals, tools and a state-of-the-art IT system, gained over a decade experience as primary servicer, master servicer and special servicer. Its servicing structure has a rating both from S&P and Fitch;
- partner: CF provides medium to long-term strategic partnership and co-investment solutions for the acquisition and management of non-performing and illiquid exposures.

Macroeconomic scenario

The global economy is living a difficult period whose risks are hard to quantify. Although world trade has picked up again and a ceasefire in the trade war between Washington and Beijing seems to be in place, the outlook is uncertain. Less pessimistic growth forecasts, encouraged by the central banks' accommodating stances, have pushed up share prices and facilitated a modest recovery of the long-term returns. However, geopolitical tensions have heightened and the economic recession triggered by the outbreak of Covid-19 (otherwise known as the Coronavirus and described in the section on the events after the reporting date) has spread from the commercial sector to industry, encompassing the financial and commodities markets.

The Eurozone was affected by slow economic growth and the Brexit issue in 2019. Its GDP decreased to 2.0% in 2018 and 1.4% in 2019, where it is expected to remain in 2020 and 2021[1].

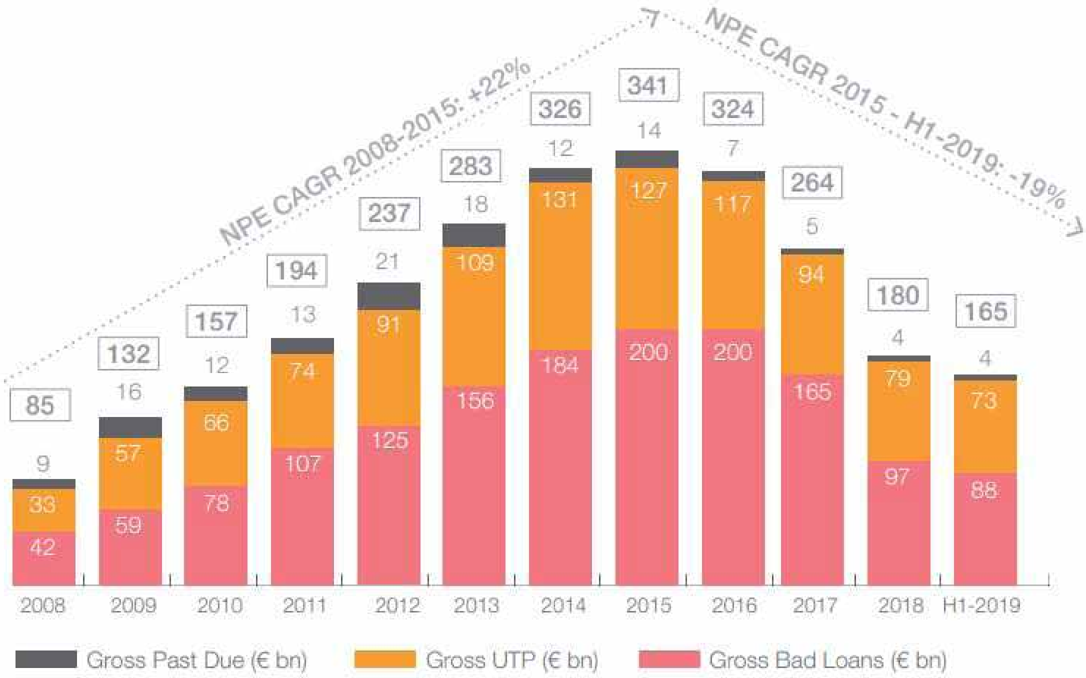
Italy's GDP growth was well under its 1% target set by the government for 2019. A key factor holding back the economy was the uncertain political scene while Moody's revised the country's sovereign debt rating from Baa2 to Baa3 with a stable outlook in February 2019. Global Ratings confirmed the BBB rating of Italy's sovereign debt in April 2019 while Fitch confirmed its BBB rating with a negative outlook in August.

(1) Source: PwC analysis on European Commission institutional paper "European Economic Forecast – Autumn 2019".

The Italian government blocked the increase in the standard 22% VAT rate scheduled for 2020 with its 2019 budget law. The total amount requested by the European Union to neutralise the safeguard clause for 2020 and 2021 is €52 billion. After the initial shock caused by the government's falling from power and adverse macroeconomic situation, both the stock and bond markets stabilised.

Turning to the Italian banking sector, the volume of NPEs[2] has shrunk considerably in the last four years: they amounted to €341 billion (gross carrying amount) at the end of 2015 and have steadily contracted to €165 billion at June 2019. However, the Coronavirus (see the section on events after the reporting date for more information) will affect the economy and one expected outcome is a worsening in banks' credit quality. In fact, the Italian Bankers Association (ABI) has communicated its intention to request the Italian and European authorities suspend application of the "default" definition to past due exposures for up to one year and review the timeline for the calendar provisioning of the NPEs. The European Banking Authority's guidelines have established that the new definition of "default" will be applicable from 1 January 2021, while calendar provisioning for new loans (issued after March 2019) is already effective.

NPE performance[3]



The Italian government's renewal of the GACS scheme (Garanzia Cartolarizzazione Sofferenze, the Italian government guarantee scheme for the senior tranches of non-performing ABS) in March 2019 should bolster the market significantly. It is an important tool to decrease NPEs.

(2) Non-performing exposure (NPE).
(3) Source: PWC analysis on Bank of Italy: "Banca D'Italia e istituzioni finanziarie: condizioni e rischiosità of credit per settori e territori", September 2019.

Key events of the year

The bank made a profit of €36 million for the year, the key contributors to which are described below.

Acquisition of CF Liberty Servicing

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

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

CFLS is authorised to carry out credit collection activities pursuant to article 115 of the Consolidated Public Security Act and received a loan recovery unit with 103 employees from BBPM.

It signed a special servicing agreement with BBPM to manage 80% of its new NPEs over the next ten years. CFLS also took over as special servicer from Credito Fondiario for the Leviticus SPV S.r.l. securitisation comprising NPEs transferred from BBPM.

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

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

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

During the year, CF acquired 60% interests in a number of securitisation vehicles as per Law no. 130/99 in which it had already invested in their securitisations directly or indirectly through its controlling shareholder.

The bank subsequently resolved to set up a VAT group in accordance with the provisions of article 70-bis and subsequent articles of Presidential decree no. 633/72, which includes itself, CF Liberty Servicing as well as the securitisation vehicles.

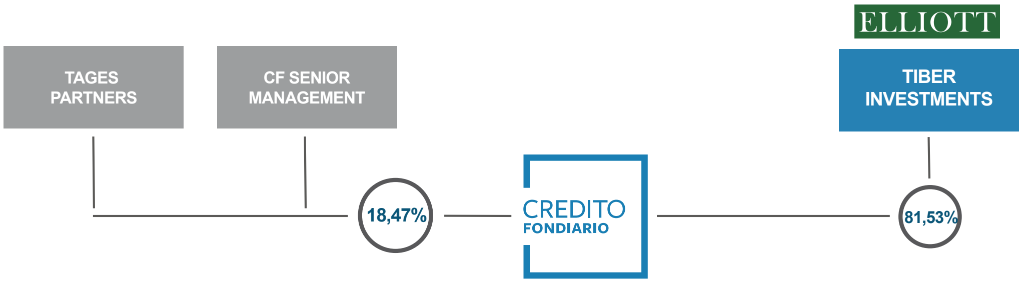
Specifically, these vehicles are Lucullo SPV S.r.l., Ponente SPV S.r.l., NEW Levante SPV S.r.l., Bramito SPV S.r.l., Cosmo SPV S.r.l., Convento SPV S.r.l., Artemide SPV S.r.l., Novus Italia 1 SPV S.r.l., Elmo SPV S.r.l., Sallustio SPV S.r.l., Sesto SPV S.r.l., Vette SPV S.r.l. and Leviticus SPV S.r.l..

Ownership structure and the reverse merger

In October 2018, Tiber Investments s.à r.l. (a Luxembourg-based subsidiary of the funds managed by Elliott Management Corporation) obtained control of Credito Fondiario, acquiring a 69.48% stake that can be increased up to 80% as per the agreements summarised below.

Elliott, an institutional investor leading the US market for over 40 years with assets under management of USD35 billion, is a key partner and investor in CF through Tiber Investments s.à r.l..

The following table presents the bank's ownership structure at 31 December 2019:



In 2019, Tiber Investments s.à r.l. injected €120 million into the bank when it acquired the investment in CFLS. The reverse merger of CF Holding S.p.A. (the "merged company") into the bank (the "merging bank") became effective on 1 December 2019 (the "effective date").

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

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

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

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

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

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

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

Settlement with Banca Carige

On 10 May 2018, the bank signed a servicing agreement with Banca Carige, Banca Monte di Lucca and Banca Cesare Ponti for the management and collection of loans already or to be classified as "bad". The agreement established that the bank would receive loans with an approximate nominal amount of €1.1 billion to be serviced. As the parties subsequently decided in 2019 to transfer the loans (worth around €1 billion) to AMCO - Asset Management Company ("AMCO"), they paid €24.5 million to the bank as compensation for the loans that would no longer be transferred to it. The agreement with the Carige Group banks provides that the servicing agreement will remain in place for future flows of bad loans at the same terms and conditions as those originally agreed.

Transaction with UBI Banca

On 22 July 2019, the bank signed a binding agreement with the UBI Banca Group for the acquisition of a portfolio of non-performing leases, including the related customer relations and underlying assets, for a gross carrying amount of roughly €740 million at 31 October 2018.

In September 2019, the acquisition of this portfolio by the SPV Vette SPV S.r.l. was completed. The bank invested in the transaction by subscribing 5% of the senior notes issued by the SPV (€5.7 million) and all the junior notes (€106.6 million). It paid for these notes by providing advances in the period from 30 September to 19 December 2019.

The portfolio with a gross carrying amount of approximately €688.5 million at 31 December 2019 comprises 1,125 leases (mostly for real estate) all agreed by the UBI Banca Group with 976 of which are non-performing. In addition to acquiring the portfolio, the bank is also the servicer and provides recovery, management and sale services for the underlying real estate.

Transaction with Banca Sella

On 9 December 2019, the bank signed an agreement with Banca Sella for its acquisition of a portfolio of secured NPEs, of which 105 exposures are non-performing, with a gross carrying amount of around €33.8 million.

The transaction allows Credito Fondiario to continue its strategy of acquiring and enhancing the value of bank and lease NPE portfolios (both bad and UTP). The acquisition took place in accordance with Law no. 130/1999 (the securitisation law) through the SPV Cosmo SPV S.r.l. to securitise the exposures included in the portfolio. The bank subscribed all the SPV's senior and junior notes.

NPE securitisation structuring and acquisition of the servicing business

During 2019, in addition to the above transactions, the bank made the following investments:

1. it subscribed additional ABS for €4.5 million issued by Cosmo SPV S.r.l. to acquire a single name exposure. After this transaction, the bank continues to hold all the vehicle's notes;
2. it acquired ABS issued as part of the Fairway 1 and 2 transactions and the underlying tax assets for €49.3 million;
3. it subscribed ABS for €24.4 million issued by Artemide SPV S.r.l., which it had already paid in December 2018 (recognised under other assets at that date);
4. it subscribed additional ABS issued by Convento SPV S.r.l. to acquire tax assets of €46.7 million;
5. it subscribed senior ABS issued by Gardenia S.r.l. (€9.7 million) and Fedaia S.r.l. (€10.9 million);
6. it subscribed additional ABS issued by Restart S.r.l. for €0.8 million.

Development of the tax asset management business

During the year, the bank continued to develop its tax asset management business launched in 2018. Specifically, it strengthened its relationship with Be Finance S.r.l. by signing a strategic partnership agreement. Since 2010, Be Finance S.r.l. has been active in the structured finance sector as one of the major Italian operators specialised in the acquisition of tax assets. In 2018, it demerged into two newcos: Be Credit Management S.r.l., which acts as a servicer, and Be Tc S.r.l. which engages in origination (selection and analysis) activities. The bank has an option to acquire 100% of both companies.

As part of this partnership, the bank acquired ABS issued by the following securitisation vehicles:
• Fairway: 81 securitised tax assets for a gross carrying amount of €43.9 million;
• Convento: 100 securitised tax assets for a gross carrying amount of €43.6 million.

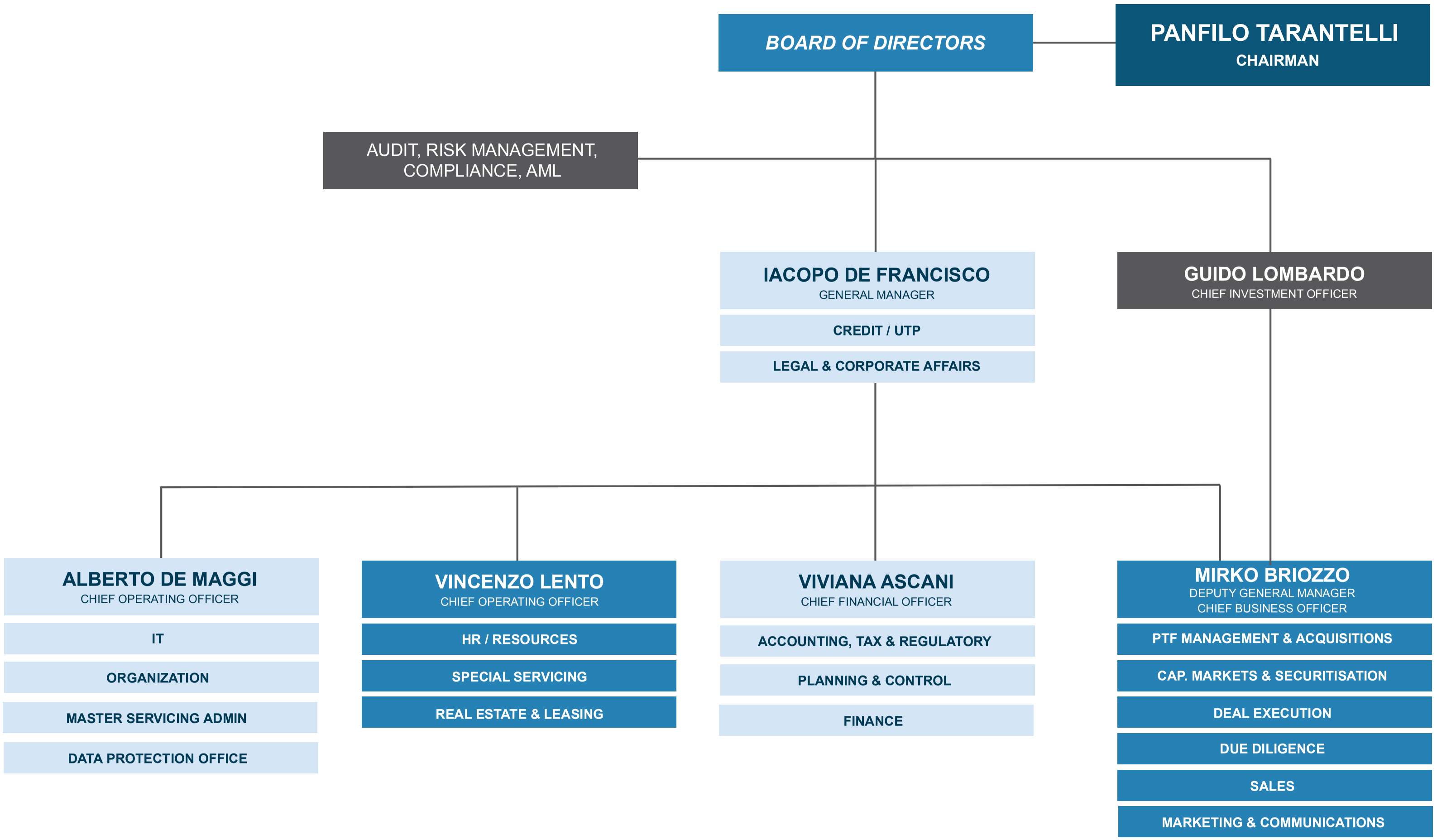
Key figures

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

KEY FIGURES	
Loan assets under management / servicing (nominal amount)	Euro 42.1 billion
Proprietary investment portfolio (nominal amount)	Euro 7 billion
Proprietary investment portfolio (carrying amount)	Euro 816.4 milion
Retail savings (Esagon account)	Euro 693.2 million
Equity	Euro 362.7 million
Total capital ratio	26.26%
Employees	263

Top management team

Credito Fondiario's top management team brings together unique experience in the commercial and investment banking, servicing, asset management and capital markets segments.



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 bank has been very active in the servicing sector in recent years and placed third in the ranking of master servicers by assets under management (AUM) in the first half of 2019[4].

The bank also has a funding structure which is stable and diversified through the retail channel, with fixed maturities up to seven years (Esagon account) and has the necessary resources to proactively manage UTP exposures. Credito Fondiario plays a leading role in the UTP exposure market, which is considered the next frontier of NPE servicing and purchasing in the coming years. In particular, the bank has already met the UTP exposure effective management requirements:

• Management of existing loans through fresh cash injections (debt/capital) and assistance with the definition of a restructuring plan;
• Proactive management of the relationship with the borrower, including through its own IT platform that allows the manager to use and coordinate all relevant information;
• An appropriate strategy to manage UTP exposures that includes continuous performance assessment, early warning indications and KPIs.

In addition, the bank continued to manage the lease portfolio securitisations. Specifically, over the past few years, it has set aside three groups of assets earmarked for a specific business to service lease portfolio securitisations through the purchase of title to the leased assets. In 2019, CF acquired quotas of LeaseCo One S.r.l., as part of the investment in the portfolio sold by UBI Leasing, and manages the group of assets.

With respect to funding activities, as part of its diversification strategy, the bank collected retail deposits of €693.2 million through the Esagon account at 31 December 2019 while also developing other forms of stable financing. Alongside its project to develop its business, the bank continued to hire specialist professional staff to build up its front office (portfolio management, capital markets and special servicing) and back office (supervisory reporting, accounting, loan administration and IT); during the year, its workforce increased by 23 employees.

Pursuant to article 2428 of the Italian Civil Code, it is noted that:

• The bank did not carry out research and development activities;
• Related party transactions are presented in part H of the notes to the separate financial statements;
• Disclosures about the bank's objectives and policies for the taking on, management and hedging of financial risks are provided in part E of the notes to the separate financial statements (Risks and hedging policies);
• The bank does not have treasury shares;
• The bank does not have branches;
• The bank deals in derivatives (see part B of the notes to the separate financial statements).

(4) Source: PwC – The Italian NPL market, December 2019.

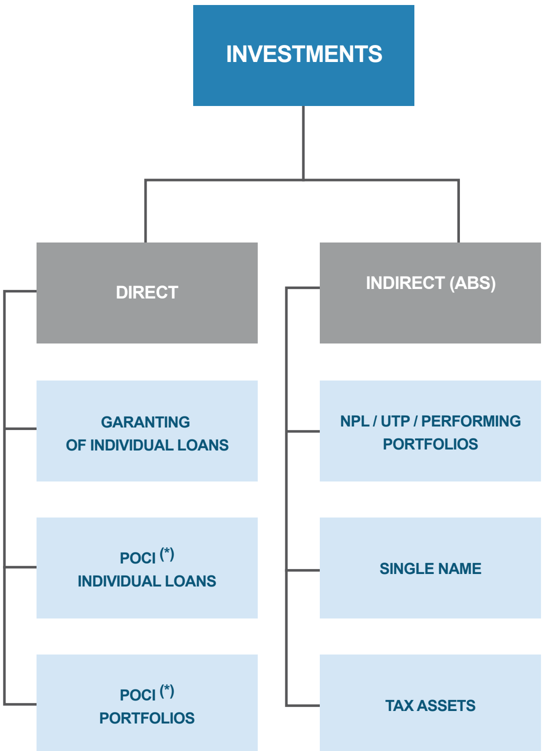
Business model

Under the bank's business model, its operations are classified as debt purchasing ("DP") and debt servicing ("DS").

Debt purchasing

The bank invests directly in bad, UTP and high risk bank loan and lease exposures, mainly mortgage loans of SMEs[5]. In order to guarantee the execution speed and the control of the processes, the underwriting structure is entirely managed by the bank's professionals who manage the due diligence, deal execution, structuring and pricing activities. The bank is available to co-invest with other institutional investors, i.e. acting as sponsor within structured financial operations, holding a retention share. This approach, unique in the Italian market for an operator that acts both in the master servicing and special servicing sectors, allows Credito Fondiario to align its interests with those of its customers and to offer an integrated solution of services and investments.

It includes the bank's investments in performing and non-performing financial assets, either directly or via securitisations of its ABS.



(*) POCI[6]

(5) Small and medium size enterprises (SME)
(6) Purchased or originated credit impaired ("POCI")

CREDITO FONDIARIO

A breakdown of investments in financial assets at year end is as follows:

(€'000)

	Performing		Non-performing
	Stage		
	1	2	3
Direct investments	**Carrying amount**		
Granting of individual loans	20,679	-	-
Purchases of leases	3,727	1,484	14,597
Purchase of POCI financial assets - self - securitisation	-	-	34,309
Purchase of POCI financial assets - banking	-	-	18,423
Total purchases directly recognised by the bank	**24,406**	**1,484**	**67,329**

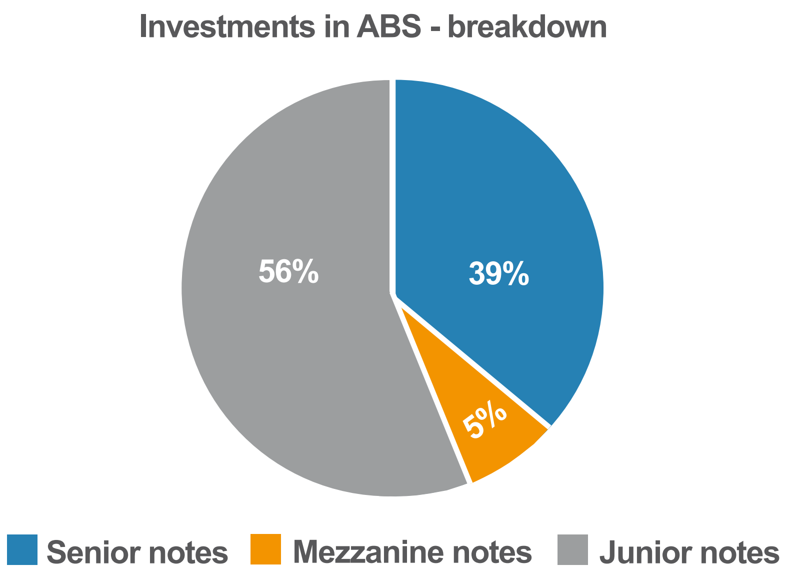
	Performing		Non-performing
	Stage		
	1	2	3
Direct investments	**Carrying amount**		
Senior ABS at amortised cost	231,816	12,700	-
Total subscription of ABS issued by securitisation vehicles at amortised cost	**231,816**	**12,700**	**-**

	Fair Value
Indirect investments	**Carrying amount**
Senior ABS at fair value	37,834
Mezzanine ABS at fair value	32,984
Junior ABS at fair value	407,861
Total subscriptions of ABS issued by securitisation vehicles	**478,679**
Total	**816,414**

The bank's purchase of performing and non-performing loans both directly and through securitisations or self-securitisations involved a deep discount.

The investments' carrying amount reflects both the portfolio's current and forecast performance.

At year end, the bank had invested €723.2 million in securitised securities as follows:
• Senior securities €282.4 million[7];
• Mezzanine securities €33.0 million;
• Junior securities €407.9 million.



Following the bank's transition to IFRS 9, the mezzanine and junior securities are measured at fair value through profit or loss as they did not pass the SPPI test required for HTC financial assets. On the other hand, the senior securities are measured at amortised cost, with the exception of some senior securities with a carrying amount of €37.8 million that did not pass the SPPI test and are, therefore, measured at fair value through profit or loss.

Direct investments in lease portfolios totalled €19.8 million at the reporting date.

The POCI portfolio purchased directly by the bank and then securitised (as a self-securitisation) amounted to €34.3 million at year end.

The POCI portfolio purchased as part of this transaction amounted to €18.4 million at 31 December 2019.

Debt Servicing

The bank is authorised to perform servicing activities as per Law no. 130/99 and offers an integrated master servicing and primary servicing solution for securitisations of private and public sector credit exposures, related to different asset classes, including those backed by the GACS scheme.

The bank acts as:
• Master servicer, performing regulatory activities while delegating the operating management of the exposures to a third party, the sub-servicer or special servicer;
• Primary servicer, when it carries out regulatory activities and also directly manages the exposures.

Thanks to its state-of-the-art infrastructure, the bank can provide the entire range of services for securitisations, from the set up of the SPV (as per Law no. 130/99) to acting as corporate servicer, calculation agent, RON, monitoring agent and paying agent.

Credito Fondiario also performs judicial and out-of-court collection services for non-performing loans secured

(7) Including: i. senior securities of €248.0 million recognised as financial assets at amortised cost; ii. senior securities of €37.8 million recognised as financial assets mandatorily measured at fair value as they failed the SPPI test.

by mortgages or unsecured (both bank loans and leases) with a dedicated internal team and cutting-edge technology.

In support of its special servicing business, Credito Fondiario set up and manages ReoCo providing both consulting activities for the identification of investment opportunities, as well as asset management services on repossessed properties.

The bank is a comprehensive servicer as it can ensure all services and roles involved in securitisations, from their structuring to the management of the underlying assets.

Assets under management are set out below:

	NO. OF EXPOSURES	ORIGINAL AMOUNT OF EXPOSURES
Performing loans (PLs)	1,754	Euro 134 million
Non-performing loans (NPLs)	826,626	Euro 40,014 million
Commercial mortgage-backed securities (CMBS)	5	Euro 133 million
Trade receivables	299,117	Euro 233 million
Industrial loans	8	Euro 389 million
NPL of real estate funds	113	Euro 66 million
Single names	10	Euro 57 million
Leases	18,455	Euro 1,032 million
Tax assets	189	Euro 90 million
Total	**1,146,277**	**Euro 42,147 million**

The bank is one of the largest and most experienced servicers in Italy, with assets under management of approximately €42.1 billion. These volumes allow it to earn fee and commission income, especially on its special servicing engagements (€27.9 million).

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

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

Funding strategy

The bank 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 the perffect funding fix to avail of the best medium to long-term market conditions.

It 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, the bank 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 bank'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 bank'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.

The bank's total funding amounts to €915.1 million at the reporting date. During the year, it continued to diversify its sources of funding, extending the portion of institutional funding to reduce its reliance on retail customer funding. At year end, the bank had the following sources of funds:
• Repurchase agreements with banks of €141.9 million;
• Interbank credit facilities of €80 million;
• Stable retail deposits of €693.2 million.

The debt to equity ratio, the disclosure of which is required by IAS 1.13, is 202% at year end and the bank does not have resources that are not recognised in its statement of financial position in accordance with the IFRS.

Developments and investments in technology

During the year, the bank continued to develop its IT platform and infrastructure, hinged on the following pillars:
- reliance on market best practices to identify the IT tools to support those processes that are common to all banks of its sector;
- development of proprietary solutions for those services which give the bank a cutting edge compared to its competitors;
- search for maximum efficiency and output of the technological infrastructure underlying the application solutions;
- maximum focus on cybersecurity and data processing.

The key milestones of the year were: renewal of the existing contract for the core banking platform with the software house and development of subsequent releases of proprietary management software, including:
• DDW: for due diligence and underwriting activities;
• REC: for the credit collection business;
• REM: for the real estate business;
• N3A: for the extensive evaluation of real estate securing loans using a proprietary tool and a fintech solution;
• GoCart: for the end-to-end management of securitisations;

• BP Manager: for the approval and historicisation of business plans for proprietary investments and input for the enhancement of the related notes;
• DWH: for the preparation of internal and external performance reports;
• The onboarding platform for bank loan and lease portfolios under management.

After receiving offers from the major market operators, the bank's IT infrastructure department introduced a cloud service for all its core processes, with the result that the entire bank deploys one of the most advanced data centres in Europe in terms of its capacity and efficiency.

Credito Fondiario rolled out solutions to access its services using two factor authentication tools for the operators (e.g., other special servicers) that work with it.

Financial performance

Reclassified income statement

(€m)

Income statement	31/12/2019	31/12/2018	Variation	Variation %
Net interest income	32.0	23.3	8.7	37.5%
Net fee and commission income	34.1	27.0	7.1	26.3%
Net fair value gains (losses) on ABS	*(6.4)*	*6.5*	*(12.9)*	*<100%*
Net trading income (expense)	*1.0*	-	*0.98*	*100.0%*
Total income	**60.7**	**56.8**	**3.9**	**6.8%**
Operating costs	**(35.4)**	**(44.8)**	**9.4**	**(21.0)%**
Core business revenue	**25.3**	**12.0**	**13.3**	**> 100%**
Net impairment losses for credit risk	*(0.9)*	*(3.2)*	*2.3*	*(71.9)%*
Accruals to provisions for risks and charges	(0.6)	(0.1)	(0.5)	>100%
Pre-tax profit	**23.7**	**8.7**	**15.0**	**>100%**
Income taxes	*12.2*	*16.1*	*(3.9)*	*(24.1)%*
Profit for the year	**36.0**	**24.8**	**11.2**	**45.0%**

IThe bank made a profit of €36 million for the year compared to €24.8 million for the previous year.
It reflects the non-recurring factors described below.

Positive factors:
• The compensation of €24.5 million received from Banca Carige in accordance with the related agreements;
• The fair value gain on the call option for Be Credit Management and BE TC (€1 million);
• The recognition of deferred tax assets on carryfoward tax losses and the ACE (Aid for Economic Growth) benefit of €20.9 million.

Negative factors:
• The €3.6 million impairment losses on the intangible asset relating to the Gerica platform;
• The fair value losses of €8.4 million on securities classified at fair value following the amendments made to the business plans, partly offset by the increase due to the Euribor component (€1.9 million);
• Net impairment losses of €0.9 million on financial assets at amortised cost, being the net balance of impairment losses of €5.5 million on the self-securitised POCI portfolio and impairment gains of €4.7 million on the POCI bank loan portfolio;
• Additional costs of €2.9 million for the long term incentive plan.

Net interest income amounts to €32 million and includes interest income of €50 million (€38 million in 2018). The increase is partly due to the higher average principal of investments. Interest expense mostly relates to the Esagon on-line deposits (€13.8 million) as well as other sources of funds such as repurchase agreements (€2.5 million) and other financing (€2.8 million).

Net fee and commission income amounts to €34.1 million. Fee and commission income mostly consists of that earned on special servicing activities (€27.8 million). Fee and commission expense includes €2.1 million for outsourced third party credit collection services.

Net trading income of €1 million refers to the fair value gains on the call options for BE TC and Be Credit Management.

Net fair value losses of €6.4 million decreased due to the lower interest rates and increased by the amendments to the business plans underlying the investments.

Total income amounts to €60.7 million compared to €57 million for 2018.

Impairment losses of €0.9 million refer to the banking book (self-securitisation and banking investments).

Personnel expense of €32.8 million (€25.8 million in 2018) reflects the higher employee numbers (up from 240 to 263 heads) and the accruals of €3.5 million for the long term inventive plan (net of social security contributions).

Administrative expenses came in at just above the 2018 figures at €21.1 million (€20.5 million in 2018) and include the maintenance costs of €1.4 million for the Rome and Milan offices.

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

Amortisation, depreciation and net impairment losses on property, equipment and investment property and intangible assets include the amortisation of the Gerica asset of €2.2 million; impairment losses of €3.6 million on the same asset, depreciation of €1.1 million on right-of-use assets under IFRS 16 and the ordinary depreciation and amortisation expense of €1.4 million on other assets.

Other operating income includes the compensation of €24.5 million paid by Banca Carige described earlier.

The bank's **pre-tax profit** amounts to €23.7 million.

It recognised net deferred taxes of €20.8 million and a current tax expense of €8.4 million. The **post-tax profit** comes to €36 million.

Financial position

Reclassified statement of financial position

(€m)

Statement of financial position	31/12/2019	31/12/2018	Variation	Variation %
Cash and cash equivalents	72.9	58.9	13.9	24%
Financial assets	917.4	797.6	119.8	15%
- FVTPL	480.3	325.7	154.6	47%
- FVOCI	3.5	6.5	(3.0)	(46)%
- Amortized cost	433.6	465.4	(31.8)	(7)%
Loans and receivables with banks	146.6	61.8	84.8	> 100%
Equity investments	100.9	0.9	100.1	>100%
Property, equipment and investment property & intangible assets	33.4	32.2	1.3	4%
Tax assets (current and deferred)	38.8	21.0	17.8	85%
Other assets	20.0	52.7	(32.7)	(62)%
Total assets	**1,330.1**	**1,025.0**	**305.1**	**30%**
Funding and other financial liabilities	932.7	794.1	138.5	17%
- due to banks	226.0	231.3	(5.3)	(2)%
- due to customers	706.7	562.9	143.8	26%
Tax liabilities	1.8	0.2	1.6	> 100%
Other liabilities	29.0	20.3	8.7	43%
Post-employment benefits	2.2	2.3	(0.1)	(3)%
Provisions for risks and charges	1.8	1.2	0.6	46%
Share capital	37.8	37.7	0.1	0%
Reserves	288.9	144.4	144.5	> 100%
Profit for the year	36.0	24.8	11.2	45%
Total liabilities and equity	**1,330.1**	**1,025.0**	**305.1**	**30%**

Total assets amount to €1,330 million.

At year end, **investments** amounted to €831.5 million and included:
- ABS of €723.2 million, which comprise securities that did not pass the SPPI test under IFRS 9 and are measured at fair value through profit or loss (€487.7 million) and other securities measured at amortised cost (€244.5 million);
- The investment made through the SPV Sesto which qualifies as a self-securitisation for accounting and regulatory purposes (€34.3 million);
- Leases purchased by the bank (€19.8 million);
- Loans and borrowings granted or purchased by the bank of €43.5 million (including the Manuli loan of €12 million,

the €6.6 million loan to Credito Fondiario Liberty Servicing and bank loans of €18.4 million);
• Advances of €10.7 million for the subscription of ABS to be issued by Cosmo SPV S.r.l. as part of the transaction with Banca Sella.

Investments of liquidity of €297.5 million were made in government bonds (€135.1 million), bank bonds (€3.5 million), the PM account with Bank of Italy (€75.3 million, including the minimum reserve of €2.4 million at year end), deposits and on the Interbank Deposit Market (€50 million) and bank current accounts (€33.6 million).

Assets measured at fair value through profit or loss include the Carige shares held through the Interbank Deposit Protection Fund (€0.3 million) and the two call options for the Be Finance Group companies (€1.3 million).

Equity investments of €100.9 million include the investments in CFLS (€100 million), BE Credit Management (€0.8 million), LeaseCo One S.r.l. (€50 thousand) and small investments in the vehicles acquired.

Intangible assets comprise the Gerica goodwill of €9.3 million and the other related intangible asset of €14.9 million.

Deferred tax assets of €32.3 million at year end mostly relate to carryforward tax losses (€29.4 million) and ACE (€0.6 million). The bank had already recognised deferred tax assets of €16.4 million in 2018 (€13.7 million on carryforward tax losses and €2.7 million on ACE) while in 2019 it used €7 million of such assets, including €6.3 million related to carryforward tax losses and €0.7 million to ACE. At year end, it recognised another €22 million on carryfoward tax losses and reversed €1.2 million on ACE.

The other deferred tax assets include those recognised in accordance with Law no. 214/11 (€1.5 million) and for the reverse merger with CFH (€0.6 million) described earlier in this report.

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

Equity of €362.7 million includes the profit for the year of €36 million and the capital injection of €120 million made by Tiber Investments s.à r.l..

Outlook and going concern

Over the next twelve months, the bank will continue to evaluate further investment and servicing opportunities. The directors have prepared the separate financial statements at 31 December 2019 on a going concern basis as there are no doubts about the bank's ability to continue as a going concern in the foreseeable future and for well beyond 12 months from the reporting date.

Events after the reporting date and outlook

In January 2020, the bank subscribed notes of €11 million issued by Cosmo SPV for its second portfolio.

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

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

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

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

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

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

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

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

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

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

Proposal to the shareholders

The bank made a profit for the year of €35,974,164.

We propose that 5% (€1,798,708) be allocated to the legal reserve as required by article 2430 of the Italian Civil Code with the remainder (€34,175,456) being allocated to the statutory reserve

Rome, 25 March 2020

BOARD OF DIRECTORS
Chairman
Panfilo Tarantelli

SEPARATE FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

(Euros)

	Assets	31/12/2019	31/12/2018
10.	Cash and cash equivalents	72,874,426	58,924,838
20.	Financial assets at fair value through profit or loss	480,253,462	325,695,566
	a) held for trading	*1,301,363*	*325,469*
	c) other financial assets mandatorily measured at fair value	*478,952,099*	*325,370,097*
30.	Financial assets at fair value through other comprehensive income	3,513,695	6,516,188
40.	Financial assets at amortised cost	580,314,710	527,210,374
	a) loans and receivables with banks	*56,874,070*	*61,815,459*
	b) loans and receivables with customers	*523,440,641*	*465,394,915*
70.	Equity investments	*100,900,014*	850,000
80.	Property, equipment and investment property	*8,222,413*	1,275,989
90.	Intangible assets, including:	25,180,292	30,876,679
	- goodwill	*9,300,000*	*9,300,000*
100.	Tax assets	38,845,507	21,011,371
	a) current	*6,536,659*	*3,087,323*
	b) deferred	*32,308,849*	*17,924,049*
120.	Other, including:	20,020,595	52,683,414
	- contributed to the assets earmarked for a specific business: "Cube Gardenia"	*100,000*	*100,000*
	- contributed to the assets earmarked for a specific business: "Este"	*50,000*	*50,000*
	- contributed to the assets earmarked for a specific business: "Gimly - New Levante"	*50,000*	-
	Total assets	**1,330,125,114**	**1,025,044,419**

continued STATEMENT OF FINANCIAL POSITION

(€'000)

	Assets	31/12/2019	31/12/2018
10.	Financial liabilities at amortised cost	932,656,340	794,116,179
	a) due to banks	*225,957,034*	*231,263,124*
	b) due to customers	*706,699,306*	*562,853,055*
60.	Tax liabilities	1,741,617	237,530
	a) current	*1,372,022*	*30,000*
	b) deferred	*369,595*	*207,530*
80.	Other liabilities	29,024,275	20,270,007
90.	Post-employment benefits	2,245,420	2,323,811
100.	Provisions for risks and charges:	1,761,375	1,202,874
	c) other provisions	*1,761,375*	*1,202,874*
110.	Valuation reserves	(55,594)	(71,903)
140.	Reserves	149,010,315	5,195,846
150.	Share premium	139,982,180	139,319,200
160.	Share capital	37,785,021	37,680,800
180.	Profit for the year (+/-)	35,974,164	24,770,075
	Total liabilities and equity	**1,330,125,114**	**1,025,044,419**

INCOME STATEMENT

(Euros)

		31/12/2019	31/12/2018
10.	Interest and similar income	49,980,925	37,957,916
11.	*including: interest calculated using the effective interest method*	*49,895,716*	*36,858,242*
20.	Interest and similar expense	(17,954,616)	(14,468,750)
30.	**Net interest income**	**32,026,309**	**23,489,166**
40.	Fee and commission income	36,303,166	28,803,550
50.	Fee and commission expense	(2,205,904)	(1,783,898)
60.	**Net fee and commission income**	**34,097,261**	**27,019,651**
70.	Dividends and similar income	9	9
80.	Net trading income (expense)	975,894	(24,531)
100.	Net gain from sales or repurchases of:	8,571	-
	b) financial assets at fair value through other comprehensive income	*8,571*	-
110.	Net gain (loss) on other financial assets and liabilities at fair value through profit or loss	(6,445,381)	6,500,591
	b) other financial assets mandatorily measured at fair value	*(6,445,381)*	*6,500,591*
120.	**Total income**	**60,662,664**	**56,984,886**
130.	Net impairment losses for credit risk associated with:	(912,921)	(3,192,798)
	a) financial assets at amortised cost	*(918,260)*	*(3,199,559)*
	b) financial assets at fair value through other comprehensive income	*5,339*	*6,762*
150.	**Net financial income**	**59,749,743**	**53,792,088**
160.	Administrative expenses:	(53,946,367)	(46,265,039)
	a) personnel expense	*(32,847,230)*	*(25,800,523)*
	b) other administrative expenses	*(21,099,137)*	*(20,464,516)*
170.	Net accruals to provisions for risks and charges	(635,271)	(124,633)
	b) other	*(635,271)*	*(124,633)*
180.	Depreciation and net impairment losses on property, equipment and investment property	(1,535,461)	(314,545)
190.	Amortisation and net impairment losses on intangible assets	(6,699,688)	(1,782,707)
200.	Other operating income, net	26,794,091	3,375,152
210.	**Operating costs**	**(36,022,696)**	**(45,111,772)**
260.	**Pre-tax profit from continuing operations**	**23,727,047**	**8,680,317**
270.	Income taxes	12,247,116	16,089,757
280.	**Post-tax profit from continuing operations**	**35,974,164**	**24,770,075**
300.	**Profit for the year**	**35,974,164**	**24,770,075**

Statement of comprehensive income

(Euros)

		31/12/2019	31/12/2018
10.	**Profit for the year**	**35,974,164**	**24,770,075**
	Other comprehensive expense, net of tax, that will not be reclassified to profit or loss:		
70.	Defined benefit plans	(21,488)	(9,299)
	Other comprehensive expense, net of tax, that will be reclassified to profit or loss:		
140.	Financial assets (other than equity instruments) at fair value through other comprehensive income	**37,798**	**(278,884)**
170.	**Total other comprehensive income (expense), net of tax**	**16,309**	**(288,183)**
180.	**Comprehensive income (captions 10 + 170)**	**35,990,473**	**24,481,892**

Statement of changes in equity (2019)

(Euros)

	Balance at 31.12.2018	Change to opening balances	Balance at 1.1.2019	Allocation of prior year profit		Changes of the year								Equity at 31.12.2019
							Equity 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	2019 comprehensive income	
Share capital:														
a) ordinary shares	37,680,800	-	37,680,800	-	-	-	104,221	-	-	-	-	-	-	37,785,021
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium	139,319,200	-	139,319,200	-	-	-	662,980	-	-	-	-	-	-	139,982,180
Reserves:	-	-	-	-	-	-	-	-	-	-	-	-	-	-
a) income-related	(9,710,055)	-	(9,710,055)	24,770,075	-	-	-	-	-	-	-	-	-	15,060,020
b) other	14,905,901	-	14,905,901	-	-	120,000,000	-	-	-	-	-	(955,606)	-	133,950,295
Valuation reserves	(71,903)	-	(71,903)	-	-	-	-	-	-	-	-	-	16,309	(55,594)
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit for the year	24,770,075	-	24,770,075	(24,770,075)	-	-	-	-	-	-	-	-	35,974,164	35,974,164
Equity	**206,894,018**	**-**	**206,894,018**	**-**	**-**	**120,000,000**	**767,201**	**-**	**-**	**-**	**-**	**(955,606)**	**35,990,473**	**362,696,086**

CREDITO FONDIARIO

Statement of changes in equity (2018)

(Euros)

	Balance at 31.12.2017	Change to opening balances	Balance at 1.1.2018	Allocation of prior year loss		Changes of the year								Equity at 31.12.2018
							Equity transactions							
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Repurchase of own shares	Extraordinary dividend distribution	Change in equity instruments	Derivatives on treasury shares	Stock options	2018 comprehensive income	
Share capital:														
a) ordinary shares	27,564,200	-	27,564,200	-	-	-	10,116,600	-	-	-	-	-	-	37,680,800
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium	84,435,800	-	84,435,800	-	-	-	54,883,400	-	-	-	-	-	-	139,319,200
Reserves:	-	-	-	-	-	-	-	-	-	-	-	-	-	-
a) income-related	2,019,312	(5,991,409)	(3,972,097)	-	-	(5,737,958)	-	-	-	-	-	-	-	(9,710,055)
b) other	80,033,832	-	80,033,832	(1,083,537)	-	–	(65,000,000)	-	-	-	-	955,606	-	14,905,901
Valuation reserves	(5,450,599)	(172,001)	(5,622,600)	-	-	5,838,880	-	-	-	-	-	-	(288,183)	(71,903)
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit for the year	(1,083,537)	-	(1,083,537)	1,083,537	-	-	-	-	-	-	-	-	24,770,075	24,770,075
Equity	**187.519.008**	**(6.163.410)**	**181.355.598**	**-**	**-**	**100,922**	**-**	**-**	**-**	**-**	**-**	**955,606**	**24,481,892**	**206,894,018**

Statement of cash flows (indirect method)

(Euros)

A. OPERATING ACTIVITIES	31/12/2019	31/12/2018
1. Operations	**38,922,183**	**7,566,063**
- profit for the year (+/-)	35,974,164	24,770,075
- gains/losses on financial assets held for trading and other financial assets/liabilities at fair value through other comprehensive income (-/+)	5,469,487	(6,476,060)
- gains/losses on hedging transactions (-/+)	-	-
- net impairment losses for credit risk (+/-)	912,921	3,192,798
- amortisation, depreciation and net impairment losses on property, equipment and investment property and intangible assets (+/-)	8,235,149	2,097,252
- net accruals to provisions for risks and charges and other costs/revenue (+/-)	635,271	124,633
- unsettled taxes and tax assets (+/-)	(12,247,116)	(16,038,172)
- net impairment losses/reversals of impairment losses on non-current assets held for sale and disposal groups, net of tax (+/-)	-	-
- other adjustments (+/-)	(57,691)	(104,463)
2. Cash flows used for financial assets	**(183,259,616)**	**(297,958,100)**
- financial assets held for trading	-	(350,000)
- financial assets at fair value through profit or loss	-	-
- other assets mandatorily measured at fair value	(160,027,382)	(16,484,251)
- financial assets at fair value through other comprehensive income	3,002,493	25,808,821
- financial assets at amortised cost	(54,022,596)	(262,431,961)
- other assets	27,787,870	(44,500,710)
3. Cash flows generated by financial liabilities	**147,822,211**	**377,039,376**
- financial liabilities at amortised cost	138,540,161	377,669,658
- financial liabilities held for trading	-	-
- financial liabilities at fair value	-	-
- other liabilities	9,282,050	(630,282)
Net cash flows generated by operating activities	**3,484,778**	**86,647,339**
B. INVESTING ACTIVITIES		
1. Cash flows generated by	**9**	**9**
- sales of equity investments	-	-
- dividends from equity investments	9	9
- sales of property, equipment and investment property	-	-
- sales of intangible assets	-	-
- sales of business units	-	-
2. Cash flows used to acquire	**(109,535,199)**	**(32,896,926)**
- equity investments	(100,050,014)	(850,000)
- property, equipment and investment property	(8,481,885)	(710,671)
- intangible assets	(1,003,300)	(336,255)
- business units	-	(31,000,000)
Net cash flows used in investing activities	**(109,535,190)**	**(32,896,917)**
C. FINANCING ACTIVITIES		
- issue/repurchase of treasury shares	-	-
- issue/purchase of equity instruments	120,000,000	-
- dividend and other distributions	-	-
Net cash flows generated by financing activities	**120,000,000**	**-**
NET CASH FLOWS FOR THE YEAR	**13,949,588**	**53,750,422**

RECONCILIATION	Amount	
Financial statements captions	31/12/2019	31/12/2018
Opening cash and cash equivalents	58,924,838	5,174,416
Total net cash flows for the year	13,949,588	53,750,422
Cash and cash equivalents: exchange rate gains (losses	-	-
Closing cash and cash equivalents	**72,874,426**	**58,924,838**

With respect to the additional disclosures required for the separate financial statements at 31 December 2019 after publication of Regulation (EU) 2017/1990 which partly amended IAS 7 "Statement of cash flows", Credito Fondiario does not have liabilities arising from financing activities and, therefore, paragraphs from 44A to 44E and paragraph 60 are not applicable.

Key: (+) Generated (-) Used

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

The restatement of comparative figures is not required.

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

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

(€'000)

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

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

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

First application/recently adopted standards

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

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

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

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

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

Name	Issue date by the IASB	Effective date set by the IASB	Expected date of endorsement by the EU
Standards			
IFRS 14 Regulatory Deferral Accounts	January 2014	**(Note 1)**	**(Note 1)**
IFRS 17 Insurance Contracts	May 2017	1° January 2021 **(Note 2)**	TBD
Amendments			
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	September 2014	Deferred until completion of the IASB project on the equity method	Postponed pending completion of the IASB project on the equity method
Definition of business (Amendments to IFRS 3)	October 2018	1° January 2020	March 2020
Classification of Liabilities as Current or Non-current (Amendments to IAS 1)	January 2020	1° January 2022	TBD

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

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

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

Section 2 – Basis of preparation

The separate 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 bank's performance and financial position, as required by the IFRS.

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

The bank prepared the separate 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 bank 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 separate 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 bank's financial position, results of operations and cash flows. Captions are presented and classified in line with Bank of Italy's instructions for banks' financial statements in Circular no. 262 of 22 December 2005 and subsequent amendments.
d) Materiality and aggregation: in line with Bank of Italy's instructions for banks' financial statements, the various classes of similar items are presented separately, if material. Different items, if material, are presented separately.
e) Offsetting: except when required or allowed by the IFRS or Bank of Italy's instructions for banks' financial statements, assets and liabilities and expenses and revenue are not offset.
f) Comparative information: comparative information from the previous year for all amounts reported in the current year's separate financial statements is disclosed, including qualitative when deemed useful, except when IFRS permit or require otherwise. The information is analysed and illustrated and all the additional disclosures deemed necessary to provide a true and fair view of the bank'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 bank'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 bank's financial position, financial performance and cash flows. No departures were made in these separate financial statements.

Section 3 – Events after the reporting date

No events have taken place since the reporting date that would have required changes to the approved data, the results or additional information to be provided, in addition to that described in the Events after the reporting date and outlook section of the directors' report about Covid-19. Specifically, no significant events have taken place in the period from the reporting date to the date of approval of the separate financial statements that would have affected the bank'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 4 – Other issues

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 bank;

• 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 separate financial statements.

Assets earmarked for a specific business

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

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

The groups of assets financed the purchase with special loans in accordance with article 2447-decies of the Italian Civil Code.
As the bank 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 bank 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 bank 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 bank's separate 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).

Preparation of consolidated financial statements

The bank 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 and LeaseCo One, CF Liberty Servicing and BE Credit Management. Following the capital increase of 31 October 2018, Elliott obtained control of the bank via its subsidiary Tiber Investments s.à r.l., which does not prepare consolidated financial statements. Therefore, the bank has been required to prepare consolidated financial statements since those at 31 December 2018.

Approval of the separate financial statements

On 25 March 2020, the directors approved the draft separate financial statements and their presentation to the shareholders within the terms of article 2429 of the Italian Civil Code. The shareholders will be asked to approve the separate financial statements in their meeting of 29 April 2020 and the separate financial statements will be filed within the legal term as per article 2435 of the Italian Civil Code. Pursuant to IAS 10.17, the date considered by the directors as the date of preparation of the separate financial statements is 25 March 2020, which is the date on which they approved them.

A.2 - MAIN FINANCIAL STATEMENTS CAPTIONS

The accounting policies adopted to prepare the separate 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 bank 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 bank currently has a legally enforceable right to set off the recognised amounts and intends to settle them on a net basis.

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

Under the IFRS 9 general reclassification rules for financial assets (except for equity instruments, whose reclassification is not allowed), an entity is required to reclassify financial assets if it changes its business model for managing those financial assets. Such changes are expected to be very infrequent. In these cases, an entity reclassifies a financial asset out of the fair value through profit or loss measurement category and into one of the other two categories provided for by IFRS 9 (financial assets at amortised cost or financial assets at fair value through other comprehensive income). The transferred asset is measured at its fair value at the reclassification date and the entity shall apply the reclassification prospectively from the reclassification date. The effective interest rate is determined on the basis of the fair value of the asset at the reclassification date, which is taken to be 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 bank derecognises the financial assets if it no longer has control thereover. If the bank 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 bank retains the contractual right to receive the cash flows but assumes a concurrent obligation to pay the cash flows without material delay to one or more recipients.

Recognition of costs and revenue

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

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

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

Recognition

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

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

Classification

A financial asset shall be classified in this category if both of the following conditions are met:
- the financial asset is held within a business model whose objective is achieved by both collecting contractual

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

This category also includes equity instruments other than those held for trading which the bank 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 bank 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 bank 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 bank 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 bank derecognises the financial assets if it no longer has control thereover. If the bank 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 bank 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 bank derecognises the financial assets if it no longer has control thereover. If the bank 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 bank 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 bank 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 the bank 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 bank would incur a decrease in expected future revenue;
- the latter, carried out for "reasons of credit risk" (forbearance measures), relate to the bank'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 separate 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 bank derecognises the financial assets if it no longer has control thereover. If the bank 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 bank retains the contractual right to receive the cash flows but assumes a concurrent obligation to pay the cash flows without material delay to one or more recipients.

Recognition of costs and revenue

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

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

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

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

4 - Equity investments

Recognition, classification and measurement

This caption includes investments in subsidiaries, associates and jointly-controlled entities.

Subsidiaries are entities, including structured entities, that the bank directly or indirectly controls. Control exists when the investor has:
• Power over the relevant activities;
• Exposure to variable returns;
• The ability to use its power over the investee to affect the amount of the investor's returns.

The bank considers the following factors to check whether control exists:
• The purpose and design of the investee, in order to identify its objectives, its relevant activities and how these activities are directed;
• Power, in order to understand whether the bank has contractual rights that give it the current ability to direct the relevant activities; it only considers substantive rights that give it the practical ability to direct;
• Exposure to the investee, to assess whether it is exposed to variable returns, which vary as a result of the performance of an investee, from its involvement with the investee;
• The existence of potential principal - agent relationships.

When the relevant activities are directed through voting rights, the existence of control is checked considering the voting rights, including potential voting rights held and any shareholder agreements that give the right to control the majority of the voting rights, to appoint the majority of the governing body or the power to determine the investee's operating and financing policies.

Structured entities may qualify as subsidiaries even when the voting rights are not substantive in order to determine control. They include special purpose entities and investment funds.

The existence of control of structured entities is assessed considering contractual rights that give the bank the right to direct the entity's relevant activities (those that contribute the most to its results) and the bank's exposure to the variable returns of those activities.

An entity is jointly controlled when control is shared by the bank 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.

An entity is an associate, i.e., subject to significant influence, when the bank has at least 20% of its voting rights (including "potential" voting rights) or, if it has a smaller percentage of voting rights, when the bank has the power to participate in deciding operating and financing policies due to special legal relationships such as shareholder agreements. The bank 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 subsidiaries, associates and jointly-controlled entities 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 bank'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 bank;
2. the cost of the item can be measured reliably.

When a lease gives the bank 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. The related lease liability is recognised under financial liabilities.

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 bank. 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 bank 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 bank;
• From which future economic benefits are expected to flow to the bank.

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 bank. Assets with indefinite useful lives are not amortised, but are regularly tested for impairment.

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

In particular, intangible assets include:
- technology related intangible assets, such as software, which are amortised on the basis of their expected technological obsolescence and over a maximum period of seven years. In particular, the costs incurred internally for the development of software projects are recognised under intangible assets only when all the following conditions are met: i) the cost attributable to the intangible asset during its development stage can be measured reliably, ii) there is the intention, the availability of financial resources and the technical ability to make the intangible asset available for use or sale, iii) the future economic benefits to be generated by the asset can be demonstrated. Software development capitalised costs only comprise the costs directly attributable to the development stage. They are amortised systematically over the estimated useful life of the relevant product/service so as to reflect the pattern in which the asset's future economic benefits are expected to be consumed by the bank 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 bank'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 bank. 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 bank'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 bank 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 bank 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 bank has the legally enforceable right to set off the recognised amount and intends to do so.

Recognition of costs and revenue

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

8 - Financial liabilities at amortised cost

Recognition

The bank 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 bank'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 bank'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 bank 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 bank are considered new issues and recognised at the new placing price.

Recognition of costs and revenue

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

9 - Provisions for risks and charges

Recognition

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

A provision is recognised when and only when:
• The bank 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 bank recognises the provision under "Provisions for risks and charges" (caption 120).

The provisions include accruals made to cover:
• The bank'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 bank 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 bank's nature and strategies. It mainly covers the related consultancy fees.

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

10 - Other information

Treasury shares

La Banca non detiene azioni proprie.

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

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

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

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

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

In operational terms, the assessment of the business model is carried out in line with the bank'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 bank's business structures.

For the HTC portfolios, the bank 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 bank 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 bank 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 bank recognises a loss allowance equal to their lifetime expected credit losses. At each subsequent reporting date, the bank 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 bank recognises a loss allowance equal to their 12-month expected credit losses. At each subsequent reporting date, the bank 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 bank, 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 bank 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 bank's business model envisages investments in POCI assets, which are therefore directly classified as stage 3 upon initial recognition.

The bank 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 bank recognises a loss allowance equal to their lifetime expected credit losses (ECL). Therefore, at each reporting date, the bank recognises any impairment gains or losses as may be necessary to adjust their lifetime ECL in profit or loss. Based on the above, the POCI assets are initially classified as stage 3, provided that they may be subsequently reclassified as performing exposures, nonetheless adjusted by a loss allowance equal to their lifetime ECL.

Business combinations

Business combinations are governed by IFRS 3.

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

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

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

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

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

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

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

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

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

Any excess between the consideration transferred (being the fair value of transferred assets, liabilities incurred and equity instruments issued by the acquirer), increased by any 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 bank 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 bank's liability is recognised under personnel expense and is calculated considering the benefits due without applying actuarial methods;
– defined benefit plans for the benefits vested up to 31 December 2006. They are recognised at their actuarial value using the projected unit credit method, without considering the pro rata past service cost as the benefits related to the current service cost have mostly vested and its revaluation is not expected to give rise to significant employee benefits in the future.

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

A.4 – FAIR VALUE

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

Qualitative information

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

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

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

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

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

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

Level 1

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

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

Level 2

A financial instrument is included in Level 2 when all the significant inputs (other than quoted prices included in Level 1) used to measure it are observable directly or indirectly on the market.
The Level 2 inputs are:
- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in markets that are not active;

- inputs other than quoted prices that are observable for the financial asset or liability (risk free rate curve, credit spread, volatility, etc.);
- inputs that mainly derive from or are corroborated (through correlation or other techniques) by observable market data (market-corroborated inputs).

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

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

Level 3

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

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

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

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

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

A.4.2. Valuation processes and sensitivity

Valuation processes and sensitivity

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

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

A.4.4. Other information

The bank 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)

	31/12/2019			31/12/2018		
	L1	L2	L3	L1	L2	L3
1. Financial assets at fair value through profit or loss	-	-	-	-	-	-
a) held for trading	-	-	1,301	-	-	325
b) designated at fair value	-	-	-	-	-	-
c) mandatorily measured at fair value	-	-	478,952	-	-	325,371
2. Financial assets at fair value through other comprehensive income	3,514	-	-	6,516	-	-
3. Hedging derivatives	-	-	-	-	-	-
4. Property, equipment and investment property	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	**3,514**	**-**	**480,253**	**6,516**	**-**	**325,696**
1. Financial liabilities held for trading	-	-	-	-	-	-
2. Financial liabilities at fair value through profit or loss	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
Total	-	-	-	-	-	-

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

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

(€'000)

	Financial assets at fair value through profit or loss				Financial assets at fair value through other comprehensive income	Hedging derivatives	Property, equipment and investment property	Intangible assets
	Total	Including: a) held for trading	Including: b) designated at fair value	Including: c) mandatorily measured at fair value				
1. Opening balance	**325,696**	**325**	**-**	**325,371**	**6,517**	**-**	**-**	**-**
2. Increases								
2.1 Purchases	177,930	-	-	177,930	-	-	-	-
2.2 Gains recognised in:	-	-	-	-	-	-	-	-
2.2.1 Profit or loss	976	976	-	-	-	-	-	-
- including: gains	976	976	-	-	-	-	-	-
2.2.2 Equity	-	X	X	X	5	-	-	-
2.3 Transfers from other levels	-	-	-	-	-	-	-	-
2.4 Other increases	33,918	-	-	33,918	-	-	-	-
3. Decreases								
3.1 Sales	-	-	-	-	(3,009)	-	-	-
3.2 Repayments	(51,820)	-	-	(51,820)	-	-	-	-
3.3 Losses recognised in:	-	-	-	-	-	-	-	-
3.3.1 Profit or loss	(6,445)	-	-	(6,445)	-	-	-	-
- including: losses	(6,445)	-	-	(6,445)	-	-	-	-
3.3.2 Equity		X	X	X				
3.4 Transfers to other levels	-	-	-	-	-	-	-	-
3.5 Other decreases	-	-	-	-	-	-	-	-
4. Closing balance	**480,254**	**1,301**	**-**	**478,952**	**3,513**	**-**	**-**	**-**

A.4.5.3. Changes in liabilities measured at fair value on a recurring basis (Level 3)

None.

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

(€'000)

	31/12/2019				31/12/2018			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Financial assets at amortised cost	580,315	135,779	-	444,880	527,210	186,879	-	346,980
2. Investment property	-	-	-	-	-	-	-	-
3. Non-current assets held for sale and disposal groups	-	-	-	-	-	-	-	-
Total	**580,315**	**135,779**	**-**	**444,880**	**527,210**	**186,879**	**-**	**346,980**
1. Financial liabilities at amortised cost	932,656	-	-	932,656	749,116	-	-	749,116
2. Liabilities associated with disposal groups	-	-	-	-	-	-	-	-
Totale	**932,656**	**-**	**-**	**932,656**	**749,116**	**-**	**-**	**749,116**

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 bank may recognise the DOP in profit or loss over the financial instrument's term.

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

Part B: Notes to the statement of financial position

Assets

Section 1

Cash and cash equivalents – Caption 10

1.1 Cash and cash equivalents: breakdown

(€'000)

	31/12/2019	31/12/2018
Cash	3	8
Demand deposits with central banks	72,871	58,917
Total	**72,874**	**58,925**

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

Section 2

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

2.1 Financial assets held for trading: breakdown by product

(€'000)

	31/12/2019			31/12/2018		
	L1	L2	L3	L1	L2	L3
A. Assets						
1. Debt instruments						
1.1 structured	-	-	-	-	-	-
1.2 other	-	-	-	-	-	-
2. Equity instruments						
3. OEIC units						
4. Financing						
4.1 reverse repurchase agreements	-	-	-	-	-	-
4.2 other	-	-	-	-	-	-
Total A	**-**	**-**	**-**	**-**	**-**	**-**
B. Derivatives						
1. Financial derivatives						
1.1 trading	-	-	1,301	-	-	326
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	**-**	**-**	**1,301**	**-**	**-**	**326**
Total (A+B)	**-**	**-**	**1,301**	**-**	**-**	**326**

The caption "Financial derivatives: 1.1. trading" includes two call options for 65% of BE Credit Management S.p.A. (of which the bank already owns 35% - see section 7) and 100% of BE TC S.p.A.. Both companies are deemed strategic for the development of the tax asset business.

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

(€'000)

	31/12/2019	31/12/2018
A. Assets		
1. Debt instruments	-	-
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
2. Equity instruments	-	-
a) Banks	-	-
b) Other financial companies	-	-
of which: insurance companies	-	-
c) Non-financial companies	-	-
d) Other issuers	-	-
3. OEIC units	-	-
4. Financing	-	-
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	--	--
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total A	-	-
B. Derivatives	-	-
a) Central counterparties	-	-
b) Other	1,301	326
Total B	**1,301**	**326**
Total (A+B)	**1,301**	**326**

2.3 Financial assets at fair value through profit or loss: breakdown by type

None.

2.4 Financial assets at fair value through profit or loss: breakdown by debtor/issuer

None.

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

(€'000)

	31/12/2019			31/12/2018		
	L1	L2	L3	L1	L2	L3
1. Debt instruments						
1.1 Structured	-	-	-	-	-	-
1.2 Other	-	-	478,679	-	-	325,108
2. Equity instruments	-	-	273	-	-	262
3. OEIC units	-	-	-	-	-	-
4. Financing	-	-		-	-	
4.1 Reverse repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total	**-**	**-**	**478,952**	**-**	**-**	**325,370**

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

The caption includes:
• The contribution paid by banks to the Interbank Deposit Protection Fund to subscribe the subordinated bonds of €273 thousand issued by Banca Carige;
• Senior ABS of €37,834 thousand that did not pass the SPPI test (their business model is HTC);
• Mezzanine ABS of €32,984 thousand that did not pass the SPPI test (their business model is HTC);
• Junior ABS of €407,861 thousand that did not pass the SPPI test (their business model is HTC).

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

(€'000)

	31/12/2019	31/12/2018
1. Equity instruments	273	262
of which: banks	-	-
of which: other financial companies	273	262
of which: non-financial companies	-	-
2. Debt instruments		
a) Central banks	-	-
b) Public administrations	-	-
c) Banks		
d) Other financial companies	478,679	325,108
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	**478,952**	**325,370**

Section 3
Financial assets at fair value through other comprehensive income – Caption 30

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

(€'000)

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

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

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

(€'000)

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

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

(€'000)

	Gross 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	3,514	-	-	-	(2)	-	-	-
Financing	-	-	-	-	-	-	-	-
Total 31/12/2019	**3,514**	**-**	**-**	**-**	**(2)**	**-**	**-**	**-**
Total 31/12/2018	**6,516**	**-**	**-**	**-**	**(8)**	**-**	**-**	**-**
of which: purchased or originated credit-impaired	**X**	**X**	**-**	**-**	**X**	**-**	**-**	**-**

* To be shown for disclosure purposes

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

Section 4

Financial assets at amortised cost – Caption 40

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

(€'000)

	31/12/2019						31/12/2018					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Stages 1 and 2	Stage 3	of which: purchased	L1	L2	L3	Stages 1 and 2	Stage 3	of which: purchased	L1	L2	L3
A. Loans and receivables with central banks												
1. Term deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Minimum reserve	2,427	-	-	X	X	X	2,191	-	-	X	X	X
3. Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	-	-	-	X	X	X	-	-	-	X	X	X
B. Loans and receivables with banks												
1. Financing												
1.1 Current accounts and on-demand deposits	33,564	-	-	X	X	X	46,722	-	-	X	X	X
1.2. Term deposits	19,965	-	-	X	X	X	10,012	-	-	X	X	X
1.3. Other financing:	-	-	-	X	X	X	2,890	-	-	X	X	X
- Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
- Net investments in leases	-	-	-	X	X	X	-	-	-	X	X	X
- Other	918	-	-	X	X	X	2,890	-	-	X	X	X
2. Debt instruments												
2.1 Structured	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other	-	-	-	-	-	-	-	-	-	-	-	-
Total	**56,874**	**-**	**-**	**-**	**-**	**-**	**61,815**	**-**	**-**	**-**	**-**	**-**

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 bank invested part of its available liquidity in current accounts and transactions on the Interbank Deposit Market.
"Loans and receivables with banks: 1.3 Other financing - Other" include amounts due from Creval for collections to be received as part of the bank loan purchase project (€323 thousand) and invoices to be issued to Banca Carige for servicing fees (€595 thousand).
Loans and receivables with banks, which are all classified as stage 1, have been impaired by €60 thousand.

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

(€'000)

	31/12/2019						31/12/2018					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Stages 1 and 2	Stage 3	of which: purchased or originated creditimpaired	L1	L2	L3	Stages 1 and 2	Stage 3	of which: purchased or originated creditimpaired	L1	L2	L3
Financing												
1.1. Current accounts	30,344	21,130	21,130	X	X	X	45	25,305	25,305	X	X	X
1.2. Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
1.3. Loans	3,702	31,255	31,602	X	X	X	4,075	29,744	29,477	X	X	X
1.4. Credit cards, personal loans and salarybacked loans	229	-	-	X	X	X	172	-	-	X	X	X
1.5. Net investments in leases	5,209	14,598	10,073	X	X	X	4,638	15,270	9,992	X	X	X
1.6. Factoring	-	-	-	X	X	X	-	-	-	X	X	X
1.7. Other financing	37,423	-	-	X	X	X	22,034	66	66	X	X	X
Debt instruments												
1.1. Structured	-	-	-	-	-	-	-	-	-	-	-	-
1.2. Other	379,550	-	-	135,779	-	244,115	364,044	-	-	186,879	-	229,235
Total	**456,457**	**66,984**	**62,805**	**135,779**		**244,115**	**395,010**	**70,385**	**64,840**	**186,879**		**229,235**

Loans and receivables with customers amount to €523,441 thousand, net of impairment losses. They increased by €58,046 thousand on the balance at 31 December 2018 (€465,395 thousand). The caption is net of loss allowances of €12,048 thousand.

As debt purchaser, the bank:
• Structured securitisations to purchase: portfolios of performing and non-performing exposures; single name exposures and tax assets. It invested in the transactions by subscribing ABS. The caption includes only the senior ABS of €244,516 thousand that passed the SPPI test;
• Purchased a portfolio of POCI exposures as a self-securitisation; after impairment, their carrying amount is €34,309 thousand;
• Purchased the Gimli POCI portfolio, as part of a larger investment transaction which includes the subscription of ABS issued by Ponente and New Levante and the creation of assets earmarked for a special business; after impairment, their carrying amount is €18,423 thousand;
• Purchased lease portfolios (both POCI and performing) in 2016 and 2017 with a carrying amount of €19,808 thousand;
• Provided loans to employees or former employees and selected corporate loans of €24,034 thousand; cash collateral of €2,281 was deposited for the corporate loans;
• Disbursed personal loans to employees of €229 thousand.

As debt servicer, the bank classifies invoices issued or to be issued for fees accrued on its master servicer, special servicer and other servicing services provided to the securitisation vehicles in this caption. The related receivables amounted to €16,745 thousand at year end.

The bank invested €135,034 thousand in government bonds and lodged €30,004 thousand in a deposit current account for cash management purposes.

4.3. Finance leases

At year end, the bank had a net investment in the lease of €19,808 thousand which matches the present value of the minimum lease payments due at that date. The unguaranteed residual value accruing to the lessor relates to the Castore portfolio (€1,929 thousand).

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

(€'000)

	31/12/2019			31/12/2018		
	Stages 1 and 2	Stage 3	of which: purchased or originated credit-impaired	Stages 1 and 2	Stage 3	of which: purchased or originated credit-impaired
1. Debt instruments						
a) Public administrations	135,034	-	-	137,246	-	-
b) Other financial companies	244,516	-	-	226,798	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	-	-	-	-	-	-
2. Financing to:						
a) Public administrations	-	-	-	-	-	-
b) Other financial companies	40,424	17	17	6,990	6	6
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	35,397	63,067	59,330	22,191	67,215	61,937
d) Households	1,087	3,900	3,456	1,785	3,164	2,897
Total	**456,457**	**66,984**	**62,803**	**395,010**	**70,385**	**64,840**

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

(€'000)

	Gross amount				Total impairment			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	367,801	-	12,840	-	(952)	(140)	-	-
Financing	75,037	-	2,614	77,196	(402)	(342)	(10,212)	(17,716)
Total 31/12/2019	**442,838**	**-**	**15,455**	**77,196**	**(1,354)**	**(482)**	**(10,212)**	**(17,716)**
Total 31/12/2018	**439,003**	**-**	**19,539**	**77,329**	**(1,412)**	**(305)**	**(6,944)**	**-**
of which: purchased or originated credit-impaired financial assets	X	X	-	73,254	X	-	(10,450)	-

(*) To be shown for disclosure purposes.

Section 7

Equity investments – Caption 70

7.1 Equity investments: details

On 31 May 2019, the bank acquired 70% of CF Liberty Servicing for €100,000 thousand.

On 27 June 2019, as part of the VAT consolidation group, the bank took over 60% of the following securitisation vehicles, which thus became part of the Credito Fondiario banking group:

1) Lucullo S.r.l.;
2) Ponente SPV S.r.l.;
3) New Levante SPV S.r.l.;
4) Bramito SPV S.r.l.;
5) Cosmo SPV S.r.l.;
6) Convento SPV S.r.l.;
7) Artemide SPV S.r.l.;
8) Novus Italia 1 S.r.l.;
9) Elmo SPV S.r.l.;
10) Sallustio S.r.l.;
11) Sesto SPV S.r.l.;
12) Vette SPV S.r.l;
13) Acqua SPV S.r.l.;
14) Leviticus SPV S.r.l..

On 22 July 2019, the bank acquired 100% of LeaseCo One S.r.l., set up as part of the UBI Banca transaction (see the key events of the year section of the directors' report) for €50 thousand.

The bank's equity investments are summarised below:

	Registered and head office	Investment %	Voting rights %
A. Subsidiaries			
1. Leaseco oOe S.r.l.	Via Piemonte, 38 - Rome	100%	100%
2. CF Liberty Servicing	Via Piemonte, 38 - Rome	70%	70%
3. BE Credit Mng S.p.A.	Via Giuseppe Gioachino Belli, 27 - Rome	35%	35%
4. Lucullo S.r.l.	Via Piemonte, 38 - Rome	60%	60%
5. Ponente SPV S.r.l.	Via Piemonte, 38 - Rome	60%	60%
6. New Levante SPV S.r.l.;	Via Piemonte, 38 - Rome	60%	60%
7. Bramito SPV S.r.l.	Via Piemonte, 38 - Rome	60%	60%
8. Cosmo SPV S.r.l.;	Via Piemonte, 38 - Rome	60%	60%
9. Convento SPV S.r.l.	Via Piemonte, 38 - Rome	60%	60%
10. Artemide SPV S.r.l.	Via Piemonte, 38 - Rome	60%	60%
11. Novus Italia 1 S.r.l.	Via Piemonte, 38 - Rome	60%	60%
12. Elmo SPV S.r.l.	Via Piemonte, 38 - Rome	60%	60%
13. Sallustio S.r.l.	Via Piemonte, 38 - Rome	60%	60%
14. Sesto SPV S.r.l.	Via Piemonte, 38 - Rome	60%	60%
15. Vette SPV S.r.l	Via Piemonte, 38 - Rome	60%	60%
16. Acqua SPV S.r.l.	Via Piemonte, 38 - Rome	60%	60%
17. Leviticus SPV S.r.l.	Via Piemonte, 38 - Rome	60%	60%
B. Jointly controlled entities	-	-	-
C. Associates	-	-	-

7.2 Significant equity investments: carrying amount, fair value and dividends received

Since the bank prepares consolidated financial statements pursuant to Bank of Italy's Circular no. 262/2005, this disclosure is not required.

7.3 Significant equity investments: breakdown

Since the bank prepares consolidated financial statements pursuant to Bank of Italy's Circular no. 262/2005, this disclosure is not required.

7.4 Insignificant equity investments: breakdown

None.

7.5 Equity investments: changes

(€'000)

	31/12/2019	31/12/2018
A. Opening balance	**850**	**-**
B. Increases	**100,050**	850
B.1 Purchases	100,050	850
B.2 Impairment gains	-	-
B.3 Fair value gains	-	-
B.4 Other increases	-	-
C. Decreases	**-**	**-**
C.1 Sales	-	-
C.2 Impairment losses	-	-
C.3 Fair value losses	-	-
C.4 Other decreases	-	-
D. Closing balance	**100,900**	**850**
E. Total fair value gains	**-**	**-**
F. Total impairment losses	**-**	**-**

7.6 Commitments relating to jointly controlled entities

None.

7.7 Commitments relating to associates

None.

7.8 Significant restrictions

None.

7.9 Other information

As required by IFRS 12.3/22.b)/c), it is noted that the bank has not entered into joint control arrangements.

Section 8

Property, equipment and investment property – Caption 80

8.1 Property and equipment: assets measured at cost

(€'000)

	31/12/2019	31/12/2018
1. Owned	**1,241**	**1,276**
a) land	-	-
b) buildings	-	-
c) furniture	561	543
d) electronic systems	-	-
e) other	680	733
2. Right-of-use	**6,981**	**-**
a) land	-	-
b) buildings	6,916	-
c) furniture	-	-
d) electronic systems	-	-
e) other	65	
Total	**8,222**	**1,276**
of which: obtained through enforcement of guarantees received	-	-

This caption comprises the right-of-use assets of €6,981 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 in Rome, Milan and Genoa, the buildings for residential use granted as a benefit to certain employees and company cars.

8.6 Property and equipment: changes

(€'000)

	Land	Buildings	Furniture	Electronic Total systems	Other	Total
A. Gross opening balance	**-**	**-**	**1,060**	**-**	**1,818**	**2,878**
A.1 Total depreciation and net impairment losses	-	-	(517)	-	(1,086)	(1,601)
A.2 Net opening balance	**-**	**-**	**543**	**-**	**733**	**1,276**
B. Increases:						
B.1 Purchases	-	16,060	143	-	288	16,491
B.2 Capitalised improvement costs	-	-	-	-	-	-
B.3 Reversals of impairment losses	-	281	-	-	-	281
B.4 Fair value gains, through:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
B.5 Exchange rate gains	-	-	-	-	-	-
B.6 Transfers from investment property	-	-	x	x	x	-
B.7 Other increases	-	-	-	-	-	-
C. Decreases:						
C.1 Sales	-	-	-	-	-	-
C.2 Depreciation	-	(1,416)	(125)	-	(275)	(1,817)
C.3 Impairment losses, recognised in:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
C.4 Fair value losses, through:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
C.5 Exchange rate losses	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) investment property	-	-	x	x	x	-
b) non-current assets held for sale and disposal groups	-	-	-	-	-	-
C.7 Other decreases	-	(8,009)	-	-	-	-
D. Net closing balance	**-**	**6,916**	**561**	**-**	**746**	**8,222**
D.1 Total depreciation and net impairment losses		(1,135)	(642)	-	(1,361)	(3,138)
D.2 Gross closing balance	**-**	**8,051**	**1,203**	**-**	**2,106**	**11,360**
E. Measurement at cost	**-**	**-**	**-**	**-**	**-**	**-**

The bank does not have any investment property at the reporting date or other property held for resale governed by IAS 2. It has not pledged its property and equipment in any way.

As required by IFRS 16.53.h), it is noted that the bank did not make any significant additions to its right-of-use assets as a lessee.

Section 9

Intangible assets – Caption 90

9.1 Intangible assets: breakdown by asset

(€'000)

	31/12/2019		31/12/2018	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	**X**	**9,300**	**X**	**9,300**
A.2 Other intangible assets	**15,880**	**-**	**21,577**	**-**
A.2.1 Assets measured at cost:				
a) internally developed assets	-	-	-	-
b) other	15,880	-	21,577	-
A.2.2 Assets measured at fair value:				
a) internally developed assets	-	-	-	-
b) other	-	-	-	-
Total	**15,880**	**9,300**	**21,577**	**9,300**

In May 2018, the bank finalised its acquisition of the credit collection business unit from Banca Carige S.p.A.. This business unit's carrying amount was nil and the transaction price of €31 million was recognised on a provisional basis as part of the PPA procedure[8] by recognising the acquisition-date fair value of the assets acquired and liabilities assumed. This led to the recognition of an intangible asset with a finite useful life of €21,700 thousand (the servicing agreement entered into with Banca Carige S.p.A., equal to the present value of the fee and commission income on the ten-year agreement) and goodwill of €9,300 thousand.

The bank is amortising the intangible asset with a finite useful life over ten years (a 50% rate was used in the first year - €1,100 million, while amortisation is €2,200 as from 2019). In 2019, as it identified impairment indicators, it recognised an impairment loss of €3,527 thousand in profit or loss.

Goodwill is not amortised (although it is amortised for tax purposes over 18 years) but it is tested for impairment once a year. The bank tested goodwill for impairment for the purposes of these separate financial statements and did not identify any impairment, including on the basis of the sensitivity analysis. The recoverable amount, which is the higher of value in use and fair value of the cash-generating unit (CGU) to which the goodwill was allocated (Credito Fondiario), is higher than the CGU's carrying amount, less the goodwill.

Other intangible assets (€963 thousand) relate to software used by the bank for its loan management, special servicing and property management activities.

(8) The PPA procedure consists of the allocation of the consideration paid to each asset acquired and liability assumed and any goodwill.

9.2 Intangible assets: changes

(€'000)

	Goodwill	Other intangible assets: internally-generated		Other intangible assets: other		Total
		FINITE	INDEFINITE	FINITE	INDEFINITE	
A. Opening balance	**9,300**	**-**	**-**	**29,192**	**-**	**38,492**
A.1 Accumulated amortisation and net impairment losses	-	-	-	(7,615)	-	(7,615)
A.2 Net opening balance	**9,300**	**-**	**-**	**21,577**	**-**	**30,877**
B. Increases						
B.1 Purchases	-	-	-	1,003	-	1,003
B.2 Increase in internally-generated assets	X	-	-	-	-	-
B.3 Reversals of impairment losses	X	-	-	-	-	-
B.4 Fair value gains:						
a) through equity	X	-	-	-	-	-
b) through profit or loss	X	-	-	-	-	-
B.5 Exchange rate gains	-	-	-	-	-	-
B.6 Other increases	-	-	-	-	-	-
C. Decreases						
C.1 Sales	-	-	-	-	-	-
C.2 Amortisation and impairment losses	-	-	-	-	-	-
- Amortisation	X	-	-	(3,172)	-	(3,172)
- Impairment losses:						
a) equity	X	-	-	-	-	-
b) profit or loss	-	-	-	(3,527)	-	-
C.3 Fair value losses:	-	-	-	-	-	-
a) through equity	X	-	-	-	-	-
b) through profit or loss	X	-	-	-	-	-
C.4 Transfers to disposal groups	-	-	-	-	-	-
C.5 Exchange rate losses	-	-	-	-	-	-
C.6 Other decreases	-	-	-	-	-	-
D. Net closing balance	**9,300**	**-**	**-**	**15,880**	**-**	**25,180**
D.1 Accumulated amortisation and net impairment losses	-	-	-	(10,787)	-	(10,787)
E. Gross closing balance	**9,300**	**-**	**-**	**30,195**	**-**	**39,495**
F. Measurement at cost	-	-	-	-	-	-

Key
FINITE: finite life
INDEFINITE: indefinite life

9.3 Other information

The following should be noted:
a) the bank does not have any gains related to revalued intangible assets (IAS 38.124.b));
b) the bank has not acquired intangible assets under government concession (IAS 38.122.c));
c) the bank has not pledged intangible assets to secure its debts (IAS 38.122.d));
d) the bank 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 10

Tax assets and liabilities – Caption 100 of assets and Caption 60 of liabilities

10.1 Deferred tax assets: breakdown

Deferred tax assets of €32,309 thousand have mostly been recognised on carryforward tax losses (€30,012 thousand) and the ACE benefit (€760 thousand). Carryforward tax losses and the ACE benefit allow for the recognition of deferred tax assets as a deductible temporary difference arises on an accruals basis and this difference can be used to decrease the tax base in future years. As these benefits are potential only, the future taxable profits should be such as to offset the carryfoward tax losses and the ACE benefit. IAS 12.24 provides that a deferred tax asset shall be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. Paragraph 34 and following paragraphs of the same standard clarify that a deferred tax asset shall be recognised for the carryforward of unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised. This shall be ascertained on a prudent basis and by performing a specific probability test to support the underlying assumptions. Accordingly, based on its forecast future taxable profits that can cover the carryforward tax losses up to the legally-established limit (80% of the tax base), the bank had recognised deferred tax assets on carryforward tax losses (€13,700 thousand) and the ACE benefit (€2,700 thousand) at 31 December 2018. In 2019, it used €7,009 thousand thereof (specifically, €6,290 thousand and €719 thousand of those recognised on carryforward tax losses and the ACE benefit, respectively) and recognised deferred tax assets on carryforward tax losses of €22,020 while reversing those on the ACE benefit by €1,221 thousand.

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

The other deferred tax assets relate to the reverse merger with CFH (€582 thousand), as described in the directors' report, and the actuarial valuation of post-employment benefits pursuant to IAS 19 (€24 thousand).

10.2 Deferred tax liabilities: breakdown

Deferred tax liabilities of €370 thousand relate to the fiscally-driven amortisation of goodwill.

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

(€'000)

	31/12/2019	31/12/2018
1. Opening balance	**17,924**	**1,851**
2. Increases		
2.1 Deferred tax assets recognised in the year		
a) related to previous years	20,799	16,400
b) due to changes in accounting policies	-	-
c) reversals of impairment losses	-	-
d) other	13	-
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	582	-
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	-	(271)
b) other	-	(56)
4. Closing balance	**32,309**	**17,924**

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

(€'000)

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

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

(€'000)

	31/12/2019	31/12/2018
1. Opening balance	**208**	**9**
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	162	199
2.2 New taxes or increases in tax rates	-	-
2.3 Other increases	-	-
3. Decreases		
3.1 Deferred tax liabilities derecognised in the year		
a) reversals	-	-
b) due to changes in accounting policies	-	-
c) other	-	-
3.2 Decrease in tax rates	-	-
3.3 Other decreases	-	-
4. Closing balance	**370**	**208**

10.5 Changes in deferred tax assets (recognised in equity)

(€'000)

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

10.6 Changes in deferred tax liabilities (recognised in equity)

(€'000)

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

10.7 Other information

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

(€'000)

		Amount
1	Withholdings on current account interest paid on account	2,899
2	Virtual stamp duty paid on account	2,400
3	IRAP tax asset from conversion of ACE tax asset	438
4	Asset as per Law no. 214/2011 on the conversion of deferred tax assets	266
5	IRAP paid on account	52
6	IRES from reverse merger	24
7	IRES from reverse merger	92
8	VAT	366
	Total	**6,537**

Section 12

Other assets – Caption 120

12.1 Other assets: breakdown

(€'000)

	31/12/2019	31/12/2018
Advance for subscription of ABS	10,742	24,195
Contribution to the assets earmarked for a specific business "Cube Gardenia"	100	100
Contribution to the assets earmarked for a specific business "Este"	50	50
Contribution to the assets earmarked for a specific business "Gimli"	50	-
"Cube" intercreditor agreement	7,399	-
Deposit for Liberty transaction	-	20,000
Grants for subsidised loans	4	5
Amounts due from INPS	62	62
Loans and receivables with assets earmarked for a specific business "Cube Gardenia"	-	3,167
Loans and receivables with assets earmarked for a specific business "Este"	96	689
Guarantee deposits	130	107
Coins	4	4
Prepayments and accrued income	1,220	693
Other	165	3,613
Total	**20,021**	**52,683**

Other assets include the advances on the subscription of ABS to be issued by Cosmo SPV S.r.l. as part of the Banca Sella transaction described in the directors' report.

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

Liabilities

Section 1

Financial liabilities at amortised cost – Caption 10

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

(€'000)

	31/12/2019				31/12/2018			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Due to central banks	**-**	**x**	**x**	**x**	**45,000**	**x**	**x**	**x**
2. Due to banks								
2.1 Current accounts and demand deposits	-	x	x	x	-	x	x	x
2.2 Term deposits	-	x	x	x	5,018	x	x	x
2.3 Financing		x	x	x		x	x	x
2.3.1 Repurchase agreements	142,029	x	x	x	118,750	x	x	x
2.3.2 Other	79,857	x	x	x	57,372	x	x	x
2.4 Commitments to repurchase own equity instruments	-	x	x	x	-	x	x	x
2.5 Lease liabilities	-	x	x	x	-	x	x	x
2.6 Other financial liabilities	4,071	x	x	x	5,123	x	x	x
Total	**225,957**			**225,957**	**231,263**			**231,263**

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

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

The "Term deposits" of €5,018 thousand at 31 December 2018 related to interbank financing, which was settled in 2019.
The repurchase agreements of €142,029 thousand refer to funding with ABS given as security.

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

"Other financial liabilities" include the liability with Creval for the deferred payment of the consideration for an UTP portfolio purchased and recognised under financial assets at amortised cost for €4,071 thousand.

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

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

(€'000)

	31/12/2019				31/12/2018			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1 Current accounts and on-demand deposits	14,297	x	x	x	12,039	x	x	x
2 Term deposits	684,481	x	x	x	550,518	x	x	x
3 Financing	-	x	x	x	-	x	x	x
3.1 Repurchase agreements	-	x	x	x	-	x	x	x
3.2 Other	-	x	x	x	-	x	x	x
4 Commitments to repurchase own equity instruments	-	x	x	x	-	x	x	x
5 Lease liabilities	7,487	x	x	x	-	x	x	x
6 Other financial liabilities	434	x	x	x	296	x	x	x
Total	**706,699**	**-**	**-**	**-**	**562,853**	**-**	**-**	**562,853**

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 (€14,297 thousand).

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

"Lease liabilities" are recognised in accordance with IFRS 16 (€7,487 thousand).

Other financial liabilities are nearly all due to the vehicles to which the bank provides administration services.
The bank does not have any structured liabilities, subordinated liabilities or finance lease liabilities to customers.

Section 6

Tax liabilities – Caption 60

See section 10 of Assets.

Section 8

Other liabilities – Caption 80

8.1 Other liabilities: breakdown

(€'000)

	31/12/2019	31/12/2018
Amounts to be credited to current accounts	63	159
Remuneration due to employees	11,019	4,895
VAT liability	279	21
Social security contributions to be paid	1,937	717
Sundry liabilities for the on-line term deposit account product	4,838	4,120
Sundry investment liabilities	852	-
Sundry lease liabilities	3,098	2,150
Sundry amounts due to SPVs	90	101
Amounts due to Cassa Depositi e Prestiti	-	15
Amounts due to CF Liberty Servicing	32	-
Trade payables	6,993	6,690
Trade payables from merger	144	-
Amounts due to "Gimly"	32	-
Amounts due to SPVs for self-securitisation	(2,331)	(1,860)
Accrued expenses and deferred income	354	1,001
Withholding taxes to be paid	865	875
Amounts due to SPVs for promissory note planning	(5)	(9)
Other	764	1,394
Total	**29,024**	**20,270**

Section 9

Post-employment benefits – Caption 90

9.1 Post-employment benefits: changes

(€'000)

	31/12/2019	31/12/2018
A. Opening balance	**2,324**	**1,855**
B. Increases		
B.1 Accruals	898	1,069
B.2 Other increases	-	-
C. Decreases		
C.1 Payments	(976)	(600)
C.2 Other decreases	-	-
D. Closing balance	**2,245**	**2,324**
Total	**2,245**	**2,324**

9.2 Other information

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 0.75% (31 December 2018: 1.55%);
- expected inflation rate of 1% (31 December 2018: 1.5%).

Section 10

Provisions for risks and charges – Caption 100

10.1 Provisions for risks and charges: breakdown

(€'000)

	31/12/2019	31/12/2018
1. Provisions for credit risk for loan commitments and financial guarantees	-	-
2. Provisions for other commitments and other guarantees given	-	-
3. Internal pension funds	-	-
4. Other provisions		
4.1 Legal and tax disputes	1,712	1,108
4.2 Personnel	-	-
4.3 Other	49	95
Total	**1,761**	**1,203**

10.2 Provisions for risks and charges: changes

(€'000)

	Provisions for other commitments and other guarantees given	Pension funds	Other provisions	Total
A. Opening balance	**-**	**-**	**1,203**	**1,203**
B. Increases				
B.1 Accruals	-	-	690	690
B.2 Changes due to passage of time	-	-	-	-
B.3 Changes due to variations in discount rate	-	-	-	-
B.4 Other increases	-	-	-	-
C. Decreases				
C.1 Utilisations	-	-	(77)	(77)
C.2 Changes due to variations in discount rate	-	-	-	-
C.3 Other decreases	-	-	(55)	(55)
D. Closing balance	**-**	**-**	**1,761**	**1,761**

10.6 Provisions for risks and charges - other provisions

These provisions comprise:

	Amount
Provision for legal fees	Euro 414 thousand
Provision for amounts to be returned to courts	Euro 24 thousand
Provision for litigation	Euro 1,274 thousand
Restructuring provision	Euro 49 thousand
Total	**Euro 1,761** 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 bank expects to use the entire provision in 2020.

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

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

Section 12

Equity – Captions 110, 130, 140, 150, 160, 170 and 180

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

The bank's fully paid-up share capital consists of 37,785,021 class A1 ordinary shares (that have one voting right per share) with a unit value of €1.

12.2 Share capital - Number of shares: changes

(€'000)

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

12.3 Share capital: other information

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

12.4 Income-related reserves: other information

The nature and objective of each equity reserve are described below:
• Legal reserve: this legally-required reserve amounts to €2,271 thousand and must equal at least one fifth of share capital; it was set up in prior years by allocating prior year profits thereto (at least one twentieth). If the reserve decreases, it shall be increased by allocating one twentieth of the profit for the year thereto.
• Statutory reserves: they amount to €23,904 thousand and comprise prior year profits allocated thereto. Their objective is to protect the bank'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 €133,950 thousand originally included the €52,862 thousand injection by the former shareholder EPAL as per the agreement to sell its shares of the bank in 2013 and €2,693 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 in conjunction with the acquisition of the investment in CFLS.
• Other reserves: they amount to €615 thousand.

They include the capital injection reserve of €133,950 thousand which originally included the €52,862 thousand injection by the former shareholder EPAL as per the agreement to sell its shares of the bank in 2013 and €2,693 (thousand? manca?) 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 in conjunction with the acquisition of the investment in CFLS.

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 bank's remuneration policy. The plan was terminated early and it will be settled in cash in 2020 rather than in shares, as originally provided for. Accordingly, the related cost was recognised under "Other liabilities" and the related equity reserve was reversed.

12.6 Other information

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

Other information

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

(€'000)

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

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

5. Management and trading on behalf of third parties

(€'000)

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

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

Part C: Notes to the income statement

Section 1

Interest – Captions 10 and 20

1.1 Interest and similar income: breakdown

(€'000)

	Debt instruments	Financing	Other	31/12/2019	31/12/2018
1. Financial assets at fair value through profit or loss:	**33,151**	**-**	**-**	**33,151**	**25,559**
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	*33,151*	-	-	*33,151*	*25,559*
2. Financial assets at fair value through other comprehensive income	**85**	**-**	**x**	**85**	**1,100**
3. Financial assets at amortised cost:	**7,801**	**8,944**	**-**	**16,744**	**11,300**
3.1 Loans and receivables with banks	-	*347*	*x*	*347*	*121*
3.2 Loans and receivables with customers	*7,801*	*8,597*	*x*	*16,397*	*11,179*
4. Hedging derivatives	**x**	**x**	**-**	**-**	**-**
5. Other assets	**x**	**x**	**-**	**-**	**-**
6. Financial liabilities	**x**	**x**	**x**	**-**	**-**
Total	**41,037**	**8,944**	**-**	**49,981**	**37,959**
including: interest income on credit-impaired financial assets	-	*7,219*	-	*7,219*	*4,998*
including: interest income on finance leases	-	1,809	-	1,809	-

Interest income of €49,981 thousand mainly includes gains on investments in ABS (€40,343 thousand) and in the Sesto and Gimly portfolios (€5,691 thousand). Interest accrued on invested liquidity amounts to €1,633 thousand.

1.2 Interest and similar income: other disclosures

1.2.1 Interest income on foreign currency financial assets

None.

1.2.2 Interest income on finance leases

Net interest income on finance leases accrued in 2019 totalled €1,809 thousand (2018: €2,009 thousand).

1.3 Interest and similar expense: breakdown

(€'000)

	Liabilities	Securities	Other	31/12/2019	31/12/2018
1. Financial liabilities at amortised cost					
1.1 Due to central banks	*39*	*x*	-	*39*	*52*
1.2 Due to banks	*3,570*	*x*	-	*3,570*	*2,319*
1.3 Due to customers	*14,345*	*x*	-	*14,345*	*11,198*
1.4 Securities issued	*x*	-	-	-	*900*
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities at fair value through profit or loss	-	-	-	-	-
4. Other liabilities and provisions	x	x	-	-	-
5. Hedging derivatives	x	x	-	-	-
6. Financial assets	x	x	x	-	-
Total	**17,955**	**-**	**-**	**17,955**	**14,469**
including: interest expense on lease liabilities	*408*	-	-	*408*	-

Interest expense is the cost of funding to the bank, the most significant of which is that accrued on the Esagon deposits (€13,753 thousand).

1.4 Interest and similar expense: other disclosures

1.4.1 Interest expense on foreign currency liabilities

None.

1.4.2 Interest expense on lease liabilities

Interest expense accrued on the lease liabilities recognised in accordance with IFRS 16 amounts to €408 thousand.

Section 2

Fees and commissions – Captions 40 and 50

2.1 Fee and commission income: breakdown

(€'000)

	31/12/2019	31/12/2018
a) Guarantees given	-	-
b) Credit derivatives	-	-
c) Management, brokerage and consultancy services:	-	-
1. trading in financial instruments	-	-
2. foreign currency transactions	-	-
3. asset management	-	-
4. securities custody and administration	-	-
5. depository services	-	-
6. securities placement	-	-
7. order collection and transmission	-	-
8. consultancy services	-	-
8.1. concerning investments	-	-
8.2. concerning financial structure	-	-
9. distribution of third party services	-	-
9.1. asset management	-	-
9.1.1. individual	-	-
9.1.2. collective	-	-
9.2. insurance products	-	-
9.3. other products	-	-
d) Collection and payment services	215	582
e) Servicing services for securitisations	34,870	23,888
f) Services for factoring transactions	-	-
g) Tax collection services	-	-
h) Management of multilateral trading systems	-	-
i) Keeping and management of current accounts	-	-
j) Other services	1,218	4,334
Total	**36,303**	**28,804**

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

Fee and commission income earned on servicing activities relates to the bank's services provided as part of the securitisations. It includes special servicing fees of €27,855 thousand.

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

2.3 Fee and commission expense: breakdown

(€'000)

	31/12/2019	31/12/2018
a) Guarantees received	13	-
b) Credit derivatives	-	-
c) Management and brokerage services:	-	-
1. trading in financial instruments	-	-
2. foreign currency transactions	-	-
3. asset management:	-	-
3.1 own portfolio	-	-
3.2 third party portfolios	-	-
4. securities custody and administration	49	35
5. placement of financial instruments	-	-
6. off-premises distribution of financial instruments, products and services	-	-
d) Collection and payment services	37	561
e) Other services	2,107	1,188
Total	**2,206**	**1,784**

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

"Other services" include fee and commission expense of €2,057 thousand for outsourced credit collection services.

Section 3

Dividends and similar income – Caption 70

3.1 Dividends and similar income: breakdown

Dividends received in 2019 amount to €9.

Section 4

Net trading income – Caption 80

4.1 Net trading income: breakdown

(€'000)

	Gains (A)	Trading income (B)	Losses (C)	Trading losses (D)	Net gain [(A+B) - (C+D)]
1. Financial assets held for trading	-	-	-	-	-
1.1 Debt instruments	-	-	-	-	-
1.2 Equity instruments	-	-	-	-	-
1.3 OEIC units	-	-	-	-	-
1.4 Financing	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	-	-	-	-	-
2.1 Debt instruments	-	-	-	-	-
2.2 Financial liabilities	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Financial assets and liabilities: exchange gains (losses)	x	x	x	x	-
4. Derivatives	-	-	-	-	-
4.1 Financial derivatives:	-	-	-	-	-
- On debt instruments and interest rates	-	-	-	-	-
- On equity instruments and equity indexes	-	-	-	-	-
- On currencies and gold	x	x	x	x	-
- Other	976	-	-	-	976
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges associated with the fair value option	-	-	-	-	-
Total	**976**	**-**	**-**	**-**	**976**

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

Section 6

Net gain from sales/repurchases – Caption 100

6.1 Net gain from sales/repurchases: breakdown

(€'000)

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

The net gain of €9 thousand relates to the sale of bank bonds classified as financial assets at fair value through other comprehensive income.

Section 7

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

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 gain [(A+B) - (C+D)]
1. Financial assets					
1.1 Debt instruments	-	-	(6,456)	-	(6,456)
1.2 Equity instruments	11	-	-	-	11
1.3 OEIC units	-	-	-	-	-
1.4 Financing	-	-	-	-	-
2. Foreign currency financial assets: exchange gains (losses)	**x**	**x**	**x**	**x**	**-**
Total	**11**	**-**	**(6,456)**	**-**	**(6,445)**

The bank recognised fair value losses of €6,456 thousand on financial assets at fair value. They include the amendments to the business plans underlying the acquired portfolios (€8,391 million) and the effect of the Euribor component (€1,935 million).

Section 8

Net impairment losses – Caption 130

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

(€'000)

	Impairment losses (1)			Impairment gains (2)		31/12/2019	31/12/2018
		Stage 3					
	Stages 1 and 2	write-off	Other	Stages 1 and 2	Stage 3		
A. Loans and receivables with banks:							
- financing	-	-	-	218	-	**218**	**(259)**
- debt instruments	-	-	-	-	-	**-**	**7**
of which: purchased or originated credit-impaired	-	-	-	-	-	**-**	**-**
B. Loans and receivables with customers:	-	-	-	-	-	**-**	**-**
- financing	(8)	-	(6,221)	-	5,169	**(1,060)**	**(2,394)**
- debt instruments	(150)	-	-	73	-	**(76)**	**(547)**
of which: purchased or originated credit-impaired	-	-	*(6,215)*	-	*5,169*	***(1,046)***	***(3,043)***
C. Total	**(158)**	**-**	**(6,221)**	**291**	**5,169**	**(918)**	**(3,193)**

Net impairment losses on financial assets at amortised cost of €918 million for the year included:
- impairment losses of €6,379 thousand, comprising €8 thousand on the bank's disbursed retail and corporate loans, €5,447 thousand on securitised POCI loans, €768 thousand on a POCI lease portfolio, €150 thousand on debt instruments (stage 1 senior ABS and government bonds) and €5 thousand on the bank's disbursed stage 3 loans;
- impairment gains of €5,460 thousand, comprising €4,724 thousand on POCI bank loans and receivables, €445 thousand on a POCI lease portfolio and €218 thousand on loans and receivables with banks (mainly following the collection of invoices issued to Banca Carige).

In 2018, net impairment losses came to €3,193 thousand.

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

(€'000)

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

Section 10

Administrative expenses – Caption 160

10.1 Personnel expense: breakdown

(€'000)

	31/12/2019	31/12/2018
1) Employees		
a) wages and salaries	17,761	17,414
b) social security contributions	6,454	4,602
c) post-employment benefits	5	-
d) pension costs	-	-
e) accrual for post-employment benefits	592	804
f) accrual for pension and similar provisions:	-	-
- defined contribution plans	242	223
- defined benefit plans	-	-
g) payments to external supplementary pension funds:	-	-
- defined contribution plans	-	-
- defined benefit plans	-	-
h) costs of share-based payment plans	-	956
i) other employee benefits	7,378	1,336
2) Other personnel	-	-
3) Directors and statutory auditors	622	483
4) Retired personnel	-	-
5) Cost recoveries for personnel seconded to other companies	(267)	(52)
6) Cost reimbursements for personnel seconded to the bank	60	35
Total	**32,847**	**25,801**

Personnel expense rose to €32,847 million from €25,801 million for 2018. During the year, the bank's workforce increased from 240 to 263 employees (equal to 261.33 FTE). The higher personnel expense reflects 23 new employees and the increase in the variable remuneration component and other performance-related employee benefits.

The accrual calculated pursuant to article 2120 of the Italian Civil Code amounts to €898 thousand; the discounting effect decreased the benefits by €108 thousand.

10.2 Average number of employees by category

Employees:	
a) managers	19.66
b) junior managers	117.00
c) other employees	112.00
Other personnel	-

At the reporting date, the bank had 263 employees, six of whom were part time.

10.4 Other employee benefits

(€'000)

	31/12/2019	31/12/2018
MBO bonuses	1,746	239
Other bonuses	515	-
Insurance policies	391	543
Healthcare	390	-
Canteen subsidy and lunch vouchers	332	222
Refresher courses	306	173
Other long-term benefits	3,533	-
Other	164	158
Total	**7,378**	**1,336**

12.5 Other administrative expenses: breakdown

(€'000)

	31/12/2019	31/12/2018
Business development, ICT development and due diligences	2,310	3,017
Taxes and duties	1,777	2,061
Professional services	1,594	1,013
Sundry consultancies	3,897	2,618
Insurance	63	117
Building leases and management fees	252	1,530
Payroll services	60	54
IT costs	4,926	6,253
Maintenance	1,533	1,140
Audit fees	242	265
Rating agency fees	177	155
Posting and telephone	473	272
Furniture and hardware leases and rentals	-	1
Cleaning and related supplies	200	117
Information services	620	437
Pro rata deductible/non-deductible VAT	99	(102)
Contribution to resolution funds	56	15
Advertising	768	813
Sundry lease costs	374	78
Contribution to the Interbank Deposit Protection Fund	530	444
Entertainment costs	25	-
Other	1,125	168
Total	**21,099**	**20,464**

In accordance with IFRS 16, it is noted that the bank 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 11

Net accruals to provisions for risks and charges – Caption 170

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

(€'000)

	31/12/2019	31/12/2018
Accrual to the restructuring provision	(3)	(5)
Accrual to the provision for litigation	(632)	2
Accrual to the provision for legal fees	-	(121)
Total	**(635)**	**(124)**

Section 12

Depreciation and net impairment losses on property, equipment and investment property – Caption 180

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

(€'000)

	Depreciation (a)	Impairment losses (b)	Reversals of impairment losses (c)	Total (a + b - c)
A. Property, equipment and investment property				
A.1 Property and equipment				
- owned	387	-	-	387
- right-of-use	1,429	-	281	1,148
A.2 Investment property				
- owned	-	-	-	-
- right-of-use	-	-	-	-
3 Inventories	x	-		
Total	**1,817**	**-**	**281**	**1,535**

Section 13

Amortisation and net impairment losses on intangible assets – Caption 190

13.1 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	3.172	3.527	-	6.700
A.2 Right-of-use	-	-	-	-
Total	**3.172**	**3.527**	**-**	**6.700**

Section 14

Other operating income, net – Caption 200

14.1 Other operating expense: breakdown

(€'000)

	31/12/2019	31/12/2018
Losses on sales of leased assets	-	19
Other	7	8
Total	**7**	**27**

14.2 Other operating income: breakdown

(€'000)

	31/12/2019	31/12/2018
Compensation for investment transactions	24,500	-
Cost recoveries from non-consolidated vehicles	220	168
Recovery of social security contributions	93	85
Smaller prior year expense	211	448
Reimbursement of due diligence expenses	508	1,252
Sundry lease income	62	1,061
Cost recoveries on promissory note management	-	1
Legal cost recoveries	1	-
Cost recharges to CF Liberty	668	-
Other	537	387
Total	**26,801**	**3,402**

The caption includes the €24,500 thousand compensation paid by Banca Carige under the related arrangements with the bank.

Section 19

Income taxes – Caption 270

19.1 Income taxes: breakdown

(€'000)

	31/12/2019	31/12/2018
1. Current taxes (-)	(8,381)	-
2. Change in current taxes from previous years (+/-)	-	(52)
3. Decrease in current taxes for the year (+)	-	-
3.bis Decrease in current taxes for the year due to tax assets as per Law no. 214/2011 (+)	-	-
4. Change in deferred tax assets (+/-)	20,799	16,340
5. Change in deferred tax liabilities (+/-)	(171)	(198)
6. Tax expense for the year (-) (-1+/-2+3+3bis+/-4+/-5)	**12,247**	**16,090**

19.2 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 10 "Tax assets and liabilities" provides more information about the deferred taxes recognised during the year.

Section 21

Earnings per share

21.1 Average number of ordinary shares with dilutive effect

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

21.2 Other information

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)

		31/12/2019	31/12/2018
10.	**Profit for the year**	**35,974**	**24,770**
	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	(21)	(9)
80.	Non-current assets held for sale and disposal groups	-	-
90.	Share of valuation reserves of equity-accounted investees	-	-
100.	Related tax	-	-
	Other comprehensive expense that will be reclassified to profit or loss		
110.	Hedges of investments in foreign operations:		
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
120.	Exchange rate gains (losses):		
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
130.	Cash flow hedges:		
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
	including: net gain (loss)	-	-
140.	Hedging instruments (non-designated items)		
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
150.	Financial assets (other than equity instruments) at fair value through other comprehensive income:		
	a) fair value gains (losses)	38	(279)
	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**	**16**	**(288)**
200.	**Comprehensive income (captions 10 + 190)**	**35,990**	**24,482**

Part E - Risks and hedging policies

Introduction

Credito Fondiario acknowledges the strategic importance of the internal control system, consisting of rules, procedures and structures designed to allow sustainable growth in line with the bank'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 bank.

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 company, is responsible for defining, approving and revising the bank's risk management policies and maintaining an effective management and control system. It is constantly informed about changes in the bank'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 supervisory body as per Legislative decree no. 231/01 checks that the organisational, management and control model, required by law, is operational and compliant.

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

This committee acknowledges and expresses its opinion on the risk appetite statement (RAS) and RAF, carries out ongoing checks of any changes in business risks and compliance with the various types of risk assumption thresholds, aids the development and spreading at all levels of an integrated risk culture for all different risk types and across the entire bank 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 bank's reputation due to violations of imperative regulations or self-regulations.

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

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

Starting from 2015, the bank 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 bank'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.

Following the spread of the Covid-19 virus (see the " Events after the reporting date and outlook" section of the directors' report), specific analyses were commenced to estimate the potential impact of this health emergency. They are still in progress at the date of preparation of these separate financial statements. The risk management department, in particular, is carrying out simulations of the impact on the bank's capital and liquidity requirements using the internal stress testing framework.

In March 2020, the bank started ongoing discussions with Bank of Italy, providing it with information about the measures taken by the group to minimise the impact on operations and reduce the risk of interruption/deterioration in the quality of its customer services. More specifically, fortnightly updates are provided on the main actions taken to measure and manage the impact mainly on business continuity, credit risk, market risk, liquidity risk and operational risk. With particular reference to operational risk, the risk management department activated a dedicated process to report any operating losses attributable to the spread of Covid-19 that may occur from 1 March 2020.

Section 1 – CREDIT RISK

A. QUALITATIVE DISCLOSURE

1. General information

Credit risk mostly arises on the bank's investments in loan portfolios or securitisation notes. The bank 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 bank'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 2019 and as described in detail in the directors' report, Credito Fondiario subscribed ABS issued by securitisation vehicles and purchased lease portfolios.

The bank'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 bank'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 bank is assessing the main financial, business and organisational impacts of this legislation on its operations.

In addition, the bank is taking steps to adopt the new definition of default set out in the new EBA[9] guidelines, which introduced more rigorous procedures for the classification of exposures as non-performing with the aim of harmonising the rules among the EU countries.

(9) The new EBA guidelines supplement the provisions of Commission Delegated Regulation (EU) 2018/171 of 19 October 2017, specifying, inter alia, the criteria for calculating past due days, the qualitative and quantitative materiality thresholds in the default identification process, the minimum requirements for being reclassified as performing and the rules for applying the definition of default to retail exposures.

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 bank 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 bank'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 bank'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 bank 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 bank 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 bank 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 department, the credits/UTP department, the due diligence department, the special servicing department, the capital markets & securitisation department, the portfolio management & acquisitions department and the real estate department are responsible for:
- managing and monitoring risks arising from the bank'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:
- 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 man-

agement 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 bank's risk appetite.

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

2.2 Management, measurement and control systems

Credit risk is the risk that the bank 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. Credit risk mitigation techniques

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

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

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

The bank 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 bank is still required to measure credit risk, focusing on the borrower's capacity to meet its obligations without considering the guarantee.

2.4 Non-performing financial assets

Exposures with irregular repayments are classified in different categories depending on the risk level.
Non-performing exposures can be split into:
- non-performing past due and/or overdue exposures: on and off-statement of financial position exposures other than bad exposures or unlikely to pay exposures that are past due or overdue by more than 90 days at the reporting date;
- unlikely to pay: on and off-statement of financial position exposures classified as such given that the bank 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 bank's estimates about probable losses.

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

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

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

3. Purchased or originated credit-impaired financial assets

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

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

As already described, the bank 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 bank revises the business plans used for the measurement of the financial assets every six months or more frequently, if appropriate.

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

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

(€'000)

	Actual collections	Original BP collections	Variation	Variation %	Securitised assets		
					Carrying amount	Purchase price	Nominal amount
Sesto	16,908	43,644	(26,736)	(61.26%)	34,309	32,926	88,438
Castore	868	3,314	(2,446)	(73.81%)	1,929	1,565	86,337
Polluce	3,088	11,848	(8,760)	(73.94%)	8,144	5,622	127,943
Gimli	848	167	680	> 100%	18,423	14,206	42,429

4. Renegotiated financial assets and forborne exposures

None.

QUANTITATIVE DISCLOSURE 190

A. CREDIT QUALITY

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

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

(€'000)

	Bad exposures	Unlikely to pay exposures	Nonperforming past due exposures	Performing past due exposures	Other performing exposures	Total
1. Financial assets at amortised cost	39,220	26,586	1,177	1,384	511,947	580,315
2. Financial assets at fair value through other comprehensive income	-	-	-	-	3,514	3,514
3. Financial assets at fair value through profit or loss	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-	478,679	478,679
5. Financial assets held for sale	-	-	-	-	-	-
Total 31/12/2019	**39,220**	**26,586**	**1,177**	**1,384**	**994,140**	**1,062,507**
Total 31/12/2018	**43,862**	**25,139**	**1,385**	**840**	**787,609**	**858,834**

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

1.2 Breakdown of exposures by portfolio and credit quality (gross amount and carrying amount)

(€'000)

	Non-performing				Performing			
	Gross amount	Total impairment losses	Carrying amount	Partial/total writeoffs (*)	Gross amount	Total impairment	Carrying amount	Total (carrying amount)
1. Financial assets at amortised cost	77,196	(10,212)	66,984	(1,556)	515,227	(1,898)	513,331	580,315
2. Financial assets at fair value through other comprehensive income	-	-	-	-	3,514	(2)	3,514	3,514
3. Financial assets at fair value through profit or loss	-	-	-	-	x	x	-	-
4. Altre attività finanziarie obbligatoriamente valutate al fair value	-	-	-	-	x	x	478,679	478,679
5. Other financial assets mandatorily measured at fair value	-	-	-	-	-	-	-	-
Total 31/12/2019	**77,196**	**(10,212)**	**66,984**	**(1,556)**	**518,741**	**(1,896)**	**995,524**	**1,062,507**
Total 31/12/2018	**76,321**	**(5,936)**	**70,385**	**-**	**465,059**	**(1,718)**	**788,449**	**858,834**

* To be shown for disclosure purposes

	Assets with poor credit quality		Other assets
	Accumulated losses	Carrying amount	Carrying amount
1. Financial assets held for trading	-	-	1,301
2. Hedging derivatives	-	-	-
Total 31/12/2019	**-**	**-**	**1,301**
Total 31/12/2018	**-**	**-**	**325**

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

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

A.1.3 Breakdown of financial assets by past due bracket (carrying amounts)

(€'000)

	Stage 1			Stage 2			Stage 3		
	Between 1 day and 30 days	Between 30 days and 90 days	Over 90 days	Up to 30 days	Between 30 days and 90 days	Over 90 days	Up to 30 days	Between 30 days and 90 days	Over 90 days
1. Financial assets at amortised cost	-	-	-	124	1,260	-	-	-	66,984
2. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-	-	-	-
Total 31/12/2019	**-**	**-**	**-**	**124**	**1,260**	**-**	**-**	**-**	**66,984**
Total 31/12/2018	**10**	**-**	**-**	**-**	**41**	**790**	**171**	**2,929**	**67,285**

1.4. Financial assets, loan commitments and financial guarantees given: total impairment losses and provisioning

(€'000)

	Total impairment losses																Total accruals on loan commitments and financial guarantees given			Total
	Stage 1					Stage 2					Stage 3									
	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	Of which: purchased or originated credi-timpaired financial assets	Stage 1	Stage 2	Stage 3	
Opening balance	**(1,414)**	**(8)**	**-**	**-**	**(1,422)**	**(303)**	**-**	**-**	**-**	**(303)**	**(5,936)**	**-**	**-**	**(5,936)**	**-**	**(4,014)**	**-**	**-**	**-**	**(7,661)**
Increase in purchased or originated financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cancellations other than write-offs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net impairment gains (losses) for credit risk (+/-)	62	5	-	-	67	(82)	-	-	(154)	72	(898)	-	-	(898)	-	(1.046)	-	-	-	(913)
Modification gains (losses)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in estimation methodology	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs not directly recognised in profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other changes	(62)	-	-	-	(62)	(97)	-	-	(97)	-	(3,378)	-	-	(3,378)	-	(4,437)	-	-	-	(3,534)
Closing balance	**(1,414)**	**(3)**	**-**	**-**	**(1,417)**	**(482)**	**-**	**-**	**(251)**	**(231)**	**(10,212)**	**-**	**-**	**(10,212)**	**-**	**(9,497)**	**-**	**-**	**-**	**(12,108)**
Collections of written-off financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs recognised directly in profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.1.5. 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	-	36	8	633	186	-
2. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-
4. Loan commitments and financial guarantees given	-	-	-	-	-	-
Total 31/12/2019	**-**	**36**	**8**	**633**	**186**	**-**
Total 31/12/2018	**19,353**	**-**	**-**	**2,181**	**-**	**2,299**

A.1.6. On- and off-statement of financial position exposures with banks: gross amount and carrying amount

(€'000)

	Gross amount		Total impairment losses and accruals	Carrying amount	Partial/total write-offs*
	Non performing	Performing			
A. ON-STATEMENT OF FINANCIAL POSITION					
a) Bad exposures	-	x	-	-	-
- including: forborne exposures	-	x	-	-	-
b) Unlikely to pay exposures	-	x	-	-	-
- including: forborne exposures	-	x	-	-	-
c) Non-performing past due exposures	-	x	-	-	-
- including: forborne exposures	-	x	-	-	-
d) Performing past due exposures	x	-	-	-	-
- including: forborne exposures	x	-	-	-	-
e) Other performing exposures	x	56,934	(60)	56,874	-
- including: forborne exposures	x	-	-	-	-
TOTAL A	**-**	**56,934**	**(60)**	**56,874**	**-**
B. OFF-STATEMENT OF FINANCIAL POSITION					
a) Non-performing	-	x	-	-	-
b) Performing	x	-	-	-	-
TOTAL B	**-**	**-**	**-**	**-**	**-**
TOTAL A+B	**-**	**56,934**	**(60)**	**56,874**	**-**

* To be shown for disclosure purposes

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

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

A.1.7 On- and off-statement of financial position exposures with customers: gross amount and carrying amount

(€'000)

	Gross amount		Total impairment losses and accruals	Carrying amount	Partial/total write-offs*
	Non performing	Performing			
A. ON-STATEMENT OF FINANCIAL POSITION					
a) Bad exposures	48,275	x	(9,055)	39,220	(1,556)
- including: forborne exposures	1,948	x	(488)	1,459	-
b) Unlikely to pay exposures	27,743	x	(1,157)	26,586	-
- including: forborne exposures	18,768	x	260	19,029	-
c) Non-performing past due exposures	1,177	x	-	1,177	-
- including: forborne exposures	-	x	-	-	-
d) Performing past due exposures	x	1,459	(75)	1,384	-
- including: forborne exposures	x	163	(41)	122	-
e) Other performing exposures	x	935,513	(1,761)	933,752	-
- including: forborne exposures	x	2,231	(253)	1,978	-
TOTAL A	**77,196**	**936,972**	**(12,048)**	**1,002,120**	**(1,556)**
B. OFF-STATEMENT OF FINANCIAL POSITION					
a) Non-performing	-	x	-	-	-
b) Performing	x	-	-	-	-
TOTAL B	**-**	**-**	**-**	**-**	**-**
TOTAL A+B	**77,196**	**936,972**	**(12,048)**	**1,002,120**	**(1,556)**

The on-statement of financial position exposures include two banking portfolios and two purchased credit-impaired lease portfolios not acquired as part of a business combination.

A.1.9 On-statement of financial position exposures with customers: gross non-performing exposures

(€'000)

	Bad exposures	Unlikely to pay exposures	Past due exposures
A. Gross opening balance	**46,994**	**27,813**	**1,514**
- including: exposures transferred but not derecognised	*37,001*	*7,377*	-
B. Increases	**10,161**	**3,627**	**-**
B.1 from performing exposures	7	186	-
B.2 from purchased or originated credit-impaired exposures	-	725	-
B.3 reclassifications from other non-performing categories	1,991	8	-
B.4 modification gains	-	-	-
B.5 other increases	8,164	2,708	-
C. Decreases	**(7,531)**	**(5,045)**	**(337)**
C.1 to performing exposures	-	(690)	-
C.2 write-offs	(1,556)	-	-
C.3 collections	(5,975)	(1,326)	(202)
C.4 sales	-	-	-
C.5 losses on sales	-	-	-
C.6 transfers to other non-performing categories	-	(1,991)	(8)
C.7 modification losses	-	-	-
C.8 other decreases	-	(1,038)	(126)
D. Gross closing balance	**49,624**	**26,395**	**1,177**
- including: exposures transferred but not derecognised	*38,981*	*5,757*	-

A.1.9bis On-statement of financial position exposures with customers: gross forborne exposures broken down by credit quality

(€'000)

	Forborne nonperforming exposures	Other forborne exposures
A. Gross opening balance	**19,535**	**1,969**
- including: exposures transferred but not derecognised	*1,925*	*784*
B. Increases	**1,278**	**458**
B.1 transfers from performing exposures not subject to forbearance measures	-	-
B.2 transfers from performing forborne exposures	-	x
B.3 reclassifications from forborne non-performing exposures	x	-
B.4 reclassifications from non-forborne non-performing exposures	-	-
B.5 other increases	1,278	458
C. Decreases	**(97)**	**(33)**
C.1 transfers to performing exposures not subject to forbearance measures	x	-
C.2 transfers to performing forborne exposures	-	x
C. 3 reclassifications to forborne non-performing exposures	x	-
C.4 write-offs	-	-
C.5 collections	(97)	(33)
C.6 sales	-	-
C.7 losses on sales	-	-
C.8 other decreases	-	-
D. Gross closing balance	**20,716**	**2,394**
- including: exposures transferred but not derecognised	*1,985*	*1,055*

A.1.10 On-statement of financial position non-performing exposures with banks: changes in impaired positions

None.

A.1.11 On-statement of financial position non-performing exposures with customers: changes in impaired positions

(€'000)

	Bad exposures		Unlikely to pay exposures		Past due exposures	
	Total	including: forborne exposures	Total	including: forborne exposures	Total	including: forborne exposures
A. Opening balance	**2,293**	**-**	**2,675**	**1,831**	**130**	**-**
- including: exposures transferred but not derecognised	*3,132*	*-*	*882*	*230*	*-*	*-*
B. Increases	**6,762**	**488**	**567**	**-**	**-**	**-**
B.1 from purchased or originated credit-impaired exposures	-	x	-	x	-	x
B.2 other impairment losses	6,762	268	567	-	-	-
B.3 losses on sales	-	-	-	-	-	-
B.4 reclassifications from other non-performing categories	-	221	-	-	-	-
B.5 modification gains	-	x	-	x	-	x
B.6 other increases	-	-	-	-	-	-
C. Decreases	**-**	**-**	**(2,084)**	**(2,091)**	**(130)**	**-**
C.1. fair value gains	-	-	(2,084)	(1,870)	-	-
C.2 impairment gains due to collections	-	-	-	-	-	-
C.3 gains on sales	-	-	-	-	-	-
C.4 write-offs	-	-	-	-	-	-
C.5 Transfers to other non-performing categories	-	-	-	221	-	-
C.6 modification losses	-	x	-	x	-	x
C.7 other decreases	-	-	-	-	(130)	-
D. Closing balance	**9,055**	**488**	**1,158**	**(260)**	**-**	**-**
- including: exposures transferred but not derecognised	*9,776*	*488*	*1,444*	*9*	*-*	*-*

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

A.2 Classification of financial assets, loan commitments and financial guarantees given based on external and internal ratings

A.2.1 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	**-**	**38,910**	**192,058**	**-**	**-**	**-**	**349,347**	**580,315**
- stage 1	-	38,910	192,058	-	-	-	267,390	498,358
- stage 2	-	-	-	-	-	-	14,973	14,973
- stage 3	-	-	-	-	-	-	66,984	66,984
B. Financial assets at fair value through other comprehensive income	**-**	**-**	**3,514**	**-**	**-**	**-**	**-**	**3,514**
- stage 1	-	-	3,514	-	-	-	-	3,514
- stage 2	-	-	-	-	-	-	-	-
- stage 3	-	-	-	-	-	-	-	-
C. Financial assets held for sale	-	-	-	-	-	-	-	-
- stage 1	-	-	-	-	-	-	-	-
- stage 2	-	-	-	-	-	-	-	-
- stage 3	-	-	-	-	-	-	-	-
Total (A + B + C)	**-**	**38,910**	**195,572**	**-**	**-**	**-**	**349,347**	**583,828**
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	*62,803*	*62,803*
D. Loan commitments and financial guarantees given	-	-	-	-	-	-	-	-
- stage 1	-	-	-	-	-	-	20,658	20,658
- stage 2	-	-	-	-	-	-	-	-
- stage 3	-	-	-	-	-	-	-	-
Total D	**-**	**-**	**-**	**-**	**-**	**-**	**20,658**	**20,658**
Total (A + B + C + D)	**-**	**38,910**	**195,572**	**-**	**-**	**-**	**370,005**	**604,487**

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

The bank does not use internal ratings.

A.3 BREAKDOWN OF GUARANTEED EXPOSURES BY TYPE OF GUARANTEE

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

None.

A.3.2 Guaranteed exposures with customers

(€'000)

	Gross amount	Carrying amount	Collateral (1)				Personal guarantees (2)									Total (1)+(2)
							Credit derivatives					Endorsement credits				
								Other derivatives								
			Mortgaged property	Net investments in property leases	Securities	Other collateral	CLN	Central counterparties	Banks	Other financial companies	Other	Public administrations	Banks	Other financial companies	Other	
1. On-statement of financial position guaranteed exposures:																
1.1 fully guaranteed	73,498	62,324	53,663	7,734	-	10	-	-	-	-	-	-	-	-	-	61,407
- including non-performing	55,622	44,956	39,511	4,518	-	10	-	-	-	-	-	-	-	-	-	44,039
1.2 partly guaranteed	821	620	620	-	-	-	-	-	-	-	-	-	-	-	-	620
- including non-performing	821	620	620	-	-	-	-	-	-	-	-	-	-	-	-	620
2. Off-statement of financial position guaranteed exposures:																
2.1 fully guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- including non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 partly guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- including non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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

B. BREAKDOWN AND CONCENTRATION OF CREDIT EXPOSURES

B.1 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 impair-ment	Carrying amount	Total impair-ment	Carrying amount	Total impair-ment	Carrying amount	Total impair-ment	Carrying amount	Total impair-ment
A. On-statement of financial position										
A.1 Bad exposures	-	-	7	-	-	-	36,597	(9,692)	2,617	(139)
- including: forborne exposures	-	-	-	-	-	-	*1,459*	*(488)*	-	-
A.2 Unlikely to pay exposures	-	-	-	-	-	-	25,303	(1,397)	1,283	(26)
- including: forborne exposures	-	-	-	-	-	-	*19,016*	*260*	*13*	-
A.3 Non-performing past due exposures	-	-	10	-	-	-	1,167	(35)	-	-
- including: forborne exposures	-	-	-	-	-	-	-	-	-	-
A.4 performing exposures	135,034	(91)	763,661	(1,029)	-	-	35,355	(664)	1,087	(16)
- including: forborne exposures	-	-	-	-	-	-	*2,100*	*(294)*	-	-
Total (A)	**135,034**	**(91)**	**763,677**	**(1,029)**	**-**	**-**	**98,422**	**(11,788)**	**4,987**	**(181)**
B. OFF-STATEMENT OF FINANCIAL POSITION										
B.1 non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 performing exposures	-	-	-	-	-	-	20,658	-	-	-
Total (B)	**-**	**-**	**-**	**-**	**-**	**-**	**20,658**	**-**	**-**	**-**
Total (A+B) 31/12/2019	**135,034**	**(91)**	**763,677**	**(1,029)**	**-**	**-**	**119,080**	**(11,788)**	**4,987**	**(181)**
Total (A+B) 31/12/2018	**137,246**	**(92)**	**558,902**	**(931)**	**-**	**-**	**89,429**	**(6,249)**	**4,924**	**(104)**

B.2 Breakdown of on- and off-statement of financial position exposures with customers by geographical segment (carrying amounts)

(€'000)

	Italy		Other European countries		America		Asia		Rest of the world	
	Carrying amount	Total impairment losses	Carrying amount	Total impairment losses	Carrying amount	Total impairment losses	Carrying amount	Total impairment losses	Carrying amount	Total impairment losses
A. On-statement of financial position										
A.1Bad exposures	39,041	(9,831)	175	-	4	-	-	-	-	-
A.2 Unlikely to pay exposures	26,586	(1,423)	-	-	-	-	-	-	-	-
A.3 Non-performing past due exposures	1,167	(35)	10	-	-	-	-	-	-	-
A.4 Performing exposures	926,217	(1,653)	8,919	(146)	-	-	-	-	-	-
Total (A)	**993,011**	**(12,942)**	**9,104**	**(146)**	**4**	**-**	**-**	**-**	**-**	**-**
B. Off-statement of financial position										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	-	-	-	-	-	-	-	-	-	-
Total (B)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31/12/2019	**993,011**	**(12,942)**	**9,104**	**(146)**	**4**	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31/12/2018	**781,296**	**(7,260)**	**9,201**	**(116)**	**6**	**-**	**-**	**-**	**-**	**-**

B.3 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	56,874	(60)	-	-	-	-	-	-	-	-
Total (A)	**56,874**	**(60)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Off-statement of financial position										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	-	-	-	-	-	-	-	-	-	-
Total (B)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31/12/2019	**56,874**	**(60)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31/12/2018	**98,495**	**(286)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

B.4 Large exposures

(€'000)

	31/12/2019	31/12/2018
a) Carrying amount	469,008	466,294
b) Weighted amount	46,422	83,214
c) Number	5	6

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

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

ASSETS	NOMINAL AMOUNT	WEIGHING	WEIGHTED AMOUNT
Exposures with or guaranteed by central administrations or central banks	332,323,850	0%	-
	1,531,862	100%	1,531,862
	24,291	250%	60,728
Exposures with or guaranteed by supervised brokers	169,938,859	20%	33,987,772
	-	50%	-
	20,785,946	100%	20,785,946
Exposures with or guaranteed by companies and other parties	54,272,533	100%	54,272,533
Exposures guaranteed by properties	802,782	35%	280,974
	16,748,496	50%	8,374,248
Defaulting exposures	429,798,241	100%	429,798,241
	83,153,652	150%	124,730,478
Exposures with UCIs	2,795,305	100%	2,795,305
Equity instruments	-	100%	-
	-	250%	-
Other exposures	6,748	0%	-
	230,160	20%	46,032
	25,890,111	100%	25,890,111
Exposures with securitisations	28,349,157	150%	42,523,736
	6,397,013	113%	7,228,624
	56,332,169	93%	52,388,917
	1,240,254	94%	1,165,838
	12,754,546	100%	12,754,546
	6,582,703	223%	14,679,428
	10,267,792	249%	25,566,801
	46,087,243	157%	72,356,972
	20,449,765	144%	29,447,661
	36,254,730	139%	50,394,075
	112,254,659	105%	117,867,392
TOTAL WEIGHTED ASSETS			1,128,928,220
Breakdown of capital allocated to cover credit risk at 31 December 2018 (in Euro)			90,314,258

C. SECURITISATIONS

This section does not include securitisations where the originating bank subscribes all the securities (e.g., ABS, financing during the warehousing stage) issued by the vehicle at their issue date. If the originating bank 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 bank 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 bank analyses the following aspects about the underlying assets:
- it firstly checks the transactions where it is not the sponsor to verify that the originator or promoter intends to maintain a commitment to the securitisation pursuant to the ruling regulations;
- it analyses the risk characteristics of the portfolio underlying the securities to be subscribed. The related due diligence considers the technical form (i.e., product) and type of exposure making up the portfolio, the documentation about the exposures, the lending policies applied by the originators, the classification of the borrowers in the portfolio and the classification criteria applied by the originators, how any credit restructurings are organised, portfolio stratification (amount, guarantee LTV, seasoning, etc.), the performance of earlier securitisations performed by the same originators and valuations of the real estate;
- the transaction's contractual structure;
- the parties involved in the securitisation and especially the special servicer.

As the department in charge of performing the second level controls, the Risk management department:
- monitors investment performances constantly;
- performs stress tests;
- checks the capital absorption level once a quarter, identifying the areas requiring attention and planning any risk containment actions;
- checks compliance with the risk limits defined in line with the bank'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 internal 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 department performs the above activities, assisted by all the bank'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 bank 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, monitoring the performance of investments and revising the recovery plans on a timely basis;
- 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. It reports on servicing activities for the managed portfolios in accordance with the contractual provisions.
In addition, the special servicing department:
- monitors the performance of the bank'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 bank decides whether to mitigate its securitised portfolios' exposure to interest rate risk through the agreement by the vehicle of interest rate swaps to hedge the fixed rate portfolio and basis swaps to hedge the indexed rate portfolio.

Disclosure on the profit or loss of securitisations

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

Quantitative disclosure

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

(€'000)

	Exposure						Guarantees given						Credit facilities					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		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
A. Fully derecognised																		
- Residential performing mortgage loans	39,341	(13)	16,133	-	2,098	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Partly derecognised	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
C. Not derecognised	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

This caption includes the ABS issued by Resloc (first and second portfolios) subscribed by the bank.

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

(€'000)

	Exposure						Guarantees given						Credit facilities					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		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.	**244,011**	**(989)**	**16,850**	**-**	**405,763**	**-**	-	-	-	-	-	-	-	-	-	-	-	-

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

C.3 Securitisation vehicles

(€'000)

	Registered office	Consoli-dation	Assets			Liabilities		
			Loans and receivables	Debt instruments	Other	Senior	Mezzanine	Junior
DANUBIO S.R.L.	Rome - Italy	no	38,930	-	4,620	5,492	-	19,759
NOVUS ITALIA 1 S.R.L	Rome - Italy	yes	6,683	-	746	58,097	20,205	1,000
LUCULLO S.R.L.	Rome - Italy	yes	3,733	-	276	-	-	311
SALLUSTIO S.R.L	Rome - Italy	yes	17,478	-	1,098	12,121	-	22,890
ELMO SPV S.R.L.	Rome - Italy	yes	2,050	-	381	750	-	3,378
RESLOC IT 1 S.R.L	Rome - Italy	yes	80,167	-	7,166	39,463	45,208	29,088
RESLOC IT 2 S.R.L	Rome - Italy	yes	2,069	-	61	1,911	-	234
RESTART SPV S.R.L.	Rome - Italy	yes	19,979	-	10,084	14,984	15,058	-
ITALIAN CREDIT RECYCLE SPV S.R.L.	Rome - Italy	yes	11,484	-	1,708	-	10	-
FEDAIA SPV S.R.L.	Rome - Italy	no	191,559	-	14,007	49,652	219,804	-
RIENZA SPV S.R.L.	Rome - Italy	no	147,269	-	22,937	-	88,775	-
GARDENIA SPV S.R.L.	Rome - Italy	no	168,585	-	16,547	54,509	-	172,914
BRAMITO SPV S.R.L.	Rome - Italy	yes	151,519	-	11,526	72,527	-	127,810
PONENTE SPV S.R.L.	Rome - Italy	yes	40,625	-	3,519	21,414	-	6,392
NEW LEVANTE SPV S.R.L.	Rome - Italy	yes	17,583	-	619	6,786	-	2,525
COSMO SPV 1 S.R.L.	Rome - Italy	yes	21,922	-	1,130	16,950	-	4,266
COSMO SPV 2 S.R.L.	Rome - Italy	yes	10,867	-	-	-	-	-
CONVENTO SPV S.R.L.	Rome - Italy	yes	31,712	-	13,575	35,126	-	11,299
ARTEMIDE SPV S.R.L.	Rome - Italy	yes	25,807	-	1,058	16,623	-	10,128
VETTE TV SPV S.R.L.	Rome - Italy	yes	239,592	-	16,789	113,616	-	106,607
APPIA TV SPV S.R.L.	Rome - Italy	no	55,000	-	389	55,037	-	-
FAIRWAY 1	Rome - Italy	no	15,212	-	4,215	18,632	-	13,275
FAIRWAY 2	Rome - Italy	no	14,505	-	504	13,799	-	6,864
SESTO S.R.L.	Rome - Italy	yes	27,673	-	2,130	12,724	-	21,429

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

C.4 Non-consolidated securitisation vehicles

(€'000)

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

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

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

(€'000)

	Securitised assets (reporting date)		Loans collected during the year		% of securities redeemed (reporting date)					
					senior		mezzanine		junior	
	Non performing	Performing	Non performing	Performing	Non performing	Performing	Non performing	Performing	Non performing	Performing
Resloc (1st portfolio)	22,690	57,377	2,795	5,269	-	82.93%	-	0%	-	0%
Resloc (2nd portfolio)	594	1,501	182	177	-	65.29%	-	-	-	0%

D. Non-consolidated structured entities (other than securitisation vehicles)

Since the bank prepares consolidated financial statements, the information required by Bank of Italy's Circular no. 262 of 22 December 2005 (sixth update) is not presented.

E. 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 bank is not the lender.

A. Financial assets transferred and not derecognised in full

Qualitative disclosure

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

Quantitative disclosure

E.1 Financial assets transferred and not derecognised: carrying amount and entire amount

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

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

None.

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

None.

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

Qualitative disclosure

None.

Qualitative disclosure

E.4 Covered bond transactions

None.

F. CREDIT RISK MEASUREMENT MODELS

At present, the bank 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.

Section 2 – MARKET RISK

2.1 - Interest rate and price risks - Supervisory trading book

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

The bank's trading portfolios solely comprise two call options for companies deemed of strategic interest. These options do not fall under the "supervisory trading book" definition, as defined by prudential regulations for market risk. The bank 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 bank as an investor in securitisations and shares of Banca Carige acquired as a member of the Interbank Fund.

The bank 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 bank no longer has investments in this type of portfolio and, hence, is not exposed to the risk of losses thereon.

B. Management and measurement of interest rate and price risks

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

QUANTITATIVE DISCLOSURE

1. Supervisory trading book: breakdown by residual maturity (repricing date) of on-statement of financial position financial assets and liabilities and financial derivatives

None.

2. Supervisory trading book: breakdown of exposures in equity instruments and share indexes by main stock exchange

None.

3. Supervisory trading book: internal models and other methodologies used to analyse sensitivity

None.

2.2 Interest rate and price risks - banking book

QUALITATIVE DISCLOSURE

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

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

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

The risk management department performs this calculation.

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

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

CREDITO FONDIARIO

QUANTITATIVE DISCLOSURE

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

(€'000)

	On demand	Up to 3 months	Between 3 months and 6 months	Between 6 months and 1 year	Between 1 year and 5 years	Between 5 and 10 years	After 10 years	Open term
1. Assets								
1.1 Debt instruments								
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	227,410	99,674	56,029	413,252	56,874	8.504	-
1.2 Financing to banks	106,758	22,392	-	595	-	-	-	-
1.3 Financing to customers								
- current account	30,344	1,013	5,802	2,785	11,025	506	-	-
- other financing	-	-	-	-	-			
- with early repayment option	48	434	101	12,245	691	3,419	775	-
- other	6,454	11,535	6,115	31,970	17,255	1,373	-	-
2. Liabilities								
2.1 Due to customers								
- current account	(329)	(2,000)	-	(281)	-	-	-	-
- other liabilities	-							
- with early repayment option	-	-	-	-	-	-	-	-
- other	(17,260)	(36,375)	(64,836)	(70,593)	(443,549)	(63,555)	-	(7,921)
2.2 Due to banks								
- current account	-	-	-	-	-	-	-	-
- other liabilities	-	(58,969)	(51,925)	(8,921)	(106,142)	-	-	-
2.3 Debt instruments								
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities								
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives								
3.1 With underlying security								
- Options								
+ long positions	-	-	-	-	1,301	-	-	-
+ 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								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-

An increase or decrease in the interest rates of 100 basis points would decrease or increase net interest income, respectively (and hence the loss for the year and equity) by €8,587,580 and €9,997,162, respectively. The effect on the fixed rate securities would have been approximately €40 thousand.

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

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

2.3 Currency risk

The bank 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.

3 – DERIVATIVES AND HEDGING POLICIES

3.1 Trading derivatives

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

A. Financial derivatives

A.1 Trading financial derivatives: reporting date notional amounts

(€'000)

	31/12/2019				31/12/2018			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Debt instruments and interest rates								
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity instruments and share indexes								
a) Options	-	-	350	-	-	-	350	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold								
a) Options	-	-	-	-	-	-	-	-
b) Swaps	-	-	-	-	-	-	-	-
c) Forward	-	-	-	-	-	-	-	-
d) Futures	-	-	-	-	-	-	-	-
e) Other								
4. Commodities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
5. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**-**	**-**	**350**	**-**	**-**	**-**	**350**	**-**

A.2 Derivati finanziari di negoziazione: fair value lordo positivo e negativo – ripartizione per prodotti

(€'000)

	31/12/2019				31/12/2018			
	Over the counter			Organised markets	Over the counter			Organised markets
	Central counterparties	Without central counterparties			Central counterparties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Positive fair value								
a) Options	-	-	1,301	-	-	-	325	-
b) Interest rate swaps	-	-	-	-	-	-	-	-
c) Cross currency swaps	-	-	-	-	-	-	-	-
d) Equity swaps	-	-	-	-	-	-	-	-
e) Forwards	-	-	-	-	-	-	-	-
f) Futures	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	**-**	**-**	**1,301**	**-**	**-**	**-**	**325**	**-**
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	-	350	-
- positive fair value	x	-	1,301	-
- negative fair value	x	-	-	-
2) Equity instruments and share indexes				
- notional amount	x	-	-	-
- positive fair value	x	-	-	-
- 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	-	-	-
Contratti rientranti in accordi di compensazione				
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	-	350	-	**350**
A.3 Financial derivatives on currencies and gold	-	-	-	**-**
A.4 Financial derivatives on commodities	-	-	-	**-**
A.5 Other financial derivatives	-	-	-	**-**
Total 31/12/2019	**-**	**350**	**-**	**350**
Total 31/12/2018	**-**	**350**	**-**	**350**

B. Credit derivatives

B1. Credit derivatives: notional amounts at the reporting date

None.

B.2 OTC credit derivatives: gross positive fair value - breakdown by product

None.

C. Financial and credit derivatives

The bank does not have financial or credit derivatives that are part of bilateral or cross products.

Section 3 – HEDGING

QUALITATIVE DISCLOSURE

None.

Section 4 – LIQUIDITY RISK

QUALITATIVE DISCLOSURE

A. General aspects, management and measurement of liquidity risk

Liquidity risk is the risk that the bank 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 bank monitors its liquidity levels to ensure its short-term structural stability, finance its growth and mitigate its liquidity risk.

The finance office ensures that the bank'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 bank's exposure to operating and structural liquidity risks.

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

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

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

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

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

At the reporting date, the bank'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 bank has financial liabilities to be repaid upon maturity and it does not have derivatives with a contractual maturity to be settled.

QUANTITATIVE DISCLOSURE

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

(€'000)

	On demand	Between 1 day and 7 days	Between 7 days and 15 days	Between 15 days and 1 days	between 1 month and 3 months	Between 3 months and 6 months	Between 6 months and 1 year	between 1 year and 5 years	After 5 years	Open term
Assets										
A.1 Government bonds	-	-	-	-	5,000	45,000	12,500	70,000	-	-
A.2 Other debt instruments	-	-	-	8,988	18,853	32,055	76,727	505,460	85,627	-
A.3 OEIC units	-	-	-	-	-	-	-	-	-	-
A.4 Financing										
- banks	106,459	-	-	20,000	-	-	595	-	-	2,429
- customers	36,587	4,808	-	1,861	170	15,099	23,666	55,204	7,333	-
Liabilities										
B.1 Deposits and current accounts										
- banks	-	-	-	2,239	6,065	11,846	23,996	177,715	-	-
- customers	15,036	-	-	11,516	25,180	65,256	72,278	457,430	66,116	-
B.2 Debt instruments	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-statement of financial position transactions										
C.1 Financial derivatives with exchange of principal										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	(350)	-	-
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	-	-	-	-	-	-	-	-	-	-

Financial assets arising from securitisations where the bank subscribed all the securities issued by the vehicle at their issue date (self-securitisations) are classified under loans and receivables with customers, as their nature is that of loans or current accounts. Their total cash flows, categorised by time bracket, amounted to €41,800 thousand. Reference should be made to the "Debt purchasing" section of the directors' report for details of the ABS subscribed by the bank.

Section 5 – OPERATIONAL RISK

QUALITATIVE DISCLOSURE

A. General aspects, management and measurement of operational risk

Main sources and nature of operational risk

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

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

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

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

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

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

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

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

In the last quarter of 2019, the risk management department launched a project to strengthen the loss data collection (LDC) process, aimed at identifying solutions for the configuration and implementation of the operating loss collection process in a decentralised manner.

Reputation risk is a current or prospective risk of a downturn in profits or capital due to the negative perception of the bank by its customers, counterparties, shareholders, investors or regulators.

The internal consequences include employee dissatisfaction.

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

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

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

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

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

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

Operational risk control unit

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

Internal operational risk measurement, management and control systems

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

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

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

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

Assessments of the operating performance

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

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

Quantitative disclosure

Based on its observation of the relevant indicator for application of the basic indicator approach and calculation of the operational risk, the capital requirement to cover this risk at 31 December 2019 is €7,724 thousand.

Part F - Equity

SECTION 1 – EQUITY

A. Qualitative disclosure

Credito Fondiario manages its capital requirements by constantly analysing the components and performance of the activities in which its capital is employed. As part of its RAF, the bank has four capital adequacy indicators calculated on the basis of its consolidated figures.

The risk capacity indicator is the limit set by current regulations while the risk appetite indicator reflects the activities to be carried out in accordance with the business plan and profit objectives. With respect to the risk tolerance indicator, the bank has provided for the possibility that it may exceed its normal risk appetite in certain circumstances to exploit opportunities available on the market in exceptional circumstances that will be unlikely to be repeated with a recovery plan in line with the risk appetite.

The bank monitors the indicators on a quarterly and, as already mentioned, consolidated basis.

B. Quantitative disclosure

The main components of equity are:
• Share capital of €37,785 thousand;
• Reserves of €288,992 thousand including the legal reserve (€2,271 thousand), statutory reserves (€23,904 thousand), capital injection reserve (€133,950 thousand), share premium (€139,982 thousand), other reserves (€615 thousand), the IFRS 9 FTA reserve (€6,074 thousand) and the reserve for the sale of the shares (€5,656 thousand);
• Valuation reserves of €56 thousand;
• Profit for the year of €35,974 thousand.

As set out in the directors' report, the directors propose that the profit for the year of €35,974,164 be allocated as follows: 5% or €1,798,708 to the legal reserve as per article 2430 of the Italian Civil Code and the remainder of €34,175,456 to the statutory reserve.

As required by article 2427.1.7-bis of the Italian Civil Code, the following table summarises the equity captions, showing their origin and possible use and distribution:

(€'000)

	31/12/2019	Possible use	Available portion	Use in the last three years
Equity-related reserves:	**-**	**-**	**-**	
Share premium	139,982,180	B	139,982,180	-
Other equity-related reserves	133,950,295	A,B	133,950,295	16,455,725
Income-related reserves:				
Legal reserve	2,271,262	B	2,271,262	-
Reserve for treasury shares - available portion	-	-	-	-
Statutory reserves	23,903,558	A, B, C	23,903,558	-
Unavailable reserve as per article 6.1.1 a. of Legislative decree no. 38/05	-	B	-	-
IFRS 9 FTA reserve	(6,073,697)	-	-	-
Reserve for losses on shares	(5,655,670)	-	-	-
Other reserves	614,566	B	614,566	-
Total	**288,992,494**	**-**	**300,721,861**	**16,455,725**
of which: unavailable	265,088,937	-	-	-
of which: available	23,903,558	-	-	-
Share capital	37,785,021	-	-	-
Valuation reserve	(55,594)	-	-	-
Profit for the year	35,974,164	-	-	-
Total equity	**362,696,086**	**-**	**-**	**-**

Key:
A = capital increase
B = to cover losses
C = for dividends

B.1 Equity: breakdown

(€'000)

	31/12/2019	31/12/2018
1. Share capital	37,785	37,681
2. Share premium	139,982	139,319
3. Reserves		
- income-related		
a) legal	2,271	1,033
b) statutory	23,904	372
c) treasury shares	-	-
d) other	(11,115)	(11,115)
- other	133,950	14,906
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	8	(29)
- 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	-	-
- Financial liabilities at fair value through profit or loss (changes in own credit rating)	-	-
- Actuarial gains (losses) on defined benefit pension plans	(64)	(43)
- Share of valuation reserves of equity-accounted investees	-	-
- Special revaluation laws	-	-
7. Profit for the year	35,974	24,770
Total	**362,696**	**206,894**

B.2 Fair value reserves: breakdown

(€'000)

	31/12/2019		31/12/2018	
	Fair value gains	Fair value losses	Fair value gains	Fair value losses
1. Debt instruments	8	-	8	(37)
2. Equity instruments	-	-	-	-
3. Financing	-	-	-	-
Total	**8**	**-**	**8**	**(37)**

B.3 Fair value reserves: changes

(€'000)

	Debt instruments	Equity instruments	Financing
1. Opening balance	**(29)**	**-**	**-**
2. Increases			
2.1 Fair value gains	43	-	-
2.2 Impairment losses for credit risk	-	x	-
2.3 Reclassification of fair value losses to profit or loss on sale	-	x	-
2.4 Transfers to other equity reserves (equity instruments)	-	-	-
2.5 Other increases	-	-	-
3. Decreases			
3.1 Fair value losses	-	-	-
3.2 Impairment gains for credit risk	(5)	-	-
3.3 Reclassification of fair value gains to profit or loss: on sale	-	x	-
3.4 Transfers to other equity reserves (equity instruments)	-	-	-
3.5 Other decreases	-	-	-
4. Closing balance	**9**	**-**	**-**

B.4 Actuarial reserves: changes

The bank recognised actuarial losses of €21 thousand on post-employment benefits during the year. The net actuarial losses accumulated on defined benefit plans amounted to €64 thousand at the reporting date.

SECTION 2 – OWN FUNDS AND REGULATORY RATIOS

2.1 Own funds

A. Qualitative disclosure

1. Common Equity Tier 1 – CET1

Common Equity Tier I is comprised of the following elements.

2. Additional Tier 1 – AT1

None.

3. Tier 2 – T2

None.

B. Quantitative disclosure

(€'000)

	31/12/2019	31/12/2018
A. Common Equity Tier 1 (CET1) before application of prudential filters	362,696	205,986
including CET1 instruments covered by transitional measures	-	-
B. CET1 prudential filters (+/-)	(585)	(333)
C. CET1 including elements to be deducted and the effects of the transitory regime (A +/-B)	362,111	205,653
D. Elements to be deducted from CET1	55,583	47,069
E. Transitory regime - Impact on CET1 (+/-)	-	-
F. Total Common Equity Tier 1 (CET1) (C-D+/-E)	**306,529**	**158,584**
G. Additional Tier 1 (AT1) including elements to be deducted and the effects of the transitory regime	-	-
including AT1 instruments covered by transitional measures	-	-
H. Elements to be deducted from AT1	-	-
I. Transitory regime - Impact on AT1 (+/-)	-	-
L. Total Additional Tier 1 (AT1) (G-H+/-I)	-	-
M. Tier 2 (T2) including elements to be deducted and the effects of the transitory regime	-	-
including T2 instruments covered by transitional measures	-	-
N. Elements to be deducted from T2	-	-
O. Transitory regime - Impact on T2 (+/-)	-	-
P. Total Tier 2 (T2) (M-N+/-O)	**-**	**-**
Q. Total own funds (F+L+P)	**306,529**	**158,584**

2.2 Capital adequacy

A. Qualitative disclosure

The bank develops forward-looking calculations to reflect developments in its business so as to monitor capital adequacy, including in the case of changes in its operations or significant changes in its revenue and expenses.

The projections prepared in the last few years, like those for 2018, always considered the capital adequacy.

B. Quantitative disclosure

(€'000)

	Unweighted amounts		Weighted amounts/ requirements	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
A. EXPOSURES				
A.1 Credit and counterparty risk	**1,488,624**	**1,164,909**	**1,069,943**	**826,028**
1. Standardised method	1,151,654	960,333	643,569	579,177
2. IRB approach	-	-	-	-
2.1 Basic	-	-	-	-
2.2. Advanced	-	-	-	-
3. Securitisations	336,970	204,576	426,374	246,851
B. CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk	**-**	**-**	**85,595**	**826,028**
B.2 Risk of adjustments to assessment of credit	**-**	**-**	**-**	**-**
B.3 Regulation risk	**-**	**-**	**-**	**-**
B.4 Market risk	**-**	**-**	**-**	**-**
1. Standard method	-	-	-	-
2. Internal models	-	-	-	-
3. Concentration risk	-	-	-	-
B.5 Operational risk	**-**	**-**	**7,724**	**5,394**
1. Basic method	-	-	7,724	5,394
2. Standardised method	-	-	-	-
3. Advanced method			-	-
B.6 Other calculation elements			**57**	**23**
B.7 Total prudential requirements			**93,376**	**71,500**
C. EXPOSURES AND CAPITAL RATIOS				
C.1 Risk-weighted assets			**1,167,205**	**893,745**
C.2 CET 1 / Risk-weighted assets (CET1 capital ratio)			**26.26%**	**17.74%**
C.3 Tier 1 / Risk-weighted assets (T1 capital ratio)			**26.26%**	**17.74%**
C.4 Total own funds / Risk-weighted assets (Total capital ratio)			**26.26%**	**17.74%**

Part G: Business combinations

SECTION 1 - COMBINATIONS PERFORMED DURING THE YEAR

Reverse merger of CF Holding S.p.A.

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

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

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

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

The reverse merger proposal established that the share exchange ratio would be calculated considering the merged company's two assets, i.e.:
• Its investment in CF (10,230,000 shares);
• The other net assets held at the effective date, estimated to be worth €669,622 at the proposal date (the "adjusted asset surplus at the merger date").

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

Therefore, at the effective date, CF:
• With respect to the merged company's investment in CF, directly awarded its shares held by CF Holding S.p.A. to its then shareholders in proportion to their investments;
• With respect to the merged company's adjusted asset surplus at the merger date, increased its share capital by €104,221 (with a share premium of €565,401 recognised in equity) issuing 104,221 new shares to the merged company's shareholders in proportion to their investments therein;
• With respect to the adjusted asset surplus of €97,958 at the merger date, increased the share premium by the same amount.

For accounting purposes, the reverse merger is a contribution in kind by a non-controlling investor which leads to an increase in equity equal to the carrying amount of the contributed assets.

Accordingly, the reverse merger increased equity by €767,200 (€104,221 for share capital and €662,979 for the share premium) equal to the carrying amount of the net assets transferred to CF as a result of the reverse merger (excluding the CF investment).

SECTION 2 – COMBINATIONS PERFORMED AFTER THE REPORTING DATE

At the date of approval of these separate financial statements, no other business combinations falling under the scope of IFRS 3 had taken place.

SECTION 3 – Retrospective adjustments

Impairment of the intangible assets of the business unit acquired from Banca Carige S.p.A. (Project Gerica)

On 10 May 2018, the bank completed its acquisition of a business unit from Banca Carige S.p.A. ("Carige"), which included 53 people based in Genoa who now work with the servicing and loan administration teams (Project Gerica).

The PPA procedure carried out in connection with the preparation of the 2018 separate financial statements identified the servicing agreement between Credito Fondiario and Banca Carige, entered into concurrently with the acquisition of the platform, as an intangible asset.

The transaction generates net fee and commission income for the bank, earned on the loans being serviced over the 10-year servicing agreement, whereby Banca Carige gave Credito Fondiario a mandate to manage and collect part of its NFEs.

Credito Fondiario determined the intangible asset's fair value using the multi-period excess earnings method (MEEM, a model that discounts cash flows and income). It found that the asset's fair value equals the present value of the net cash inflows generated solely by the specific asset being valued. In addition and in accordance with IFRS 3 (revised), the bank calculated the intangible asset's fair value assuming that it is a normal market player and without considering its specific characteristics (i.e., the synergies arising from the acquisition). It used a discount rate of 11%.

This led to the recognition of an intangible asset with a finite useful life of €21,700 thousand (the servicing agreement entered into with Banca Carige S.p.A.) and goodwill of €9,300 thousand.

The bank is amortising the intangible asset with a finite useful life over ten years.

During the year, the servicing agreement with Banca Carige for the management and collection of part of its NPEs was amended, leading to a change in the managed NPEs that were sold to AMCO. The bank paid €24.5 million to compensate for the exposures it no longer manages. The new arrangements stipulate that the original terms and volumes provided for in the servicing agreement continues to apply to future NPE flows.

Due to the above amendments to the managed NPEs, the bank recognised an impairment loss of €3,527 thousand on the related intangible asset.

The intangible assets amounted to €14,917 thousand at the reporting date, net of accumulated amortisation of €3,301 thousand and impairment losses of €3,527 thousand.

The bank tested goodwill for impairment and did not identify any impairment, including on the basis of the sensitivity analysis. The recoverable amount, which is the higher of value in use and fair value of the cash-generating unit (CGU) to which the goodwill was allocated (Credito Fondiario), is higher than the CGU's carrying amount, less the goodwill.

Part H: Related party transactions

1. Key management personnel's remuneration

Pursuant to IAS 24.16, a table showing the total fees of the board of directors, the board of statutory auditors and key management personnel for 2019 is set out below:

(€'000)

	Directors	Statutory auditors	Other key management personnel
a) Short-term benefits	424	196	3,769
b) Post-employment benefits			255
c) Other long-term benefits	-	-	3,207
d) Termination benefits	-	-	-
e) Share-based payment	-	-	-

As a result of its early termination, the 2018-2020 long-term incentive plan will be settled in cash and the related cost was recognised under "Other long-term benefits".

2. Related party transactions

	Consolidated SPVs	Other consolidated companies	31/12/2019	(%)
Assets	13,125,529	6,739,662	19,865,191	1.49% (*)
Liabilities	-	-	-	0%
Revenue	6,585,412	1,156,280	7,741,692	12.76% (**)
Costs	-	-	-	0%

(*) % of total assets

(**) % of total income

Assets and liabilities arising from related party transactions are immaterial at the reporting date, considering the size of the company's net assets. Assets include amounts due from the consolidated vehicle Cosmo (€10,742), invoices to be issued to other consolidated SPVs (€2,383) and the loan granted to CF Liberty (€6,550). Revenue and costs arising from related party transactions mainly relate to servicing fees and commissions paid to the bank by SPVs (€6,585 thousand) and LeaseCo (€73 thousand), in addition to revenue generated by sundry transactions with CF Liberty, including the interest income accrued on the loan (€48 thousand), consideration for supply services (€700 thousand), fee and commission income (€10 thousand), lease income (€62 thousand) and recharges for seconded personnel (€263 thousand).

No atypical or unusual related party transactions took place that would affect the bank'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 bank's normal operations.

MANAGEMENT AND COORDINATION ACTIVITIES PURSUANT TO ARTICLE 2497 AND FOLLOWING ARTICLES OF THE ITALIAN CIVIL CODE

At the reporting date, the bank 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 bank's financial statements and other services provided by the independent auditors in 2019 are set out below.

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

(€'000)

Service	Provider: audit company/ statutory auditor	Total fees
Statutory audit of the separate financial statements	KPMG S.p.A.	86
Audit of the condensed interim separate financial statements	KPMG S.p.A.	55
Audit of the consolidated financial statements	KPMG S.p.A.	35
Consob (the Italian commission for listed companies and the stock exchange) supervisory fee	KPMG S.p.A.	16
Attestation services on tax returns	KPMG S.p.A.	3

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 bank's remuneration policy. The plan was terminated early and it will be settled in cash in 2020 rather than in shares, as originally provided for. Accordingly, the related cost was recognised under "Other liabilities".

Quantitative disclosure

1. Changes

No options for the shares were exercised during the year.

2. Other information

The above benefits, which were originally to be settled in shares, will be settled in cash (€3,782 thousand) in 2020. The balancing entry is a specific liability for employee benefits recognised under other liabilities.

Part L: Segment reporting

As the bank 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 bank 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 bank 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 bank has not accounted for short-term leases or leases of low-value assets during the year.

Quantitative information

Reference should be made to:
– the information on right-of-use assets set out in Part A, Assets;
– the information on lease liabilities set out in Part B, Liabilities;
– the information on interest expense on lease liabilities and other expenses relating to right-of-use assets, gains or losses from sale and leaseback transactions and income from subleasing right-of-use assets set out in Part C.

The main figures relating to bank's leasing activities are summarised in the following table:

	Office premises	Buildings for residential use	Company cars	31/12/2019
a) Depreciation of right-of-use assets	1,397,062	19,231	27,032	**1,443,325**
b) Interest expense on lease liabilities	405,793	1,479	685	**407,957**
c) Costs for short-term leases (IFRS 16.6)	-	-	-	**-**
d) Costs for leases of low-value assets (IFRS 16.6)	-	-	-	**-**
e) Variable lease payments not included in the measurement of lease liabilities	-	-	-	**-**
f) Income from subleasing right-of-use assets	-	-	-	**-**
g) Total cash outflows for leases	1,617,013	20,400	28,011	**1,665,424**
h) Additions to right-of-use assets	-	-	-	**-**
i) Gains or losses from sale and leaseback transactions	-	-	-	**-**
j) Closing balance of right-of-use assets	6,865,730	50,205	65,091	**6,981,026**

The bank did not take on any commitments for short-term leases during the year.

SECTION 2 - LEASES AS A LESSOR

Qualitative information

Credito Fondiario recognised three lease portfolio in its separate financial statements, two 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 Breakdown of lease payments receivable by due date and reconciliation with the net investment in the lease recognised under assets

(€'000)

	31/12/2019 Lease payments receivable	31/12/2018 Lease payments receivable
Up to 1 year	3,255	2,645
Between 1 year and 2 years	4,020	3,502
Between 2 year and 3 years	3,557	4,314
Between 3 year and 4 years	3,186	3,925
Between 4 year and 5 years	2,287	3,373
After 5 years	8,589	11,067
Total lease payments receivable	**24,895**	**28,825**
RECONCILIATION WITH NET INVESTMENT IN LEASES		
Unaccrued interest income (-)	(5,087)	(8,917)
Unguaranteed residual value (-)	-	-
Net investments in leases	**19,808**	**19,908**

2.2 Other information

None.

3. Operating leases

3.1 Breakdown of lease payments receivable by due date

None.

3.2 Other information

None.

DISCLOSURE ON THE ASSETS EARMARKED FOR A SPECIFIC BUSINESS

Cube Gardenia

On 26 April 2017, the bank 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 bank'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 bank covered the VAT calculated on the consideration using its general assets. It will use the related tax asset to offset its tax liabilities or will claim it for reimbursement from the tax authorities. Cube Gardenia paid an annual lump-sum fee of €200,000 for this advance on 31 July 2017 and 2018, whereas no fee was paid on 31 July 2019 since the bank had fully recovered the VAT asset.

The consideration paid can be allocated to the underlying assets as follows:

	No. of assets	Purchase price €'000
Buildings	249	29,085
Photovoltaic systems	13	315
Vehicles	42	8
Watercraft	11	1
Other	67	54
Total	**382**	**29,463**

As noted above, the leases and assets are to be used to service the Gardenia securitisation. All the proceeds from their sale or other re-allocation of Cube Gardenia's assets are used to either cover its costs or to repay the special loan.

Cube Gardenia is not exposed to risks thanks to contractual terms included in the securitisation structure, which include a number of insurance and risk hedging mechanisms, as well as the liquidity made available to it.

The securitisation vehicle bears all the costs of operating, maintaining and selling the assets.

At the reporting date, the underlying assets amounted to €28,615 thousand while the outstanding special loan amounted to €29,352 thousand.

Este

On 16 June 2017, the bank 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 bank'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 bank 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
Equipment	1,293	679
Vehicles	725	67
Watercraft	24	2
Total	**2,145**	**2,592**

As noted above, the leases and assets are to be used to service the Restart securitisation. All the income from their sale or other re-allocation of Este Restart's assets are used to either cover its costs or to repay the special loan.

Este Restart is not exposed to risks thanks to contractual terms included in the securitisation structure, which include a number of insurance and risk hedging mechanisms, as well as the liquidity made available to it.

The securitisation vehicle bears all the costs of operating, maintaining and selling the assets.

During the transaction, Este Restart repaid €958 thousand of the special loan using income from the sale/surrender of the assets, net of costs.

At the reporting date, the underlying assets amounted to €2,271 thousand while the outstanding special loan amounted to €1,898 thousand.

Gimli

On 19 September 2018, the bank 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 bank's role as servicer to the Levante securitisation.

When they were set aside, the assets earmarked for a specific business were given an endowment fund of €50,000 to cover their costs.

The contracts and assets were purchased on 28 September 2018 with effect from 1 January 2018.

The consideration for the purchase of the leases and the assets was set at €150,000 and was financed in full with a limited recourse special loan granted (pursuant to article 2447-decies of the Italian Civil Code) by the originating bank. The loan was transferred on its disbursement date to Levante. It accrues interest (also with limited recourse) at a rate of 5%.

The bank covered the VAT calculated on the consideration using its general assets. It will use the related tax credit to decrease its tax liabilities or will claim it for reimbursement from the tax authorities.

The underlying assets are all buildings.

As noted above, the leases and assets are to be used to service the Levante securitisation. All the income from their sale or other re-allocation of Gimli New Levante's assets are used to either cover its costs or to repay the special loan.

Gimli New Levante is not exposed to risks thanks to contractual terms included in the securitisation structure, which include a number of insurance and risk hedging mechanisms, as well as the liquidity made available to it. The securitisation vehicle bears all the costs of operating, maintaining and selling the assets.

Gimli New Levante did not repay any loan instalments during the year.

At the reporting date, the underlying assets amounted to €119 thousand while the outstanding special loan amounted to €150 thousand.

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS PURSUANT TO ARTICLE 2429 OF THE ITALIAN CIVIL CODE

Signori Azionisti,

il Collegio Sindacale è chiamato a riferire all'Assemblea dei Soci di Credito Fondiario S.p.A. ("Credito Fondiario" o la "Banca"), convocata, tra l'altro, per l'approvazione del bilancio dell'esercizio chiuso al 31 dicembre 2019 ("bilancio separato") e per l'esame del bilancio consolidato, sull'attività di vigilanza posta in essere, sulle omissioni e i fatti censurabili eventualmente rilevati, ai sensi dell'art. 2429, comma 2, del codice civile.

Nel corso dell'esercizio 2019 il Collegio ha tenuto n. 24 adunanze, ha partecipato alle n. 16 riunioni del Consiglio di Amministrazione ed ha infine partecipato alle n. 2 Assemblee tenutesi. A partire dal mese di novembre 2018 al Collegio Sindacale sono state affidate le funzioni dell'Organismo di Vigilanza istituito dalla Banca ai sensi del D.Lgs. n. 231/2001, in materia di responsabilità amministrativa degli enti.

Il Collegio Sindacale ha svolto i propri compiti istituzionali nel rispetto delle norme del codice civile, del D. Lgs. n. 385/1993 ("TUB") e dei connessi provvedimenti attuativi, delle norme statutarie, delle altre disposizioni legislative speciali in materia nonché delle disposizioni emanate dalle Autorità pubbliche che esercitano attività di vigilanza e di controllo, nazionali e comunitarie.

Nel corso dell'esercizio il Collegio Sindacale ha acquisito le informazioni strumentali allo svolgimento dei compiti di generale vigilanza ad esso attribuiti mediante l'analisi dell'articolato sistema di flussi informativi previsto all'interno della Banca, la partecipazione alle riunioni del Consiglio di Amministrazione, gli incontri e le verifiche con la Direzione generale, le Funzioni aziendali di controllo, il Chief Financial Officer ("CFO"), il Dirigente Preposto alla redazione dei documenti contabili societari, la Società di revisione incaricata e le altre principali funzioni aziendali.

1. Attività di vigilanza sul rispetto della legge e dello Statuto

Sulla base delle informazioni rese disponibili ed acquisite, il Collegio Sindacale può ragionevolmente ritenere che le operazioni di maggior rilievo economico, finanziario e patrimoniale concluse dalla Banca, oltre che improntate al rispetto dei principi di corretta amministrazione, sono conformi alla legge e allo Statuto sociale, non manifestamente imprudenti, azzardate ovvero in contrasto con le delibere assunte dall'Assemblea o tali da compromettere l'integrità del patrimonio sociale; le relative deliberazioni sono state assistite, ove necessario, anche con il supporto di esperti terzi, da strutturati processi di analisi e *due diligence* legale, tecnica e finanziaria e da processi di valutazione degli *asset*, dei crediti e delle garanzie che assistono i portafogli dei crediti acquisiti.

1

Le informazioni sulle maggiori operazioni sono rappresentate nella Relazione degli Amministratori sulla gestione del progetto di bilancio d'impresa ("Relazione sulla gestione") e nella Relazione degli Amministratori sulla gestione del bilancio consolidato del Gruppo ("Relazione sulla gestione consolidata"), cui si rinvia.

Nel corso del 2019 la Banca ha acquisito lo *status* di capogruppo bancaria ed ha consolidato e sviluppato le attività connesse ai due rami di *business*. A fine esercizio 2019:

- l'attività di *debt servicing* ha ad oggetto Euro 51,2 mld di valore lordo di crediti a livello consolidato;
- l'attività di *debt purchasing* consuntiva investimenti a livello consolidato, per Euro 1.159 mln, di cui per Euro 673 mln di crediti acquisiti deteriorati ed Euro 278 mln di altri crediti / note verso cartolarizzazioni di NPL.

Tra le principali operazioni ed eventi che hanno caratterizzato il 2019 si ritiene di evidenziare:

a) il 31 maggio 2019 si è perfezionato l'acquisto del 70% del capitale sociale di CF Liberty Servicing S.p.A. ("CFLS") per un controvalore di Euro 100 mln, in esecuzione degli accordi sottoscritti il 10 dicembre 2018 tra CF, l'azionista di riferimento "Elliott" (attraverso i fondi gestiti da Elliott Management Corporation) e Banco BPM S.p.A. ("BBPM"). CFLS è una nuova società in cui sono confluite, contestualmente alla costituzione, le attività del servizio recupero crediti di BBPM, che detiene la restante parte del capitale sociale. CFLS svolge attività di recupero crediti ex art. 115 del TULPS, con una struttura di n. 103 risorse, ha in gestione un portafoglio di Euro 7,2 mld di NPL ceduti da BBPM (cartolarizzazione con garanzia pubblica c.d. "Leviticus") ed ha acquisito un mandato di gestione fino all'80% dei futuri flussi di NPL generati da BBPM. Al fine di perfezionare l'operazione, la controllante Tiber Investment S.à r.l. ("Tiber Investments"), ha effettuato un versamento in conto capitale in Credito Fondiario per Euro 120 mln;

b) a seguito dell'acquisizione di CFLS, dal 1° giugno 2019 Credito Fondiario ha assunto la qualifica di capogruppo del gruppo bancario omonimo. Le relative modifiche statutarie sono state approvate dalla Banca d'Italia il 28 maggio 2019;

c) nel corso dell'esercizio la Banca ha acquisito il 60% del capitale sociale di diversi "veicoli di cartolarizzazione ex L. 130/1999", nei cui titoli la Banca o l'azionista di riferimento hanno investito. Tali veicoli sono stati inclusi nel perimetro del gruppo bancario e, altresì, nel perimetro del "gruppo IVA";

d) in accordo con il progetto di fusione approvato dal Consiglio di Amministrazione il 7 marzo 2019 e dalla Banca d'Italia il 28 maggio 2019, il 1° dicembre 2019 ha acquisito efficacia l'incorporazione in Credito Fondiario di CF Holding S.p.A. ("CFH"), che deteneva una partecipazione pari al 17,15% di Credito Fondiario. La fusione ha avuto come obiettivo la semplificazione della catena partecipativa a monte della Banca. A seguito dell'incorporazione, ai soci della incorporata sono state assegnate direttamente e proporzionalmente lo stesso numero di azioni Credito Fondiario detenute da CFH (n. 10.230.000) nonché ulteriori n. 104.221 azioni di Euro 1 nominali di nuova emissione con sovrapprezzo di complessivi Euro 662 migliaia a fronte del c.d. *asset surplus at merger* di CFH. A conclusione dell'operazione, l'azionista di riferimento detiene, tramite Tiber Investments l'81,53% del capitale sociale, mentre il *senior management* ed i *partners* del gruppo Tages il 18,47%;

e) nel corso del 2019 la Banca ha raggiunto un accordo con il gruppo Banca Carige ("Carige"), conseguente alla rinuncia da parte di Carige a conferire nel 2019 a Credito Fondiario flussi di crediti NPL previsti dall'accordo sottoscritto nel maggio 2018, al momento dell'acquisizione della c.d. "piattaforma Gerica" (ramo d'azienda gestione NPL ed accordo di servizio per i futuri NPL Carige per 10 anni). Poiché nel 2019 Carige ha conferito uno stock di crediti NPL per Euro 1 mld circa ad AMCO S.p.A., ai sensi del contratto di *servicing* Gerica, la stessa Carige ha riconosciuto a Credito Fondiario Euro 24,5 milioni di indennizzo, quale ristoro per i crediti non più in gestione. L'accordo prevede che il contratto di *servicing* resti in essere per i futuri flussi di sofferenze alle condizioni e per i volumi originariamente previsti;

f) nel luglio 2019 è stato sottoscritto un accordo vincolante con il Gruppo UBI per l'acquisizione di un portafoglio NPL di valore lordo complessivo di Euro 740 mln, composto prevalentemente da leasing immobiliari verso debitori classificati a sofferenza. L'operazione è stata finalizzata nel mese di settembre 2019 con l'acquisizione da parte della Banca del 5% delle note "senior" emesse dal corrispondente veicolo di cartolarizzazione e di tutta la classe "junior" delle note, per un investimento di Euro 112 mln. Nel contesto dell'operazione, la Banca ha creato la società Leaseco One S.r.l., interamente posseduta, come "veicolo d'appoggio" ex art. 7.1, comma 1, per la gestione e commercializzazione di beni sottostanti crediti NPL ceduti a veicoli di cartolarizzazione.

A livello di Banca capogruppo, l'anno 2019 ha segnato il consolidamento dei risultati positivi dell'esercizio precedente; il progetto di bilancio vede la Banca chiudere il conto economico con un margine di intermediazione di Euro 60,7 mln a fronte di Euro 57,0 mln nel 2018, un utile ante imposte di Euro 23,7 mln a fronte di un utile di Euro 8,7 mln nel 2018 ed un risultato netto positivo di Euro 36,0 mln contro Euro 24,8 milioni nel 2018. Al risultato di periodo hanno contribuito, tra l'altro, gli indennizzi Carige per Euro 24,5 mln, le svalutazioni per impairment di Euro 3,6 mln e l'iscrizione di *deferred tax asset* a fronte di perdite pregresse per Euro 22,0 mln.

A livello patrimoniale l'attivo è cresciuto di Euro 305 mln raggiungendo un valore totale di attività di Euro 1.330 mln a fine 2019. L'incremento è dovuto principalmente ai nuovi investimenti in note di cartolarizzazione di crediti NPL per Euro 176 mln (*debt purchasing*) ed a partecipazioni per Euro 100 mln e, sul fronte della raccolta, da Euro 143,8 mln di maggiore raccolta bancaria *retail* oltre che da mezzi propri per Euro 120 mln.

Anche a livello consolidato l'esercizio 2019 evidenzia un risultato di rilievo, con un margine di intermediazione di Euro 94,5 mln a fronte di Euro 89,1 mln nel 2018, un utile ante imposte di Euro 30,8 mln a fronte di un utile di Euro 17,8 mln nel 2018 ed un risultato netto di gruppo positivo di Euro 40,3 mln contro Euro 29,5 milioni nel 2018. Al risultato di periodo hanno contribuito gli indennizzi Carige per Euro 24,5 mln e l'iscrizione di *deferred tax asset* a fronte di perdite pregresse per Euro 20,8 mln.

A livello patrimoniale l'attivo è cresciuto di Euro 506 mln raggiungendo un valore totale di attività di Euro 1.584 mln a fine 2019, di cui Euro 164 mln di attività immateriali. L'incremento è dovuto principalmente ai nuovi investimenti in note di cartolarizzazione di crediti NPL per Euro 350,2 mln e attività immateriali per Euro 132,3 mln (partecipazioni consolidate).

Le operazioni ed i fatti di maggior rilievo successivi alla chiusura dell'esercizio sono rappresentati nella Relazione sulla gestione e nella Relazione sulla gestione consolidata al paragrafo "Fatti di rilievo intervenuti dopo il 31 dicembre 2019 e prevedibile evoluzione della gestione", cui si rinvia; si ritiene di evidenziare nella presente sede:

- a seguito della emanazione delle Linee Guida in materia di NPL da parte della BCE nel marzo 2017 ed alla entrata in vigore del Regolamento (UE) 2019/630 che modifica il Regolamento (UE) 575/2013 (c.d. "CRR") in materia di *prudential backstop*, la Banca ha avviato una serie di analisi per individuare e minimizzare l'impatto della nuova normativa sul suo modello di *business*. Ha inoltre avviato la valutazione di un progetto di razionalizzazione dei propri investimenti attraverso un accorpamento dei portafogli acquistati ed una nuova emissione di titoli ABS con valutazione di agenzie di rating sulla classe *senior*;
- a seguito della diffusione del c.d. coronavirus dalla Cina al resto del mondo, ed in particolare all'Italia, si sono resi necessari drastici interventi governativi di contenimento dell'epidemia. La Banca ha avviato analisi circa il possibile impatto negativo sugli investimenti in essere in conseguenza alla riduzione e ritardi negli incassi sia sui portafogli di proprietà che su portafogli in gestione per conto terzi. Come segnalato dagli Amministratori nella loro relazione, alla data di approvazione del progetto di bilancio – ed alla data della presente relazione - non è possibile prevedere l'evoluzione che potrà avere tale fenomeno e,

di conseguenza, gli impatti che avrà sull'economia; pertanto, di riflesso, non è possibile determinare numericamente gli eventuali impatti patrimoniali ed economici negativi;

- a seguito dell'autorizzazione pervenuta dalla Banca d'Italia in data 20 marzo 2020, il Consiglio di Amministrazione, anche in esecuzione degli accordi tra soci, ha deliberato di sottoporre alla prossima Assemblea una modifica dello Statuto per prevedere l'esecuzione di un aumento di capitale di Euro 16.404.648, più un sovrapprezzo azioni pari a Euro 103.595.352, tramite emissione di n. 16.404.648 nuove azioni, da sottoscriversi e liberarsi da parte di Tiber Investments S.à r.l., avendo gli altri soci rinunciato al diritto di opzione loro spettante ai sensi dell'art. 2441.

In relazione a quanto sopra, il Collegio non ha osservazioni da formulare, rilevando che, come emerge anche dalle principali operazioni del 2019, la Banca ha proseguito il percorso di sviluppo e crescita in accordo con le strategie definite dagli azionisti e con i piani di sviluppo industriale della stessa, ed in particolare nelle due direzioni del *npl debt servicing* e *debt purchasing,* cui ha fatto riscontro un incremento significativo della raccolta retail, e sta monitorando l'impatto della evoluzione normativa e degli altri eventi esterni.

Si evidenzia da ultimo che in data 27 marzo 2020 la Banca d'Italia, nel contesto delle misure per il rafforzamento del sistema bancario di fronte di rischi collegati al diffondersi della pandemia da coronavirus, ha raccomandato alle banche di non distribuire dividendi, di non procedere ad operazioni di riacquisto di azioni miranti a remunerare gli azionisti e, analogamente alle politiche di distribuzione dei dividendi, di adottare un approccio prudente e lungimirante nello stabilire le politiche di remunerazione.

2. Attività di vigilanza sul rispetto dei principi di corretta amministrazione e sulla adeguatezza dell'assetto organizzativo

Il Collegio Sindacale ha acquisito conoscenza e vigilato, per quanto di propria competenza, sul rispetto dei principi di corretta amministrazione e di adeguatezza degli assetti organizzativi adottati. Un membro del Collegio partecipa alle riunioni del Comitato Rischi, circostanza che permette di incrementare, ulteriormente, l'efficacia dell'azione di vigilanza.

Il Collegio ha potuto approfondire, ove opportuno, con la Direzione generale, il *top management* ed anche in sede consiliare, le operazioni proposte ed i loro effetti economici e patrimoniali.

L'attività dei predetti Organi e Funzioni, come constatato dal Collegio Sindacale, è stata improntata al rispetto dei principi di corretta amministrazione e di tutela del patrimonio della Banca. Il Collegio ha inoltre verificato, come già rilevato per quelle di maggior rilievo, che anche le altre operazioni deliberate dal Consiglio di Amministrazione fossero assistite da adeguate ed approfondite analisi e valutazioni degli aspetti rilevanti, valendosi, ove opportuno, del supporto di esperti terzi.

L'attività amministrativa non ha dato luogo a rilievi e/o ad osservazioni particolari, né da parte del Collegio né da parte di nessun altro Organo societario investito di specifiche Funzioni di controllo.

Nel corso dell'esercizio il Collegio ha continuato a verificare il puntuale riscontro alle richieste dell'Autorità di Vigilanza ed a monitorare l'attuazione delle iniziative assunte dalla Banca in ordine alle indicazioni, di carattere generale o specifico, provenienti dall'Autorità di Vigilanza.

Il Collegio sindacale ha, inoltre, vigilato sul processo di definizione: *(i)* dell'appetito al rischio e dei relativi limiti e indicatori ("RAF", "RAS") , *(ii)* della pianificazione del capitale regolamentare e *(iii)* della liquidità (ICAAP/ILAAP), sulla revisione del Recovery plan e sulla coerenza dei vari indici e metriche presenti nei diversi sistemi citati e sulla loro coerenza con i limiti di vigilanza e lo SREP.

Nel corso dell'esercizio il Collegio ha altresì vigilato sul rispetto dei limiti SREP ricevuti e su quelli RAF adottati; al riguardo va segnalato che al 31 dicembre 2019 la Banca, a livello individuale, evidenziava un *total capital ratio* pari al 26,26%, ben superiore ai limiti previsti (si ricorda che dal punto di vista della vigilanza prudenziale il consolidamento è effettuato a livello di Tiber Investments).

Il sistema incentivante della Banca è stato articolato, negli esercizi precedenti, su una componente *long term* ("stock option grant 2018 – 2020" o "LTI") ed una componente *short term*, disegnato per affiancare il progetto industriale di sviluppo della Banca e realizzare un pieno allineamento tra azionisti e *management*. La politica di remunerazione e incentivazione è stata, da ultimo, approvata dall'Assemblea il 17 aprile 2019. L'identificazione delle categorie di personale le cui attività professionali hanno un impatto sostanziale sul profilo di rischio dell'ente (c.d. "Personale rilevante") avviene sulla base di criteri qualitativi e quantitativi definiti in accordo con le previsioni del Regolamento (UE) n. 604/2014.

Essendo intervenute alcune situazioni sopravvenute e di natura straordinaria che hanno modificato ipotesi industriali e finanziarie alla base del piano su cui era basato il LTI (es. acquisizione piattaforma BBPM), nel mese di dicembre 2019 il Consiglio di Amministrazione ha deliberato di concludere anticipatamente il piano, limitandolo agli esercizi 2019-2020, e prevedendo la liquidazione cash – in parte differita – degli incentivi. L'impatto di tale anticipazione del temine, come riportato in bilancio, è stato recepito nel 2019. La modifica del piano richiede la deliberazione dell'Assemblea dei Soci, che Vi viene sottoposta per la modifica del relativo regolamento.

Nell'esercizio 2019 è proseguito il processo di estensione della copertura e di aggiornamento del *corpus* normativo interno. L'assetto della normativa interna è articolato su più livelli, i più elevati dei quali (politiche, regolamenti) sono di competenza deliberativa del Consiglio di Amministrazione.

La controllata CFLS ha avviato la piena funzionalità della struttura organizzativa e dei processi operativi e di controllo, disegnati sulla base di quelli adottati nella Banca.

Con l'acquisizione dello *status* di "gruppo bancario", la Banca ha realizzato un programma di definizione di regolamenti di "gruppo", prontamente recepiti da CFLS, che si è dotata di procedure e *policy* per la gestione delle attività tipiche, svolte - come detto - secondo logiche e processi già adottati dalla Banca.

A seguito dei cambiamenti nella *corporate governance* della Banca, nonché dell'evoluzione della struttura organizzativa, in particolare di quella a supporto del *business*, si sono rese necessarie ulteriori modifiche ai regolamenti aziendali ed all'organigramma. Nel corso dell'anno la struttura organizzativa della Banca è stata rivista con la creazione di un'area (che affianca le precedenti *business*, *finance* e *servicing*) in cui sono confluite le attività di IT, organizzazione e amministrazione prestiti, ulteriormente incrementando il sistema di segregazione di compiti e responsabilità tra aree di business ed aree di supporto.

Si ricorda che la Banca ha individuato due amministratori indipendenti e che, al momento, il Consiglio di Amministrazione non ha creato al suo interno comitati endo-consiliari, mentre alcuni membri dello stesso Consiglio partecipano ai comitati aziendali.

Seguendo lo sviluppo del *business* e in esito all'acquisizione di CFLS, l'organico della Banca è cresciuto in modo significativo, passando da n. 240 risorse a n. 263 a fine 2019 a livello individuale e a n. 377 risorse a livello consolidato; è cresciuta, altresì, la complessità organizzativa, con l'attivazione degli uffici territoriali della CFLS e le conseguenti necessità di un sistema di controllo dell'andamento della gestione sempre più sofisticato.

Le valutazioni in merito alle prospettive gestionali ed alla continuità operativa sono riportate nell'apposita sezione della Relazione sulla gestione. Nella Sezione 12 della Nota Integrativa è descritto il contenzioso in essere ed i relativi rischi.

In relazione a quanto sopra, il Collegio osserva che la Banca è interessata da un processo di crescita rapido e significativo, cui si accompagna un processo di aggiustamento ed adeguamento dell'organigramma e della normativa interna.

I principali rischi ed incertezze cui è esposta la Banca riguardano: *(i)* i profili strategici relativi al settore in cui Credito Fondiario opera (*debt servicing* e *debt purchasing*) anche in relazione ad eventuali mutamenti regolamentari, *(ii)* i rischi di natura reputazionale ed operativi connessi all'attività di *servicing*, *(iii)* quelli connessi ai processi di valorizzazione e gestione dei *collateral* sottostanti i crediti *secured*, *(iv)* la stima dei flussi attesi di recupero che impattano sulla determinazione del *fair value* delle note in portafoglio. A questi rischi si aggiungono quelli connessi all'andamento e alla evoluzione delle controparti che affidano o si sono impegnate ad affidare crediti *non performing* in *servicing* ed in particolare in presenza di contratti di durata. Un processo di controllo equivalente, ma con diversa periodicità, è stato, infine, definito con riferimento all'ultimo patrimonio destinato creato, di dimensioni inferiori.

3. Attività di vigilanza sul sistema di controllo interno e di gestione del rischio

Il Collegio Sindacale ha vigilato sull'adeguatezza dei sistemi di controllo interno mediante incontri con i vertici della Banca per l'esame del medesimo sistema dei controlli interni e di gestione del rischio; incontri con le Funzioni di controllo ed il Chief Risk Officer ("CRO"), al fine di valutare le modalità di pianificazione del lavoro, basato sulla identificazione e sulla valutazione dei principali rischi presenti nei processi e nelle unità organizzative e l'esame delle verifiche e delle relazioni periodiche delle Funzioni di controllo; l'esame delle informative periodiche sugli esiti dell'attività di monitoraggio e sull'attuazione delle azioni correttive individuate; la discussione dei risultati del lavoro della Società di Revisione.

La Banca ha disciplinato, attraverso il regolamento aziendale, le *policy* sulle singole Funzioni di controllo interno e il regolamento sui flussi informativi e le interrelazioni nel sistema dei controlli interni, l'articolazione del sistema dei controlli interni, i ruoli e le responsabilità degli organi sociali e delle Funzioni di controllo, le modalità di coordinamento tra tali funzioni in conformità al modello codificato nella Circolare 285/2013 della Banca d'Italia.

La Banca ha aumentato l'organico autorizzato delle Funzioni di controllo nel corso del 2019; a seguito dell'acquisizione di CFLS ha esteso il sistema dei controlli interni anche a quest'ultima, integrandoli in quelli della Banca. Sono stati pertanto individuati responsabili delle funzioni di controllo interno in CFLS i responsabili delle funzioni di controllo interno della Banca ed individuati i referenti locali delle diverse funzioni di controllo, che riportano all'organo amministrativo e che operano attraverso controlli in loco e a distanza.

E' stato, inoltre, completato l'aggiornamento del *risk assessment* integrato e, a valle di ciò, è stato effettuato un significativo aggiornamento del Modello di Organizzazione e Gestione ex D. Lgs. n. 231/2001.

E' proseguito il processo di standardizzazione dei risultati delle verifiche e dei piani d'azione, ed alla fine dell'esercizio è stato adottato un piano dei controlli interni "integrato" con il confronto diretto delle aree coperte dalle singole funzioni e dall'OdV, sia a livello di banca capogruppo che a livello di gruppo.

Il Collegio ha seguito con particolare attenzione il sistema dei controlli interni, interfacciandosi con la Direzione e gli Organi sociali, stimolando una continua implementazione del sistema di controllo interno stesso e di gestione del rischio, in funzione della crescita operativa e dimensionale della Banca e del Gruppo.

In questo contesto si è registrato un incremento della dotazione di personale dedicato ad attività di controllo interno; alcune funzioni hanno sperimentato dei ritardi nel completamento degli organici autorizzati, a motivo di dimissioni ed altri eventi esterni. Parallelamente, alcuni importanti progetti di sviluppo ed implementazione hanno registrato alcuni ritardi dovuti in parte al sopracitato processo di completamento degli organici e, in parte, per una diversa prioritizzazione dei progetti. Merita, in questa sede, ricordare l'importanza attribuita dal Collegio sindacale alle attività di controllo ex post della funzione di Compliance, il cui ruolo nella verifica della adeguatezza organizzativa e procedurale è molto importante, così come di rilievo sono per la Funzione di Risk Management gli importanti progetti nell'ambito dei rischi operativi e di controllo di secondo livello su asset finanziari e relativi processi di classificazione e valutazione. L'attuale quadro macroeconomico, molto complesso, che presenta diverse opportunità ma anche molte sfide, e le prospettive strategiche connesse alla evoluzione normativa e regolamentare del settore in cui opera la Banca richiedono un sistema di controllo sempre più sofisticato ed attrezzato.

Nel corso del 2019 il Collegio Sindacale è stato inoltre impegnato nell'attività di controllo sui Patrimoni Destinati c.d. "Cube" ed "Este", anche in relazione alla richiesta della Banca d'Italia a questo Collegio Sindacale di fornire proprie autonome valutazioni sugli aggiornamenti trimestrali richiesti dal medesimo istituto alle Funzioni di controllo. L'Autorità di Vigilanza, data la novità del meccanismo tecnico giuridico adottato, aveva richiesto una valutazione iniziale sul processo di gestione monitoraggio e controllo dei Patrimoni Destinati (meccanismi di copertura, indennizzo, copertura dei rischi operativi; monitoraggio e controllo dei fornitori di servizi esternalizzati; meccanismi di allineamento e flussi informativi tra tutti gli attori partecipanti al progetto) accompagnato da autonome valutazioni del Collegio Sindacale; che sono state richieste dal Regolatore in ordine all'esaustività dell'informativa periodica trimestrale che la Banca deve inviare all'Autorità di Vigilanza in merito: (i) all'eventuale manifestazione a carico di Credito Fondiario di rischi e oneri non previsti di qualsiasi natura, anche solo potenziali; (ii) a difficoltà e/o contenziosi che dovessero insorgere a fronte dell'attivazione di uno o più dei previsti meccanismi contrattuali e assicurativi di copertura, di indennizzo e delle previste riserve di cassa; (iii) all'entità effettiva dei recuperi connessi con l'amministrazione dei rapporti giuridici acquisiti nel Patrimonio Destinato e gli eventuali scostamenti rispetto alle attese.

In sede di set up iniziale nel 2017, il Collegio Sindacale ha richiesto, con riferimento ai processi inerenti all'amministrazione del Patrimonio Destinato e allo svolgimento degli ulteriori incarichi connessi con le operazioni di cartolarizzazione, approfondimenti mirati alle funzioni aziendali della Banca in merito ai presidi in essere, agli interventi di rafforzamento pianificati ed alle relative tempistiche di implementazione, nonché alle azioni "tattiche", al fine di assicurare, anche nell'*interim period*, il corretto svolgimento dell'operatività. Il Collegio Sindacale ha, altresì, richiesto alle funzioni di Internal Audit e di *Compliance* di esprimere le proprie valutazioni in merito all'adeguatezza dei presidi in essere con riferimento sia al Patrimonio Destinato sia agli ulteriori incarichi connessi con le operazioni di cartolarizzazione Cube ed Este.

Al riguardo, il Collegio Sindacale ha esaminato periodicamente, nell'ambito di specifici incontri con diverse funzioni interne interessate (di *business*, di supporto e di controllo) l'andamento delle operazioni, il contenuto dei resoconti sugli specifici approfondimenti trimestrali effettuati dal Responsabile del Patrimonio Destinato e dal CRO relativamente alle due operazioni, le verifiche specifiche svolte dalla Funzione di Internal Audit, i pareri delle Funzioni di Compliance e Antiriciclaggio, ed ha trasmesso la sintesi delle analisi svolte, degli esiti e degli eventuali suggerimenti offerti alle Funzioni interne della Banca riferiti ai quattro trimestri del 2019 con note, rispettivamente, del 29 aprile 2019, del 31 luglio 2019, del 30 ottobre 2019 e del 30 gennaio 2020.

Dall'analisi della suddetta documentazione periodica, alle varie scadenze fissate, è emerso che il lavoro di riconciliazione dei dati amministrativo-contabili post-migrazione sui sistemi di Credito Fondiario è terminato con esito positivo e, finora, non sono stati rilevati perdite od oneri a carico della Banca. A seguito di alcune modifiche nelle linee guida per la valutazione e gestione dei portafogli da parte dell'investitore, i due *servicer* (tra cui Credito Fondiario) hanno predisposto dei nuovi *business plan* delle due operazioni il cui processo di approvazione, per via di una serie di circostanze esterne, non è del tutto terminato; è stato dato impulso, inoltre, all'attività di controllo sui servicer esterni.

In relazione alle analisi effettuate dalla Funzione di Risk Management, il Collegio ha preso atto delle verifiche positive sulla tenuta dei Patrimoni Destinati, sulla base delle analisi di *stress* sui flussi di cassa attesi e sulle verifiche di *back testing*, stimolando, ove necessario, ulteriori affinamenti nel processo.

4. Attività di vigilanza sul sistema amministrativo contabile e sul processo di informativa finanziaria

Il Collegio Sindacale ha vigilato sull'adeguatezza del sistema amministrativo-contabile e sulla relativa affidabilità dello stesso nel rappresentare correttamente i fatti di gestione, mediante l'ottenimento di informazioni dai responsabili delle Funzioni Aziendali competenti, l'esame dei documenti aziendali più significativi, l'analisi dei risultati del lavoro svolto dalla Società di Revisione KPMG S.p.A., dal CFO, dal Dirigente Preposto alla redazione dei documenti contabili societari, nonché dall'attività della funzione di Internal Audit.

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Dato il compito attribuito al Collegio Sindacale nell'ambito del processo di informativa finanziaria, il Collegio ha mantenuto uno stretto coordinamento con il CFO e la Struttura Organizzativa Administration, Tax, Regulatory & Planning, il cui responsabile è investito anche della Funzione di Dirigente Preposto alla redazione dei documenti contabili societari.

Il Collegio ha monitorato le implementazioni del sistema informativo in ambito contabile e segnaletico, atte a superare alcune inefficienze e situazioni verificatesi nel passato, in particolare per quanto riguarda alcune fasi dei processi contabili che richiedono interventi manuali e necessità di controlli compensativi, e lo sviluppo di *datawarehouse* interni idonei all'attuazione di controlli ulteriori, in fase di completamento.

Nella Relazione sulla gestione, nella Relazione sulla gestione consolidata e nelle Note Integrative al bilancio separato ed al bilancio consolidato viene fornita un'ampia informativa, cui si rinvia, sull'adozione (non retrospettiva) del nuovo principio contabile internazionale IFRS 16, in esito al quale sono stati rilevati nell'attivo della Banca Euro 13,2 mln di attività per diritti d'uso di immobili e, nel passivo, altrettanti debiti collegati.

Come illustrato nella sezione "area di consolidamento" della Relazione sulla gestione consolidata e nella Nota integrativa consolidata, Parte A.1, Sezione III, par. 5, dall'esercizio 2019 si è affinata la tecnica di consolidamento delle note emesse da SPV rientranti nel Gruppo, passando da una tecnica di consolidamento sintetica ad una analitica, nella quale si procede alla conversione in crediti/portafogli dei titoli ABS presenti nel bilancio d'impresa, rilevando in maniera analitica i diversi interessi, oneri e costi di competenza. Tale cambiamento ha comportato una rideterminazione del risultato e del patrimonio netto consolidato esposto nel primo bilancio consolidato del Gruppo al 31 dicembre 2018 che, di conseguenza, è stato "restated" ex IAS 8; da tale cambiamento è derivato un incrementato di Euro 7,2 milioni del patrimonio netto consolidato 2018 (al netto degli effetti fiscali rilevati) ed un incremento del risultato di Euro 3,7 mln.

Con il CFO e la società di revisione sono stati approfonditi i principali aspetti relativi alla formazione del bilancio civilistico e consolidato della Banca, tra cui si citano:

- le verifiche di *impairment*, da cui è emersa la necessità di una svalutazione degli intangibili Gerica per Euro 3,6 mln;
- la *purchase price allocation* dell'acquisizione di CFLS il cui costo d'acquisto ai sensi dell'IFRS è stato allocato per Euro 60,9 mln ad attività immateriali a vita utile definita connesse al contratto di *servicing* con BBPM ed al contratto di *servicing* Leviticus per Euro 57,2 mln ad avviamento, rilevando in contropartita a dette attività anche le interessenze di terzi per Euro 18,3 mln;
- l'iscrizione delle imposte anticipate attive ("DTA") a fronte di perdite fiscali pregresse. In

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particolare l'iscrizione nell'esercizio di DTA è avvenuta considerando in maniera molto prudente i redditi futuri attesi dalla Banca, sulla base di un apposito test (*probability test*).

In allegato al bilancio sono riportati i rendiconti separati dei 3 "patrimoni destinati" costituiti dalla Banca ai sensi degli articoli 2447 – bis e seguenti del Codice Civile, aventi come specifico affare l'acquisto in blocco ex articolo 58 del Testo Unico Bancario di rapporti giuridici derivanti da contratti di leasing cartolarizzati e dei beni rivenienti da detti contratti ("Cube – Gardenia", "Este – Restart" e "Gimli")

Nel corso del 2019 la Banca ha, altresì, affinato le procedure amministrative per la predisposizione del bilancio consolidato, anche alla luce della significativa estensione del perimetro di consolidamento ed i processi di calcolo di costo ammortizzato e *fair value*.

La Società di Revisione ha controllato le procedure amministrative e quelle contabili senza evidenziare rilievi sulla loro affidabilità. Essa ha, inoltre, verificato la correttezza delle rilevazioni nelle scritture contabili, dei fatti di gestione, nonché la completezza delle informazioni e dei criteri di valutazione per la redazione del bilancio d'esercizio e di quello consolidato, senza alcun rilievo e/o osservazione.

Pur non rientrando nei compiti del Collegio Sindacale il controllo legale dei conti ex D. Lgs. 39/2010, essendo questo demandato alla Società di Revisione, si ritiene, sulla base delle informazioni avute da quest'ultima, dal Dirigente Preposto alla redazione dei documenti contabili societari e delle verifiche previste dagli artt. 2403 e seguenti del cod. civ., che il sistema amministrativo-contabile, nel suo complesso, sia adeguato ed affidabile e che i fatti di gestione siano rilevati correttamente e con la dovuta tempestività.

5. Informativa su eventuali operazioni atipiche e/o inusuali, con parti correlate e gestione dei conflitti di interesse

Nelle parti H della nota integrativa del bilancio separato e del consolidato viene data evidenza dell'assenza di operazioni atipiche e/o inusuali con parti correlate. Dalle informazioni acquisite dal Collegio non si ha altresì evidenza dell'esistenza di operazioni atipiche e/o inusuali perfezionate con parti terze o con società controllate.

Nella medesima sezione della Nota Integrativa, gli Amministratori hanno riportato esaustiva illustrazione delle altre operazioni con parti correlate. Per quanto noto a questo Collegio, dette operazioni sono state concluse nell'interesse della Banca e non determinano osservazioni in merito alla loro congruità, rientrando nell'ordinaria operatività della Banca.

La Banca si è dotata di una "Policy per la gestione delle operazioni con soggetti collegati e delle operazioni in conflitto di interesse" per presidiare il rischio che la vicinanza di taluni soggetti ai centri decisionali della Banca possa compromettere l'obiettività e l'imparzialità delle decisioni relative alla concessione di finanziamenti e ad altre transazioni nei confronti dei medesimi soggetti, con possibili distorsioni nel processo di allocazione delle risorse, esposizione della Banca a rischi non adeguatamente misurati o presidiati, potenziali danni per depositanti e azionisti, nonché per assicurare che si adotti ogni misura ragionevole per evitare che i conflitti di interesse ledano gli interessi della clientela.

Si evidenzia, altresì, che il Collegio riceve ed esamina regolarmente i flussi informativi periodici relativi alle operazioni concluse con parti correlate e con soggetti collegati e di controllo dell'andamento delle esposizioni riconducibili ai soggetti collegati; ove necessario, il Collegio ha proceduto a richiedere ulteriori informazioni e dettagli.

Il Collegio Sindacale, inoltre, informa che non ci sono state operazioni ex art. 136 TUB da approvare all'unanimità da parte del Consiglio di Amministrazione e con il parere favorevole di tutti i componenti il Collegio Sindacale. Il Collegio Sindacale ha preso atto delle dichiarazioni rese ai sensi dell'art. 2391 del cod. civ.

6. Attività di vigilanza sulla revisione legale dei conti

In accordo con quanto previsto dall'art. 19 del D. Lgs. n. 39/2010, il Collegio Sindacale, identificato come "Comitato per il controllo interno e la revisione contabile", ha svolto la prescritta attività di vigilanza sull'operatività della Società di Revisione, analizzando ed approvando il piano di revisione, monitorandone l'implementazione, vigilando per quanto di rilievo nella presente parte, sul processo di informativa finanziaria, sull'efficacia del sistema di controllo interno della qualità, di revisione interna e di gestione dei rischi relativi a detta informativa, sulla revisione legale dei conti annuali e consolidati, sulla indipendenza del revisore legale anche ai sensi del Regolamento (UE) n. 537/2014.

Il Collegio Sindacale ha incontrato regolarmente la Società di Revisione incaricata attivando, in tali occasioni, un proficuo scambio di informazioni. Con i Revisori è stata esaminata, in particolare, l'applicazione dei principi contabili, la migliore appostazione e rappresentazione nei prospetti di bilancio di elementi significativi sotto l'aspetto economico, finanziario e patrimoniale. Inoltre, è stato oggetto di analisi e discussione con il revisore il progetto di adeguamento a nuovi principi contabili.

In sintesi, dagli scambi informativi con i Revisori non sono emerse anomalie, criticità od omissioni da evidenziare.

Ai sensi del combinato disposto del Decreto Legislativo 27 gennaio 2010, n. 39 e del Regolamento Europeo n. 537/2014, l'incarico di revisione legale dei conti e di revisione del bilancio di esercizio è stato conferito dall'Assemblea dei Soci del 10 dicembre 2013 per il novennio 2013 - 2021 alla Società di Revisione KPMG S.p.A. ("KPMG").

La Società di revisione legale ha rilasciato in data 10 aprile 2020 la "relazione di revisione" di cui all'art. 14 del D. Lgs. n. 39/2010 ed all'art. 10 del Regolamento (UE) n. 537/2014, che non contiene richiami d'informativa; la Società di revisione legale ha rilevato che il bilancio d'esercizio fornisce una rappresentazione veritiera e corretta della situazione patrimoniale e finanziaria della Banca al 31 dicembre 2019, del risultato economico e dei flussi di cassa dell'esercizio a tale data in conformità agli *International Reporting Standards* adottati dall'Unione Europea, nonché ai provvedimenti emanati in attuazione dell'art. 9 del D. Lgs. n. 38/2005 e dell'art. 43 del D. Lgs. 136/2015. Il revisore ha, altresì, attestato che la Relazione sulla gestione che correda il bilancio d'esercizio è coerente con il progetto di bilancio ed è stata redatta in conformità alle norme di legge; per quanto riguarda eventuali errori significativi nella Relazione sulla gestione, sulla base delle conoscenze e della comprensione dell'impresa e del relativo contesto acquisite nel corso dell'attività di revisione, ha dichiarato, di non avere nulla da riportare.

In accordo con le diposizioni normative applicabili, la relazione di certificazione riporta i principi di revisione applicati e indica gli "aspetti chiave" emersi nel corso dell'attività di revisione contabile, che si riferiscono ai seguenti aspetti: (i) Valutazione dei titoli ABS classificati tra le altre attività finanziarie obbligatoriamente valutate al fair value con impatto a conto economico, (ii) Valutazione della Partecipazione CF Liberty Servicing S.p.A.; (iii) Recuperabilità dell'attività immateriale relativa al contratto di Servicing stipulato con Banca Carige S.p.A. nel corso del 2018. Per ciascuno di tali aspetti sono indicate le procedure di revisione adottate.

In data 10 aprile 2020 la Società di revisione ha rilasciato, altresì, la relazione di revisione relativa al bilancio consolidato, anch'essa senza rilievi e richiami d'informativa, che riporta attestazioni e dichiarazioni simili a quelle sopra riportate anche a livello consolidato e, come aspetti chiave: (i) Valutazione dei crediti verso la clientela iscritti tra le attività finanziarie valutate al costo ammortizzato; (ii) Allocazione del prezzo pagato per l'acquisizione da Banco BPM S.p.A. di una partecipazione in CF Liberty Servicing S.p.A.; e (iii) Recuperabilità dell'attività immateriale riferibile al contratto di Servicing stipulato con Banca Carige S.p.A. nel corso del 2018. Per ciascuno di tali aspetti sono indicate le procedure di revisione adottate.

Le relazioni di certificazione attestano, inoltre, che il giudizio di revisione è coerente con l'informativa contenuta nella detta relazione aggiuntiva al Collegio.

In data 10 aprile 2020 la Società di Revisione ha, infatti, presentato al Collegio Sindacale la Relazione aggiuntiva prevista dall'art. 11 del Regolamento (UE) n. 537/2014, dalla quale non risultano carenze significative nel sistema di controllo interno in relazione al processo di informativa finanziaria o altre situazioni da evidenziare.

La Società di Revisione ha, inoltre, presentato al Collegio Sindacale la dichiarazione relativa all'indipendenza, così come richiesto dall'art. 6 del Regolamento (UE) n. 537/2014,

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dalla quale non emergono situazioni che possano comprometterne l'indipendenza. Il Collegio ha preso atto, altresì, della Relazione di trasparenza predisposta dalla Società di revisione pubblicata sul proprio sito *internet* ai sensi dell'art. 13 del Regolamento (UE) n. 537/2014.

La Banca non è soggetta alle disposizioni di cui al D. Lgs. n. 254/2016 attuativo della Direttiva 2014/95/UE, per cui non ha predisposto la dichiarazione consolidata di carattere non finanziario.

In conformità alle specifiche normative, si dà atto dei compensi, riconosciuti dalla Banca alla società KPMG per l'attività di revisione legale spettanti per l'esercizio 2019, come indicato nell'apposita sezione della Nota Integrativa.

Il Collegio Sindacale - ottenuta la relazione sull'indipendenza della Società di Revisione ex art. 6 del Regolamento (UE) n. 2014/537 - non ritiene sussistano aspetti critici in materia di indipendenza ovvero cause di incompatibilità ai sensi degli artt. 10, 10-*bis* e 17 del Testo unico della revisione legale e delle relative disposizioni attuative.

7. Denunce, esposti, segnalazioni, pareri resi

Nel corso dell'esercizio 2019 e sino alla data della presente Relazione non sono pervenute denunce ex art. 2408 del cod. civ.

Nel corso dell'esercizio il Collegio Sindacale non ha ricevuto esposti o altre forme di reclamo da parte di azionisti o clienti della Banca.

Si ricorda che, in relazione alle previsioni di cui all'art. 52-bis del TUB e delle relative Istruzioni applicative della Banca d'Italia, Credito Fondiario ha implementato un proprio sistema di *whistleblowing*, esteso anche all'ambito di applicazione del D. Lgs. 231/2001; tale sistema integra le procedure di segnalazione interna già presenti nell'ambito del sistema di segnalazioni all'Organismo di Vigilanza D. Lgs. n. 231/2001. Si evidenzia, peraltro, che anche a seguito di alcune riflessioni emerse da diversi consiglieri nel corso dell'*induction program* realizzato all'inizio del 2019, è ora prevista la possibilità di segnalazioni anonime su presunte condotte illegittime, che vengono prese in considerazione se adeguatamente circostanziate e rese con dovizia di particolari. Ad oggi, non sono pervenute, tuttavia, segnalazioni attraverso tale canale.

Nel corso dell'esercizio 2019 e sino alla data odierna, il Collegio Sindacale ha provveduto a rilasciare il proprio parere - quando obbligatorio - in ossequio a previsioni di Legge, dello Statuto e della normativa di Vigilanza. Tra i pareri espressi e le osservazioni formulate in ossequio a disposizioni o richieste di vigilanza si segnalano le valutazioni relative al processo ICAAP e ILAAP 2019 (in conformità alla Circolare della Banca d'Italia n. 285/2013, Parte Prima, Titolo III, Capitolo 1 ed alla Circolare della Banca d'Italia n. 263 del 27 dicembre 2006, Titolo V, Cap. 7), le osservazioni alla relazione sulle funzioni operative esternalizzate (Circ.

della Banca d'Italia n. 263/2006, Titolo V, Cap. 7), i pareri, ai sensi della Circolare della Banca d'Italia n. 285/2013, parte Prima, Capitolo 1, Sez. III, le osservazioni in merito alla pianificazione delle attività delle Funzioni aziendali di controllo e sulla rendicontazione delle medesime funzioni ai sensi della Circ. Banca d'Italia n. 285/2013 (Titolo V Capitolo 3) e del Provvedimento Banca d'Italia del 11.03.2011.

8. Valutazioni conclusive

Signori Azionisti,

a conclusione della presente Relazione, desideriamo confermare che abbiamo svolto la nostra attività di vigilanza avendo riscontrato la più ampia collaborazione degli Organi societari, dei responsabili preposti all'attività amministrativa e gestionale, delle Funzioni di controllo, della Società di Revisione, del Dirigente Preposto alla redazione dei documenti contabili societari e delle altre Funzioni aziendali di controllo.

Dall'attività di vigilanza svolta non sono emerse omissioni, fatti censurabili, operazioni imprudenti o altre situazioni da segnalare, né sono emersi, altresì, fatti significativi suscettibili di evidenziazione alle Autorità di Vigilanza e Controllo o di menzione nella presente Relazione.

Come riportato nella nota integrativa, successivamente alla data di chiusura del bilancio al 31 dicembre 2019, non si sono verificati fatti di particolare rilievo tali da indurre a una modifica dei dati approvati, ad una rettifica delle risultanze conseguite o a fornire un'integrazione di informativa. In particolare, nel periodo intercorrente tra la data di riferimento del bilancio e la sua data di approvazione, non si sono verificati fatti di particolare rilievo tali da incidere sulla situazione patrimoniale, economica e finanziaria della Banca.

Per ciò che concerne i principali rischi ed incertezze cui è esposta la Banca, la continuità aziendale, nonché l'evoluzione prevedibile della gestione, si fa rinvio a quanto riferito nella Relazione sulla Gestione e nella Relazione sulla gestione consolidata.

Il bilancio consolidato che Vi viene presentato si chiude con un utile consolidato di Euro 40.253 migliaia ed un patrimonio netto consolidato del gruppo di Euro 378.862 migliaia.

La situazione economica, finanziaria e patrimoniale della Banca che Vi viene sottoposta mediante il progetto di bilancio separato evidenzia un risultato netto di periodo di Euro 35.976 migliaia ed un patrimonio netto di Euro 362.696 migliaia.

Sia il progetto di bilancio d'esercizio che il bilancio consolidato sono stati predisposti nell'ottica della continuità aziendale, sono stati redatti senza far ricorso a deroghe nell'applicazione dei principi e criteri di valutazione, e, come già evidenziato, sono stati oggetto di certificazione da parte della Società di Revisione senza rilievi né richiami di informativa; da parte del Collegio non sono emersi, al riguardo, elementi da segnalare.

I requisiti di vigilanza prudenziale e la SREP *Capital Guidance* risultano rispettati, così come tutti gli indicatori RAF a fine esercizio.

In relazione al risultato di esercizio, il Consiglio di Amministrazione propone: (i) di destinare a riserva legale, ai sensi dell'art. 2430 c.c., il 5% del risultato, pari a Euro 1.799 migliaia, e (ii) di imputare il residuo, pari a Euro 23.532 migliaia alla Riserva Statutaria.

Conclusivamente, il Collegio non ha osservazioni da formulare (i) in merito all'approvazione da parte Vostra del progetto di bilancio dell'esercizio 2019 e della proposta di destinazione dell'utile; e (ii) in merito al bilancio consolidato che Vi viene presentato.

Milano, 10 aprile 2020.

Il Collegio Sindacale

Antonio MELE

Giuseppina PISANTI Giuseppina Pisanti

Franco VEZZANI

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 financial statements

Opinion

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

In our opinion, the separate financial statements give a true and fair view of the financial position of Credito Fondiario S.p.A. as at 31 December 2019 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 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 separate financial statements*" section of our report. We are independent of the bank in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Independent auditors' report
31 December 2019

Key audit matters

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

Measurement of the ABS classified as other financial assets mandatorily measured at fair value through profit or loss

Notes to the separate financial statements "Part A - Accounting policies": paragraph A.2.1 "Financial assets at fair value through profit or loss (FVTPL)"

Notes to the separate financial statements "Part A - Accounting policies": paragraph A.4 "Fair value"

Notes to the separate financial statements "Part B - Notes to the statement of financial position - Assets: section 2 "Financial assets at fair value through profit or loss"

Notes to the separate financial statements "Part C - Notes to the income statement": section 7 "Net loss on other financial assets and liabilities at fair value through profit or loss"

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

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Key audit matter	Audit procedures addressing the key audit matter
The separate financial statements at 31 December 2019 include other financial assets mandatorily measured at fair value through profit or loss of €478.9 million, which almost entirely refer to ABS for which there is no quoted price on an active market or sufficiently similar financial assets with a quoted price and which, therefore, the bank's directors have classified at level 3 of the fair value hierarchy. Measuring such ABS mandatorily measured at fair value through profit or loss a is a complex activity, with a high degree of uncertainty and subjectivity, with respect to which the directors apply internal valuation methods and models that consider many quantitative and qualitative factors in order to determine the expected cash flows relating to the exposures underlying each ABS, the related collection dates and discount rate, which comprises the specific risk premium. For the above reasons, we believe that the measurement of the ABS classified as other financial assets mandatorily measured at fair value through profit or loss is a key audit matter.	Our audit procedures included: — understanding the bank's processes and IT environment in relation to investing in ABS and forecasting, monitoring and revising the expected cash flows of the exposures underlying each ABS, related collection dates and the discount rate; — 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 expected cash flows of the exposures underlying each ABS, related collection dates and the discount rate; — with the assistance of experts of the KPMG network, analysing the impairment assessment methods and models used and checking the reasonableness of the main assumptions and variables included therein; — selecting a sample of individually-assessed exposures underlying the ABS and assessing the estimated cash flows for reasonableness, by analysing, inter alia, historical collection flows and any indicators of impairment and assessing any guarantees, as well as the estimated collection dates; — assessing the appropriateness of the disclosure provided in the note about other financial assets mandatorily measured at fair value through profit or loss.

Measurement of the investment in CF Liberty Servicing S.p.A.

Notes to the separate financial statements "Part A – Accounting policies": paragraph A.2.4 "Equity investments"

Notes to the separate financial statements "Part B - Notes to the statement of financial position - Assets": section 7 "Equity investments"

Key audit matter	Audit procedures addressing the key audit matter

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The separate financial statements at 31 December 2019 include investments in subsidiaries of €100.9 thousand, including the 70% investment of €100 thousand in CF Liberty Servicing S.p.A. acquired on 31 May 2019. The investment is recognised at purchase cost, while the bank's share of its equity amounted €3.8 million at 31 December 2019. Assisted by external experts, the directors calculated the recoverable amount of the investment in CF Liberty Servicing S.p.A. based on the present value of the estimated cash flows that the investment will generate in order to identify any impairment losses. The model is very complex and entails the use of estimates which, by their very nature, are uncertain and subjective. For the above reasons, we believe that the measurement of the investment in Liberty Servicing S.p.A. is a key audit matter.	Our audit procedures included: — obtaining and reading the acquisition agreement for 70% of CF Liberty Servicing S.p.A.; — obtaining and reading the minutes of the internal bodies' meetings; — analysing the report prepared by the external consultants engaged by the bank to calculate the recoverable amount of the equity investment; — involving experts of the KPMG network in the assessment of the appropriateness and reasonableness of the allocation and measurement model and main assumptions used, including by means of a comparison with external data and information; — discussing the allocation and measurement model and main assumptions used with management; — assessing the appropriateness of the disclosures provided in the notes about the acquisition of the equity investment.

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Recoverability of the intangible asset relating to the servicing agreement signed with Banca Carige S.p.A. in 2018

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

Notes to the separate financial statements "Part B - Notes to the statement of financial position - Assets": section 9 "Intangible assets"

Notes to the separate financial statements "Part C - Notes to the income statement": section 13 "Amortisation and net impairment losses on intangible assets"

Notes to the separate financial statements "Part G - Business combinations": section 3 "Retrospective adjustments"

Key audit matter	Audit procedures addressing the key audit matter
The separate financial statements include intangible assets of €25.2 million, comprising the asset of €14.9 million relating to the servicing agreement signed with Banca Carige S.p.A. in 2018 (the "agreement") after the acquisition of the NPE management platform business unit (the "business unit") therefrom. During 2019, the agreement was amended with respect to the management and collection of the NPEs originated by Banca Carige S.p.A., leading to a change in the managed NPEs that were sold to AMCO S.p.A.. The bank paid €24.5 million to compensate for the exposures it no longer manages. Since the directors considered the above as a trigger event, they tested the intangible asset for impairment. They revised the forecast commission income on the basis of the change in the managed NPEs. As a result of the impairment test, the bank recognised an impairment loss of €3.5 million on the intangible asset with a finite useful life. Impairment testing require a high level of judgement, especially in relation to: — the expected cash flows, considering the agreement's forecasts about, in particular, the managed NPE portfolio, as well as the fees, commissions and costs provided for by the agreement; — the financial parameters used to calculate the discount rate. For the above reasons, we believe that the recoverability of the intangible asset relating to the servicing agreement referred to above is a key audit matter.	Our audit procedures included: — analysing the process adopted by the directors to prepare the impairment test; — obtaining and reading the acquisition agreement for the business unit, the agreements signed thereafter and calculating the amount of the compensation: — analysing the expected cash flows and main assumptions used to calculate the CGU's value in use; — involving experts of the KPMG network in the assessment of the appropriateness and reasonableness of the impairment testing model and main assumptions used, including by means of a comparison with external data and information; — discussing the impairment testing model and main assumptions used with management; — assessing the appropriateness of the disclosures provided in the notes about the impairment test of the intangible asset relating to the servicing agreement.

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

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

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

Auditors' responsibilities for the audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate 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 separate financial statements.

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

- identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the bank's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the bank to cease to continue as a going concern;

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— evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate 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 10 December 2013, the bank's shareholders appointed us to perform the statutory audit of its separate financial statements as at and for the years ending from 31 December 2013 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 bank in conducting the statutory audit.

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

Report on other legal and regulatory requirements

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

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

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

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

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

Rome, 10 April 2020

KPMG S.p.A.

(signed on the original)

Riccardo De Angelis
Director of Audit

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AND SERVICING
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