CREDITO FONDIARIO

2020 ANNUAL REPORT

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CORPORATE BODIES AND MANAGEMENT

Board of directors

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

Board of statutory auditors

Chairman:	Antonio MELE
Standing statutory auditors:	Franco VEZZANI
	Giuseppina PISANTI
Substitute statutory auditors:	Paolo CARBONE
	Fabio Maria VENEGONI

Management

General manager:	Iacopo DE FRANCISCO
Chief investment officer:	Guido LOMBARDO
Chief business officer and deputy general manager:	Mirko BRIOZZO
Chief financial officer:	Viviana ASCANI
Chief operating officer:	Alberto DE MAGGI

Top Management

GENERAL MANAGER	INVESTMENTS	BUSINESS
IACOPO DE FRANCISCO GENERAL MANAGER	**GUIDO LOMBARDO** BOARD MEMBER & CHIEF INVESTMENT OFFICER	**MIRKO BRIOZZO** DEPUTY GENERAL MANAGER & CHIEF BUSINESS OFFICER
Over 20 years in consulting and banking industry.	30 years in merchant banking, private equity, advisory, lending and structured finance.	Over 20 years in investment and corporate banking, with experience across M&A and capital markets

FINANCE	OPERATIONS
VIVIANA ASCANI CHIEF FINANCIAL OFFICER	**ALBERTO DE MAGGI** CHIEF OPERATING OFFICER
Over 20 years of experience in investment banking and financial services.	Over 20 years of experience in banking sector.

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.

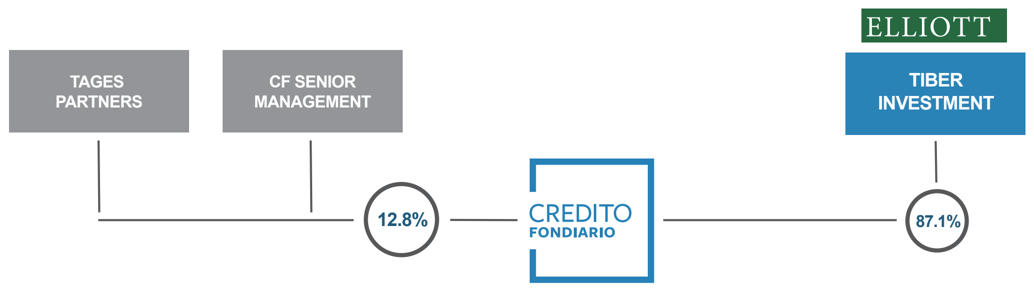
CF currently offers banks, financial companies and investors a wide range of integrated services:
- debt purchasing: CF invests in non-performing loan portfolios and, when requested, acts as a co-investor together with its institutional customers be they banks or investors;
- debt servicing: CF is a 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.

Ownership structure

Tiber Investments S.a.r.l. (a Luxembourg-based subsidiary of the funds managed by Elliott Management Corporation) has controlled CF since October 2018.

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

The following table presents the bank's ownership structure at 31 December 2020:



On 29 April 2020, in their extraordinary meeting, the bank's shareholders approved a capital increase of a maximum of €16,404,648, plus a premium of €103,595,352, against payment in more than one instalment as provided for by article 2441.1 of the Italian Civil Code. Tiber Investments S.a.r.l. subscribed the new 16,404,648 shares and paid in the entire amount by using all its earmarked reserve, as the other shareholders waived their right of first refusal and pre-emptive right pursuant to article 2441.1/3, respectively, of the Italian Civil Code. The bank's share capital amounts to €54,189,669.00 split into 54,189,669 ordinary shares as per the related resolution filed with the Company Registrar.

Key figures

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

KEY FIGURES	
Loan assets under management / servicing (nominal amount)	€ 50 billion
Proprietary investment portfolio (nominal amount)	€ 7.5 billion
Proprietary investment portfolio (carrying amount)	€ 973.4 million
Retail savings (Esagon account)	€ 759.2 million
Equity	€ 369.5 million
Total capital ratio	24.86%
Employees	266

Macroeconomic scenario

2020 will be remembered as the year of Covid-19, which has had a drastic effect on every aspect of our social lives and the global economy. If we look back at that year, it is hard to remember that it actually started without the pandemic and we forget about the first two months of the year and the important events that took place. Covid-19 has affected countries' politics transforming our world. The pandemic has influenced the politics of the United States and Russia, China and the UK, the Middle East and Europe with a deep and unprecedented effect.

The second wave in autumn slowed down the global economy through to the end of the year, especially in the advanced economies. While, the roll-out of the vaccination campaigns should have a positive effect on the medium term outlook, the timing and scale of the economic recovery are uncertain.

The pandemic's effects on economic activities and prices in the Eurozone are expected to drag on for longer than originally envisaged. The European Central Bank's governing council extended and lengthened its monetary stimulus programmes to ensure favourable lending conditions for all sectors for as long as necessary to effectively bolster the economy and inflation.

The better-than-expected third quarter growth in Italy demonstrated its economy's resilience. Like in the other Eurozone countries, the second wave triggered another reduction in GDP in the last quarter of the year. According to available indicators, this downturn is currently estimated to be about 3.5%, although there is great uncertainty about how reliable this estimate is.

Announcements about the availability of vaccines, additional monetary and budgetary assistance and the outcome of the US presidential elections reinforced optimism on the financial markets in Italy and abroad. The spread in returns on ten-year Italian and German government bonds continues to be smaller than pre-Covid-19. The financial markets are still affected by developments in the pandemic.

Italian banks have continued to lend to their customers at mostly favourable conditions thanks to the ongoing support provided by the government's monetary policies and state-backed guarantees. Banks' cost of bond funding decreased again and interest rates on loans to companies and households remained low.

In response to the worsening of the public health emergency, the government approved additional measures to support households and companies in the last quarter of the year. The budget law provides for an increase in net debt in both 2021 and 2020, which is a change from the current legislation. An additional boost should come from the projects to be defined as part of Next Generation EU (NGEU).

Future performances are heavily dependent on how the pandemic develops and the measures adopted both to curb its spread and to mitigate its impact on the economy. The fiscal policy and available EU funds will provide considerable support to the latter. Based on traditional tax multipliers and the initial information about the programmed initiatives, the fiscal measures, including those financed by EU funds, may increase GDP by around 2.5 percentage points in the 2021-2023 three-year period. However, achievement of these results is tied to the proper planning of additional initiatives, most of which will be defined in the next few months as part of Italy's National Recovery and Resilience Plan, and their timely implementation. In line with expectations based on market prices, the return on Italian ten-year government bonds is forecast to remain at historical lows in 2021 (0.7%) to very gradually improve over the three-year horizon. The spread between these bonds and the German ten-year Bund is expected to fluctuate between 130 and 150 basis points over the three years. The continued low interest rates and support measures introduced by the government have mitigated the liquidity and insolvency risks of companies considerably. The economic policies should contain the crisis' repercussions on companies' debt and credit quality without making it necessary to toughen lending conditions. The average cost of credit for companies, which decreased slightly to 1.5% in 2020 from 1.7% in 2019, may increase marginally. After the strong uptick in the summer of 2020, foreign trade continued to grow until the end of the year, pushed by the industrial sector's recovery in all countries. As a result, GDP, which was still weak at the beginning of the year, should improve strongly starting from the spring alongside the hoped-for improvement in the public health situation. The support and relaunch measures financed by the national budget and EU funds should drive the economy from July 2021 into the next two years. After the 9.2% drop in GDP in 2020, it is forecast to grow by an average 3.5% in 2021, 3.8% in 2022 and 2.3% in 2023, returning to pre-Covid-19 levels during 2023[1].

Several laws were passed to assist the banks in their role taken on since the start of the pandemic as "drivers of the recovery". The public health emergency triggered a plethora of new regulations including not only the obligations that are looming on the horizon to be ready to draft the 2020 financial statements but also the regulations already envisaged in the regulator's roadmap about calendar provisioning, the new definition of default, loan origination and monitoring. These rules also covering prudential requirements, together with the regulators' specific requirements, such as, for example, the correct application and presentation of financial statements in accordance with the IFRS have engendered concerns among the banks about how to properly prepare their 2020 financial statements.

The new regulations also extend to tax issues, chief among them are the acquisition of the tax assets provided for by the Rilancio decree (including the "superbonus") and the incentives on sales of loans to defaulting borrowers made before 31 December 2020.

Issues that came to the forefront in previous years have gained importance such as corporate social responsibility, ESG, digital finance transformation, data quality and operating resilience. All banks are required to prioritise them, especially given the new situations created in the wake of the Covid-19 emergency.

The main accounting and supervisory issues raised by Covid-19

On 27 March, the IASB published "Covid-19 - Accounting for expected credit losses applying IFRS 9 Financial Instruments in the light of current uncertainty resulting from the COVID-19 pandemic". This document does not amend IFRS 9 but recommends how it should be applied in the current pandemic. Specifically, the document clarifies that entities should not continue to apply their existing ECL methodology mechanically. It recognises the difficulty in including both the effects of the pandemic and the related state aid in the models. Therefore, should banks find themselves in this situation, they should consider post-model management adjustments.

(1) Souce: Economic Bulletin no. 1/2021 Bank of Italy

The IASB confirmed that granting loan moratoria to customers should not automatically mean that all their contracts have undergone a significant increase in credit risk (SICR).

The ECB provided guidance about the classification and measurement of loans in its communication of 20 March (ECB Banking Supervision provides further flexibility to banks in reaction to coronavirus) as one of its measures. Its aim was to reassure banks that loan moratoria would not automatically imply that the borrowers are reclassified as unlikely to pay (UTP), given that postponement of the repayments is allowed by law and, therefore, the count of the past due days to identify past due loans has been suspended until after the holiday period.

In addition, within its prudential remit although not strictly part of its supervisory duties, the ECB expressed itself on forward looking measurements under IFRS 9. It encouraged banks to avoid making excessive procyclical assumptions in their models to determine provisions. It expects banks give a greater weight to long-term macroeconomic forecasts evidenced by historical information when estimating long-term expected credit losses.

The European Securities and Market Authority (ESMA) also commented on the accounting implications of Covid-19 for the calculation of ECL under IFRS 9. Specifically, it noted that the measures adopted during the pandemic that allow the suspension or extension of loan repayments should not automatically lead to the recognition of a significant increase in credit risk and classification of the exposure as Stage 2. The ESMA reiterated and expended these concepts in its communication of 2 April (Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis).

On 18 June 2020, the European Parliament approved a regulation amending Regulation (EU) no. 575/2013 (the CCR) and Regulation (EU) no. 2019/876 (the CRR2). It introduced modifications to maximise banks' capacity to continue to lend to households and businesses. The amendments are designed to pre-empt the introduction of the new regulations so as to avoid less caption absorption in order to achieve positive effects from financing the economy, including through prudential regulations.

The International Accounting Standards Board (IASB) also expressed its opinion on the postponement of lease payments in specific documents related to IFRS 16. This issue is significant for lessees while it is addressed by IFRS 9 for lessors.

In short, the measures that affect banks are:
• the immediate application (rather than from June 2021) of the reduction in capital requirements applied to small and medium-sized enterprises (SMEs);
• the option not to deduct part of the carrying amount of software from the regulatory capital;
• the mandatory minimum loss coverage for non-performing exposures, introduced by Regulation (EU) no. 2019/630 (NPL backstop) is amended to align the treatment of exposures guaranteed or counter-guaranteed by states (or other public bodies with a 0% weight), for the part covered by the guarantee, to that for exposures guaranteed by export credit agencies (no obligation for the first seven years and subsequent 100% coverage).

Key events of the year

The bank made a profit of €6.9 million for the year, the key contributors to which are described below.

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

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

All the bank offices were equipped with measures to ensure compliance with the hygiene rules introduced as a result of the emergency situation.

The bank was able to achieve these positive results thanks to the spirit of sacrifice of all its employees, its business culture hinging on technological and process innovation and the large investments made in ICT in previous years.
It made a donation to Ospedale Luigi Sacco in Milan to acknowledge the efforts of and support all the healthcare professionals who were in the first line of defence against the Coronavirus.
Like all the other group companies, the bank has not distributed dividends from the 2019 financial statements in 2020 thus complying with Bank of Italy's dividend policy communication of 31 March 2020.

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

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

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

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

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

This project (the "**project**", "**Project 3.0**" or the "**reorganisation**") will consist of two demergers of Credito Fondiario after which its debt purchasing and debt servicing activities (most of its investments in the companies currently part of the group) will be transferred to a newco, **CF HoldCo**, and its subsidiaries (whose businesses will consist of special servicing, master servicing and fund management. The new group will have its own brand and identity.

Once the project has been completed and the regulator has provided the relevant authorisations[2], the demerged entity, **CF NewBank**, will carry out banking activities and will have the resources, organisational structure and capital necessary to meet its obligations arising from funding activities, as well as the relevant reference prudential and organisational requirements.

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

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

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

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

(2) The bank submitted its application on 1 March 2021.

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

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

Securitisations and new investments
On 30 June 2020 with legal effect from 1 July 2020, the bank acquired 95% of the unitranche ABS issued by Liberio SPV S.r.l. paying €65.9 million.

During the year, additional investments were made in tax assets by subscribing ABS issued by Convento with a carrying amount of €85 million at 31 December 2020. The bank purchased class X notes issued by Convento from third parties. They were cancelled in December 2020 and replaced with junior notes from the same securitisation. As a result, the previous carrying amounts were zeroed.

In December 2020, the bank purchased nearly all the non-performing loans of Bramito SPV S.r.l. (which had received all the loans managed by Elmo SPV S.r.l., Salllustio S.r.l., Lucullo S.r.l., Cosmo SPV S.r.l., Novus Italia 1 S.r.l., Sesto SPV S.r.l. and Artemide SPV S.r.l. in July 2020 as part of the Gemini 1 transaction) and Lutezia SPV S.r.l. for a total of €247.7 million, including the Gemini or Palatino portfolio). It also purchased the leases of the SPV Vette for €184.8 million (Domizia portfolio) and subsequently sold them to Palatino and Domizia structuring two new securitisations. The related notes issued by the selling vehicles held by the bank were redeemed (all of the senior notes and part of the junior notes in line with the transferred loans).
The portfolios, purchased directly by the bank which then transferred them to the vehicles, did not qualify for derecognition under IFRS 9 as the related risks and rewards were not transferred because the bank had subscribed 100% of the junior notes. As it had also subscribed all the senior notes issued by Palatino, the securitisation qualifies as a self-securitisation, while in the case of Domizia, the bank subscribed all the junior notes issued and, accordingly, recognised the securitised loans as assets sold but not derecognised for €185.2 million.

These transactions improved the bank's financial position as they gave it immediate access to third party funds. They also allowed the bank to avail of the option introduced by Decree law no. 18/2020, converted with amendments by Law no. 27/2020, to transform part of the deferred tax assets related to tax losses recognised in its separate financial statements into a tax asset of €23.9 million in proportion to the amount of non-performing loans transferred.

In December 2020, the bank completed the Django project for which it subscribed the mezzanine and junior ABS of €34 million issued by the vehicle Tiberina in relation to its purchase of a portfolio of UTP loans, with a gross carrying amount of €288 million at 31 December 2020, from Banco BPM.

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

Rating upgrades
In the first half of the year, Fitch significantly upgraded the bank's key ratings:
• commercial special servicer, up from CSS2 to CSS2+;
• residential special servicer, up from RSS2 to RSSE+;
• master servicer, to MS2+.

Fitch's rating reflects the growth in assets under management which, according to the rating agency, is "the combined result of a general increase in business and strategic agreements with primary Italian banks for the management of their existing and future non-performing loans". In Fitch's view, the growth reflects the good market relationships and ensures business sustainability in the medium term.

Fitch withdrew its rating for a number of activities no longer relevant to CF's current business model as part of its review upon the group's request.
• Commercial Primary Servicer rating: CPS2, withdrawn.
• Residential Primary Servicer rating: RPS2, withdrawn.

Less than six months from Fitch Rating's upgrade of the bank's master and special servicing businesses, S&P also upgraded its ratings of the bank's servicing activities at the start of January 2021.

Specifically, the bank's rating went from average to above average for its commercial and residential special service activities.

S&P confirmed the above average rating for the bank's master servicer activities of mortgage-backed and unsecured loans in Italy. The outlook for both ratings is stable.

New mandates acquired during the year
In December, the bank was assigned the roles of master servicer, special servicer and corporate servicer for the sale of a NPE portfolio by 15 banks, mainly cooperative banks and mostly independent of each other, with a gross carrying amount of more than €0.9 billion. The securitisation vehicle is POP NPLs 2020 S.r.l.. The bank will act as special servicer for part of the loan portfolio with a gross carrying amount of €0.6 billion.
Again in December, the bank took over the special servicer role for the NPE securitisation commenced by the vehicle Island Refinancing S.r.l.. It is also the master servicer and provides other services to the new vehicle, Celio SPV, to which the entire Island Refinancing S.r.l. portfolio was transferred.

Once again in December, the bank took on the roles as corporate servicer, master servicer, special servicer and calculation and paying agent for the above-mentioned securitisation involving SPV Tiberina (the Django project).

During the year, the bank also took part in other transactions on behalf of third parties. It assisted the securisation of a NPE portfolio commenced at the end of 2019 by Latina SPV S.r.l. on behalf of third parties, it acted as ReoCo Asset Manager for the management and resale of properties owned by Orado Immobiliare S.r.l. (wholly owned by Orado Investments S.a.r.l.), and it covered all the roles for the securitisation of UTP exposures performed by a division of Amerina SPV S.r.l. on behalf of an English fund which subscribed all the ABS.

Finally, CF signed an agreement with DeA Capital Alternative Funds SGR S.p.A., as manager of the Italian Recovery Fund, to assist it with management of the portfolio securitised by Siena NPL 2018 S.r.l..

Operations

The bank has been very active in the servicing sector in recent years and is in the top 10 in the ranking of master servicers by assets under management (AUM) in 2020[3].

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.

(3) Source: PwC – The Italian NPL market, December 2020.

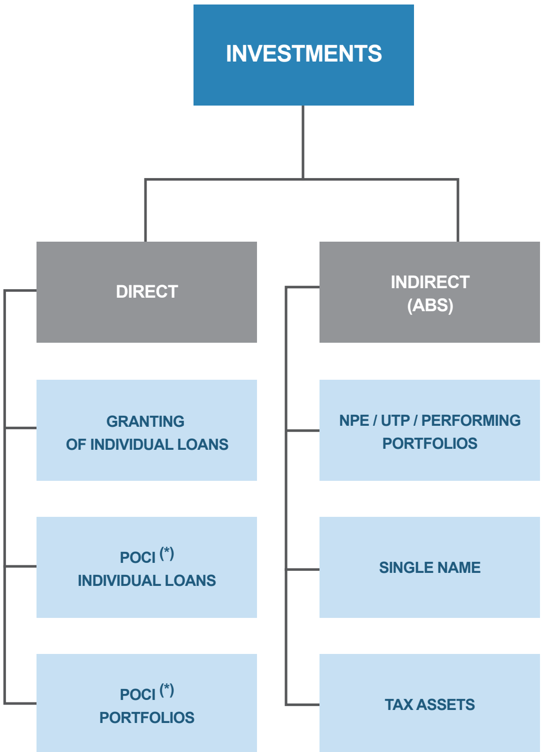
Alongside its project to develop its business, the bank continued to hire specialist professional staff to build up its front office (portfolio management, capital markets and special servicing) and back office (supervisory reporting, accounting, loan administration and IT); during the year, its workforce increased from 263 to 266 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;
• 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).

Debt purchasing

The bank invests directly in bad, UTP and high risk bank loan and lease exposures, mainly mortgage loans of SMEs[4]. 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.

The bank invests in performing and non-performing financial assets, either directly or via securitisations of which it acquires the ABS.



(*) POCI[5]

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

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 €488.7 million in securitised securities as follows:
• senior securities of €114.8 million recognised as financial assets at amortised cost that passed the SPPI test;
• senior securities of €28.1 million recognised as financial assets mandatorily measured at fair value as they failed the SPPI test;
• junior, mezzanine and unitranche securities of €373.9 million recognised as financial assets mandatorily measured at fair value as their failed the SPPI test.

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 €28.1 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 €17.9 million at the reporting date.

The POCI portfolios purchased directly by the bank and then securitised amounted to €420.1 million at year end.

The POCI portfolio purchased as part of the bank loan transaction finalised with Creval in 2018 amounted to €14.4 million at 31 December 2020.

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:
• 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 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.

Assets under management are set out below:

	NO. OF EXPOSURES	ORIGINAL AMOUNT OF EXPOSURES
Performing loans (PLs)	1,624	€126 million
Non-performing loans (NPLs)	903,034	€48,010 million
Commercial mortgage-backed securities (CMBS)	3	€97 million
Trade receivables	274,122	€205 million
Industrial loans	6	€328 million
NPLs of real estate funds	113	€64 million
Single names	6	€45 million
Leases	18,563	€1,009 million
Tax assets	277	€112 million
Total	**1,197,748**	**€49,995 million**

The bank is one of the largest and most experienced servicers in Italy, with assets under management of approximately €50 billion. These volumes allow it to earn fee and commission income, especially on its special servicing engagements (€17.5 million in 2020).

Credito Fondiario has special and master servicer ratings from Standard & Poor's and Fitch:

Agency	Special servicer	Master servicer
Fitch	RSS2/CSS2+	MS2+
Standard & Poor's	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 perfect 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 (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 €1,025.9 million at the reporting date. Specifically, it has the following sources of funds:
• repurchase agreements with banks of €157.3 million;
• interbank credit facilities of €67.75 million;
• interbank deposits of €45 million;
• stable retail deposits of €759.2 million.

The debt to equity ratio, the disclosure of which is required by IAS 1.13, is 278% 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

Once again in 2020, the bank pursued its development strategy hinging on technology and digital innovation bolstered by the following pillars:
• development of proprietary highly specialised solutions for those services which give the bank an edge over its competitors;
• ongoing benchmarking with the market to identify IT solutions that improve those processes that offer less scope for a competitive edge;
• development of partnerships with IT providers and the continued investigation of emerging practices and technologies;
• adoption of technological and infrastructure best practices;
• focus on IT security and privacy issues.

As a result, the bank planned and completed around 30 specific development projects during the year, involving all its applications and infrastructure. They included:
• the new release of a state-of-the-art real estate process management suite (REM-REAM);
• a radical upgrade of the proprietary system used for collection activities (REC) to assist the special servicing activities;
• the development of some master servicing processes, including the introduction of greater automation and new control mechanisms;
• the introduction (with a specific development project) of data centric logics able to process billions of data points throughout the credit chain in an integrated manner. Specifically, this involved the introduction of new business intelligence tools, used to create monitoring and design dashboards that interface directly with the data warehouse.

The bank completed its migration to the new private cloud data centre, classified as gold-rated tier IV with the best performance and security levels available on the market. As part of its specific infrastructure roadmap, the bank also carried out regular penetration tests and vulnerability assessments.

Thanks to the fact that all bank personnel have the tools to work remotely and secure VPN accesses and the data centres are available 24/7, the bank was able to immediately implement remote working for its entire workforce at the beginning of March to cope with the Covid-19 pandemic. This meant that there was no disruption in its business activities nor was it exposed to additional cyber security risks.

Financial performance and position

Application of IFRS 5

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

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

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

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

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

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

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

Reclassified statement of financial position

(Euros)

		31/12/2020 pre IFRS 5 A	Effect of applying IFRS 5 B	31/12/2020 Reclassified figures (A+B)
10.	Cash and cash equivalents	93,144,819	-	93,144,819
20.	Financial assets at fair value through profit or loss	374,788,681	(46,445,913)	328,342,768
	a) held for trading	*637,869*	-	*637,869*
	c) mandatorily measured at fair value	*374,150,811*	*(46,445,913)*	*327,704,899*
30.	Financial assets at fair value through other comprehensive income	-	-	-
40.	Financial assets at amortised cost	791,398,271	(458,131,746)	333,266,525
	a) loans and receivables with banks	*49,581,636*	*(23,000,000)*	*26,581,636*
	b) loans and receivables with customers	*741,816,635*	*(435,131,746)*	*306,684,889*
70.	Equity investments	*105,439,026*	(103,180,015)	2,259,011
80.	Property, equipment and investment property	*7,426,178*	(6,143,444)	1,282,733
90.	Intangible assets, including:	21,811,734	(21,644,597)	167,138
	- goodwill	*9,300,000*	*(9,300,000)*	-
100.	Tax assets	70,343,064	(52,626,972)	17,716,092
	a) current	*33,813,336*	*(18,278,898)*	*15,534,438*
	b) deferred	*36,529,728*	*(34,348,073)*	*2,181,655*
110.	Non-current assets held for sale and disposal groups	-	740,009,038	740,009,038
120.	Other assets, including:	66,432,763	(51,836,351)	14,596,412
	- 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: "Gimli - New Levante"	*50,000*	*(50,000)*	-
	Total assets	**1,530,784,536**	**-**	**1,530,784,536**

Follows: balance sheet

(Euros)

		31/12/2020 pre IFRS 5 A	Effect of applying IFRS 5 B	31/12/2020 Reclassified figures (A+B)
10.	Financial liabilities at amortised cost	1,121,364,852	(205,583,092)	915,781,759
	a) due to banks	*274,157,039*	*(121,700,000)*	*152,457,039*
	b) due to customers	*847,207,813*	*(83,883,092)*	*763,324,720*
	c) securities issued	-	-	-
20.	Financial liabilities held for trading	-	-	-
30.	Financial liabilities at fair value	2,695,572	-	2,695,572
40.	Hedging derivatives	-	-	-
50.	Macro-hedged financial liabilities (+/-)	-	-	-
60.	Tax liabilities	2,062,679	(540,457)	1,522,222
	a) current	*1,522,222*	-	*1,522,222*
	b) deferred	*540,457*	*(540,457)*	-
70.	Liabilities associated with assets held for sale	-	219,765,263	219,765,263
80.	Other liabilities	31,401,843	(11,738,362)	19,663,481
90.	Post-employment benefits	2,301,327	(1,903,353)	397,974
100.	Provisions for risks and charges:	1,416,289	-	1,416,289
	c) other provisions	*1,416,289*	-	*1,416,289*
110.	Valuation reserves	(92,575)	-	(92,575)
140.	Reserves	64,984,480	-	64,984,480
150.	Share premium	243,577,532	-	243,577,532
160.	Share capital	54,189,669	-	54,189,669
180.	Profit for the year (+/-)	6,882,869	-	6,882,869
	Total equity and liabilities	**1,530,784,536**	**-**	**1,530,784,536**

Based on the assumptions described earlier, the following items were reclassified to non-current assets held for

sale and disposal groups for €740 million in the separate financial statements:
• financial assets at fair value through profit or loss of €46.4 million due to the reclassification of junior and mezzanine notes (Tiberina and part of Vette);
• loans and receivables with customers of €435.1 million relating to the Palatino portfolio (€234.9 million), the Domizia portfolio (€185.2 million) and trade receivables for servicing fees already invoiced or yet to be invoiced (€18.9 million);
• loans and receivables with banks of €23 million, comprising the portion of the bank's liquidity that is expected to be transferred to the disposal group;
• the equity investments in the companies to be transferred (€103.2 million);
• property, equipment and investment property and intangible assets of €27.8 million, including goodwill of €9.3 million and other intangible assets of €11.7 million related to the Gerica transaction and the portion of right-of-use assets allocated to the new group (€5 million);
• deferred tax assets of €34.4 million, which include those arising on the alignment of the investee CFLS' carrying amounts with their tax bases (€28.2 million) and those on carryforward tax losses (€4.5 million);
• current tax assets of €18.3 million, including the converted deferred tax assets mentioned earlier (€17.7 million);
• other assets of €51.8 million.

Liabilities associated with assets held for sale of €219.8 million include:
• liabilities at amortised cost of €205.6 million, including those relating to repurchase agreements for securities being disposed of (€79.4 million), Domizia's senior securities subscribed by third parties (€78.3 million), bank loans (€42 million) and leases (€5.6 million);
• deferred tax liabilities of €0.5 million associated with Gerica's goodwill;
• other liabilities of €13.6 million, including post-employment benefits of €1.9 million, other employee benefits of €7.3 million and trade payables associated with the assets transferred to the disposal group for most of the remainder.

Reclassified income statement

(Euros)

		2020 pre IFRS 5 A	Effect of applying IFRS 5 B	2020 Reclassified figures (A+B)
10.	Interest and similar income	73,187,542	(34,867,588)	38,319,954
	including: interest calculated using the effective interest method	*73,187,542*	*(34,867,588)*	*38,319,954*
20.	Interest and similar expense	(20,924,908)	2,149,805	(18,775,103)
30.	**Net interest income**	**52,262,633**	**(32,717,783)**	**19,544,851**
40.	Fee and commission income	25,205,653	(24,505,504)	700,149
50.	Fee and commission expense	(1,910,870)	1,670,273	(240,598)
60.	**Net fee and commission income**	**23,294,783**	**(22,835,231)**	**459,551**
70.	Dividends and similar income	-	-	-
80.	Net trading expense	(72,610)	-	(72,610)
100.	Net gains from sales or repurchases of:	-	-	-
	b) financial assets at fair value through other comprehensive income	-	-	-
110.	Net loss on other financial assets and liabilities at fair value through profit or loss	(12,620,047)	5,722,299	(6,897,747)
	a) financial assets and liabilities designed at fair value	*(1,992)*	-	*(1,992)*
	b) other financial assets mandatorily measured at fair value	*(12,618,055)*	*5,722,299*	*(6,895,755)*
120.	**Total income**	**62,864,759**	**(49,830,715)**	**13,034,044**
130.	Net impairment losses for credit risk associated with:	(9,919,219)	5,958,183	(3,961,036)
	a) financial assets at amortised cost	*(9,921,572)*	*5,958,183*	*(3,963,389)*
	b) financial assets at fair value through other comprehensive income	*2,353*	-	*2,353*
150.	**Net financial income**	**52,945,541**	**(43,872,532)**	**9,073,009**
160.	Administrative expenses:	(55,001,357)	35,546,355	(19,455,002)
	a) personnel expense	*(27,707,491)*	*22,828,290*	*(4,879,201)*
	b) other administrative expenses	*(27,293,867)*	*12,718,065*	*(14,575,801)*
170.	Net accruals to provisions for risks and charges	330,946	-	330,945
	b) other	*330,946*	-	*330,945*
180.	Depreciation and net impairment losses on property, equipment and investment property	(2,131,145)	1,762,602	(368,544)
190.	Amortisation and net impairment losses on intangible assets	(4,153,825)	3,929,122	(224,703)
200.	Other operating income (costs), net	3,016,972	(3,601,546)	(584,574)
210.	**Operating costs**	**(57,938,410)**	**37,636,532**	**(20,301,877)**
260.	**Pre-tax loss from continuing operations**	**(4,992,869)**	**(6,236,000)**	**(11,228,869)**
270.	Income taxes	11,875,738	(11,875,738)	-
280.	**Post-tax profit (loss) from continuing operations**	**6,882,869**	**(18,111,738)**	**(11,228,869)**
290.	Post-tax profit from discontinued operations	-	18,111,738	18,111,738
300.	**Profit for the year**	**6,882,869**	**-**	**6,882,869**

The net profit from discontinued operations of €18.1 million is generated by:
• items accrued during the year on the notes and portfolios to be transferred, including interest income of €34.9 million, fair value losses of €5.7 million on the notes issued and impairment losses of €6 million on the Palatino and Domizia loans and the other loans transferred to the Palatino portfolio in July 2020 as part of the Gemini 1 transaction;
• interest expense of €2.1 million accrued on the above financial liabilities measured at amortised cost associated with the disposal group. The main item of the cost of funding related to customer deposits (on-line deposit accounts) of €17 million was not reclassified as the funding is expected to remain with the bank to be used to finance new investments;
• net servicing fees of €22.8 million;
• operating costs of €37.6 million, including personnel expense of €22.8 million for personnel to be transferred, other administrative expenses of €12.7 million incurred for the disposal group, depreciation, amortisation and impairment losses of €5.7 million on property, equipment and investment property and intangible assets and other income of €3.6 million.
• The net profit from discontinued operations is also affected by an income tax benefit of €11.8 million, related to recognition of deferred tax assets on the substitute tax paid to align the carrying amount of the other intangible assets and goodwill recognised in the consolidated financial statements after the acquisition of CFLS with their tax base.

The following paragraphs include an analysis of the statement of financial position and income statement captions before the reclassifications required by IFRS 5 in order to provide a better understanding of the bank's financial position at 31 December 2020 and its financial performance for the year then ended.

Financial performance

(€m)

Reclassified income statement	2020 pre IFRS 5	2019 pre IFRS 5	Variation	Variation %
Net interest income	52.3	32.0	20.2	63%
Net fee and commission income	23.3	34.1	(10.8)	(32)%
Net fair value losses on ABS	*(12.6)*	*(6.4)*	*(6.2)*	*96%*
Net trading income (expense)	*(0.1)*	*1.0*	*(1.1)*	*(107)%*
Total income	**62.9**	**60.7**	**2.2**	**4%**
Operating costs	**(58.3)**	**(35.4)**	**(22.9)**	**65%**
Net core business revenue	**4.6**	**25.3**	**(20.7)**	**(82)%**
Net impairment losses for credit risk	*(9.9)*	*(0.9)*	*(9.0)*	*987%*
Reversals of (accruals to) provisions for risks and charges	0.3	(0.6)	1.0	(152)%
Pre-tax profit (loss)	**(5.0)**	**23.7**	**(28.7)**	**(121)%**
Income taxes	*11.9*	*12.2*	*(0.4)*	*(3)%*
Profit for the year	**6.9**	**36.0**	**(29.1)**	**(81)%**

The bank made a **profit** of €6.9 million for the year compared to €36 million in 2019.

Its profit was affected by the public health and economic emergency that hit Italy in February 2020. The impacts of Covid-19 were seen in the carrying amount of investments made by the bank as a debt purchaser (it recognised net impairment losses of €21.8 million on financial assets in addition to the collective losses) and the fees earned as special and debt servicer, which were more than 30% less than in 2019.

Conversely, it was positively affected by the recognition of deferred tax assets of €28.2 million, based on the related probability tests, after it paid the substitute tax of €16.0 million on 30 June 2020 to align the carrying amount and tax base (tax redemption) of goodwill and intangible assets recognised in the group's consolidated financial statements after the bank acquired an investment in CFLS.

The bank was also defeated in first level court proceedings in which it was a defendant and had to pay €3.1 million (which included costs, interest and taxes). This amount, recognised under other operating expense, was only partly offset by the release of the accrual of €0.3 million made to the provisions for risks in previous years.

In addition to the above events, the bank's profit for the year was affected by the following factors:
- it recognised losses of €22.5 million, comprising fair value losses on ABS (12.6 million), individual impairment losses on exposures (€9.2 million), after it revisited the business plans of the portfolios in June and December, and collective impairment losses (€0.7 million);
- it recognised an impairment loss of €1.5 million on the intangible asset related to the Gerica platform as a result of the impairment test, while the test of goodwill showed it did not need to be impaired.

An analysis of the key income statement captions is provided below with the variations compared to the previous year.

Interest income of €73.2 million mostly refers to:
• interest of €60.6 million on investments in ABS, an increase on the previous year balance of €40.3 million due to the larger investments made at the end of 2019 in the ABS issued by Vette and in 2020 mostly in tax assets;
• interest of €1.5 million on the lease portfolios, in line with 2019;
• interest of €8.5 million on loans disbursed or purchased, an increase on 2019 (€6.7 million), mostly due to the interest accrued at the end of 2020 on the Domizia and Palatino portfolios which could not be derecognised as per the IFRS;
• interest of €2.6 million (€1.4 million in 2019) on investments of liquidity, including €2.2 million on government bonds.

Interest expense of €20.9 million includes €16.8 million related to on-line deposits.

Net interest income amounts to €52.3 million compared to €32 million for 2019.

Fee and commission income amounts to €25.2 million while it came to €36.3 million for 2019. It includes special servicing fees of €17.5 million (€27.8 million for 2019) which were affected by the Covid-19 pandemic, as mentioned earlier, and the related court closures. The remainder refers to the bank's primary and master servicing of the various portfolios.

Net fair value losses on **financial assets at fair value** through profit or loss amount to an unexpected €12.6 million. They reflect the negative impact of the bank's review of the business plans underlying the acquired portfolios (decreasing them by €16.2 million) as a result of the above-mentioned public health emergency. This effect is partly offset (€3.6 million) by the reduction in risk-free interest rates applied to measure the ABS at fair value.

The item includes the write-off of the class X notes issued by the SPV Convento and purchased by the bank in November 2020. The notes were cancelled in December 2020 with the elimination of the price of €2.1 million paid. The cash flows related to the cancelled notes were transferred to the junior notes.

Total income amounts to €62.9 million compared to €60.7 million for the previous year.

Net impairment losses for the year come to €9.9 million compared to net losses of €0.9 million for 2019 and comprise:
- collective impairment gains of €0.2 million on ABS;
- net impairment losses of €2.8 million on lease portfolios;
- net impairment losses of €6.7 million on POCI portfolios and bank loans;
- impairment losses of €0.4 million on loans disbursed to customers;
- impairment losses of €0.2 million on loans and receivables with banks and government securities.

Individual impairment losses, calculated using the revisited business plans of the portfolios purchased directly by the bank and/or sold but not derecognised, were heavily affected by the Covid-19 crisis, mostly in terms of delayed payments.

Collective impairment losses on loans and receivables with bank and government securities reflect the application of a downwards forward looking factor, compared to 2019, to reflect the public health emergency and related economic crisis, only partly offset by the reduction in exposures tested collectively for impairment compared to 2019 (€28 million on government bonds, €8.5 million on bank deposits and current accounts).

With respect to the collective impairment losses recognised on the ABS at amortised cost, the test scope was smaller because the bank tested the portfolios of the vehicles Palatino and Domizia individually using their business plans given that they were not derecognised.

The net losses for the year amount to €21.8 million (€7.4 million in 2019) and include the effect of the amendments to the business plans underlying the ABS (€12.6 million).

Personnel expense amounts to €27.7 million (€32.8 million in 2019). The bank's workforce increased by three heads from €263 in 2019 to €266 at the end of 2020.

The bank did not make any provision for the long term incentive plan during the year unlike in 2019 when it accrued €4.2 million, including the related social security contributions.

Other administrative expenses come to €27.3 million while they amounted to €21 million for the previous year.

They mostly comprised the non-recurring costs of €5.2 million for Project 3.0.

The bank made **net reversals** of €0.3 million of the **provisions for risks and charges** (compared to accruals of €0.6 million in 2019). They mostly refer to the release of the provision made to cover possible fees to be paid to third parties for the above-mentioned law suit for which the bank was found guilty.

Amortisation, depreciation and net impairment losses on property, equipment and investment property and intangible assets amount to €6.3 million (€8.2 million in 2019). The caption includes depreciation of €1.7 million (€1.1 million in 2019) charged in accordance with IFRS 16 and the impairment loss of €1.5 million (€3.5 million in 2019) recognised after the impairment test on the intangible assets related to the platform acquired from Banca Carige S.p.A. recognised in 2018.

Other net income amounts to €3 million compared to €26.8 million for 2019 when it included the compensation of €24.5 million received from Banca Carige S.p.A. for the non-transfers of loans provided for in the servicing agreement, while this compensation was €1.5 million in 2020. In addition, other net income includes the €2.8 million recovery of costs incurred by the bank on behalf of the companies it manages and recharged to them.

In 2020, the item is heavily affected by the amount due as a result of the first level ruling ordering the bank to return the costs incurred to monetise securities securing a loan granted in previous years. It has to pay a total of €3.1 million, including court costs, interest and taxes.

The bank's **pre-tax loss** comes to €5.0 million compared to a pre-tax profit of €23.7 million for 2019.

It recognised a **tax benefit** of €11.9 million compared to a benefit of €12.2 million for 2019. At 30 June 2020, the bank paid the substitute tax of €16 million on goodwill and intangible assets recognised in the consolidated financial statements (tax redemption). It recognised deferred tax assets of €28.2 million after payment of this tax being the future tax benefits of having made the goodwill and other intangible assets related to the acquisition of the investment in CFLS deductible. The income tax benefit also includes the IRAP accrual of €0.15 million for the year.

The **profit** for the year amounts to €6.9 million compared to €36.0 million in 2019.

Financial position

(€m)

Reclassified statement of financial position	31/12/2020 pre IFRS 5	31/12/2019	Variation	Variation %
Cash and cash equivalents	93.1	72.9	20.3	28%
Financial assets	1,116.6	917.8	198.8	22%
- FVTPL	374.8	480.3	(105.5)	(22)%
- FVOCI	-	3.5	(3.5)	(100)%
- *Amortised cost*	741.8	434.0	307.8	71%
Loans and receivables with banks	49.6	146.6	(97.1)	(66)%
Equity investments	105.4	100.9	4.5	4%
Property, equipment and investment property and intangible assets	29.2	33.4	(4.2)	(12)%
Tax assets (current and deferred)	70.3	38.8	31.5	81%
Other	66.4	20.0	46.4	232%
Total assets	**1,530.8**	**1,330.5**	**200.3**	**15%**
Funding and other financial liabilities	1,124.1	932.7	191.4	21%
- due to banks	274.2	226.0	48.2	21%
- due to customers	849.9	706.7	143.2	20%
Tax liabilities	2.1	1.7	0.3	18%
Other liabilities	31.4	25.2	6.2	24%
Post-employment benefits	2.3	2.2	0.1	2%
Provisions for risks and charges	1.4	1.8	(0.3)	(20)%
Share capital	54.2	37.8	16.4	43%
Reserves	308.5	292.7	15.8	5%
Profit for the year	6.9	36.0	(29.1)	(81)%
Total liabilities and equity	**1,530.8**	**1,330.1**	**200.7**	**15%**

During the year, the bank continued to collect funds through the on-line **Esagon** product, with deposits of €759.2 million at 31 December 2020 (€693.2 million at 31 December 2019). This demonstrates the product's attractiveness, including during this period of uncertainty caused by Covid-19.

Liabilities at amortised cost include repos with banking counterparties for securities in portfolio of €157 million (€142 million at 31 December 2019), €78.3 million due to Domizia for the principal part of the senior notes subscribed by third parties and deposits (on the Interbank Deposit Market) and loans from other banks of €112,8 million (€79.5 million at 31 December 2019).

CF deployed its liquidity as follows:
- it deposited €140.7 million (€128.8 million at 31 December 2019) in unrestricted current accounts, the PM account with Bank of Italy and the minimum reserve and €20 million with Directa SIM (€30 million at 31 December 2019);
- it invested €107.3 million in government bonds classified as financial assets at amortised cost (€3.5 million at fair value through other comprehensive income and €135.5 million at amortised cost at 31 December 2019).

Investments in ABS amount to €488.7 million at year end compared to €723.2 million at 31 December 2019. In addition to the normal amortisation of securities, the bank reimbursed all the senior notes (€55 million) and part of the junior notes (€326 million) issued by the vehicles Bramito, Lutezia and Vette as part of the above-mentioned restructuring transactions.

The ABS are classified in two different statement of financial position captions:
- financial assets at fair value through profit or loss of €373.9 million, which include those HTC assets that did not pass the SPPI test provided for by IFRS 9 (junior, mezzanine and certain senior/unitranche securities);
- financial assets at amortised cost of €114.8 million, which include those HTC senior securities that passed the SPPI test.

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 call option for BETC (€0.6 million).

Loans and receivables with customers increased by €218.4 million from €523.4 million at the end of 2019 to €741.8 million. In December 2020, the bank recognised the Palatino (bank loans) and Domizia (leases) portfolios with carrying amounts of €234.9 million and €185.2 million at 31 December 2020, respectively. The caption also includes senior ABS and government bonds (described earlier), the loans and current accounts purchased directly from Banca Creval in 2018 (€14.4 million), loans and financing disbursed (€32.9 million), including the loans to the ReoCos (€17.3 million), other leases (€17.9 million) and trade receivables for invoices issued or to be issued (€14.6 million).

In accordance with the impairment requirements of IFRS 9, the bank recognised individual impairment losses of €6.5 million and collective impairment losses of €2.1 million based on the portfolios' business plans.

As well as the stake in CFLS of €100 million, **equity investments** comprise the 100% interest in Be Credit Management S.p.A. (€2.3 million) and the investments in the securitisation vehicles as per Law no 130/99 (€0.02 million) The caption also includes the investments in the newcos CF Special Servicing, CF Master Servicing and CF Asset Management (€3.1 million) and those in LeaseCo One and LeaseCo Europa.

Property, equipment and investment property amount to €7.4 million. This caption includes all the leased properties from which the bank carries out its activities recognised in accordance with IFRS 16 (€6.2 million).

Intangible assets of €21.8 million include goodwill related to the Gerica platform (€9.3 million), the intangible asset also related to the Gerica platform (€11.7 million) and software (€1 million).

Deferred tax assets amount to €36.5 million and include €5.5 million recognised on carryforward tax losses, €0.8 million on the **ACE** (Aid for Economic Growth) benefit, €0.6 million on the reverse merger with CF Holding of 2019, €28.2 million on the CFLS tax redemption and €1.5 million in accordance with Law no. 214/2011 for impairment losses on loans and receivables that are deductible over more than one year. During the year, the bank transformed deferred tax assets on carryfoward tax losses into current tax assets of €23.9 million as allowed by the Cura Italia decree.

Equity of €369.5 million includes the profit for the year of €6.9 million.

During the year, the bank approved a capital increase using the injection of €120 million made by its shareholder Tiber Investments S.à r.l. on 29 May 2019.

Business opportunities and going concern

The directors have prepared the separate financial statements at 31 December 2020 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.

The bank withstood the economic effects of the pandemic which led to a reduction in fee and commission income and the need to impair its portfolios, especially after the postponements in payments envisaged in the various business plans as part of its servicing activities. Despite all this, the bank's financial position remained healthy and it plans to continue its normal operations and introduce the new business lines as per the strategy described earlier once the Covid-19 emergency has been resolved.

Over the next 12 months, the bank will be busy with the group's reorganisation.

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

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

Events after the reporting date and outlook

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

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

Proposal to the shareholders

The bank made a profit for the year of €6,882,869.

We propose that the entire amount be allocated to the legal reserve.

Rome, 24 March 2021

BOARD OF DIRECTORS
Chairman
Panfilo Tarantelli

SEPARATE FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

(Euros)

		31/12/2020	31/12/2019
10.	Cash and cash equivalents	93,144,819	72,874,426
20.	Financial assets at fair value through profit or loss	328,342,768	480,253,462
	a) held for trading	*637,869*	*1,301,363*
	c) mandatorily measured at fair value	*327,704,899*	*478,952,099*
30.	Financial assets at fair value through other comprehensive income	-	3,513,695
40.	Financial assets at amortised cost	333,266,525	580,314,710
	a) loans and receivables with banks	*26,581,636*	*56,874,070*
	b) loans and receivables with customers	*306,684,889*	*523,440,641*
70.	Equity investments	*2,259,011*	*100,900,014*
80.	Property, equipment and investment property	*1,282,733*	*8,222,413*
90.	Intangible assets, including:	167,138	25,180,292
	- goodwill	-	*9,300,000*
100.	Tax assets	17,716,092	38,845,507
	a) current	*15,534,438*	*6,536,659*
	b) deferred	*2,181,655*	*32,308,849*
110.	Non-current assets held for sale and disposal groups	740,009,038	-
120.	Other assets, including:	14,596,412	20,020,595
	- contribution to the assets earmarked for a specific business: "Cube Gardenia"	-	*100,000*
	- contribution to the assets earmarked for a specific business: "Este"	-	*50,000*
	- contribution to the assets earmarked for a specific business: "Gimli - New Levante"	-	*50,000*
	Total assets	**1,530,784,536**	**1,330,125,114**

CREDITO FONDIARIO

CONTINUED: STATEMENT OF FINANCIAL POSITION

(Euros)

	Liabilities and equity	31/12/2020	31/12/2019
10.	Financial liabilities at amortised cost	915,781,759	932,656,340
	a) due to banks	*152,457,039*	*225,957,034*
	b) due to customers	*763,324,720*	*706,699,306*
	c) securities issued	-	-
20.	Financial liabilities held for trading	-	-
30.	Financial liabilities at fair value through profit or loss	2,695,572	-
40.	Hedging derivatives	-	-
50.	Macro-hedged financial liabilities	-	-
60.	Tax liabilities	1,522,222	1,741,617
	a) current	*1,522,222*	*1,372,022*
	b) deferred	-	*369,595*
70.	*Liabilities associated with disposal groups*	219,765,263	-
80.	*Other liabilities*	19,663,481	29,024,275
90.	*Post-employment benefits*	397,974	2,245,420
100.	Provisions for risks and charges:	1,416,289	1,761,375
	c) other provisions	*1,416,289*	*1,761,375*
110.	Valuation reserves	(92,575)	(55,594)
140.	Reserves	64,984,480	149,010,315
150.	Share premium	243,577,532	139,982,180
160.	Share capital	54,189,669	37,785,021
180.	Profit for the year	6,882,869	35,974,164
	Total liabilities and equity	**1,530,784,536**	**1,330,125,114**

INCOME STATEMENT

(Euros)

	Voci	2020	2019*
10.	Interest and similar income	38,319,954	28,890,788
	including: interest calculated using the effective interest method	*38,319,954*	*28,805,580*
20.	Interest and similar expense	(18,775,103)	(15,770,736)
30.	**Net interest income**	**19,544,851**	**13,120,053**
40.	Fee and commission income	700,149	1,438,213
50.	Fee and commission expense	(240,598)	(97,747)
60.	**Net fee and commission income**	**459,551**	**1,340,466**
70.	Dividends and similar income	-	9
80.	Net trading income (expense)	(72,610)	975,894
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	(6,897,747)	6,152,012
	a) financial assets and liabilities designated at fair value	*(1,992)*	-
	b) other financial assets mandatorily measured at fair value	*(6,895,755)*	*6,152,012*
120.	**Total income**	**13,034,044**	**21,597,005**
130.	Net impairment losses/gains for credit risk associated with:	(3,961,036)	3,995,576
	a) financial assets at amortised cost	*(3,963,389)*	*3,990,237*
	b) financial assets at fair value through other comprehensive income	*2,353*	*5,339*
150.	**Net financial income**	**9,073,009**	**25,592,581**
160.	Administrative expenses:	(19,455,002)	(16,541,627)
	a) personnel expense	*(4,879,201)*	*(5,716,299)*
	b) other administrative expenses	*(14,575,801)*	*(10,825,328)*
170.	Net reversals of (accruals to) provisions for risks and charges	330,946	(635,271)
	b) other	*330,946*	*(635,271)*
180.	Depreciation and net impairment losses on property, equipment and investment property	(368,544)	(265,531)
190.	Amortisation and net impairment losses on intangible assets	(224,703)	(304,719)
200.	Other operating income (costs), net	(584,574)	579,750
210.	**Operating costs**	**(20,301,877)**	**(17,167,398)**
260.	**Pre-tax profit (loss) from continuing operations**	**(11,228,869)**	**8,425,183**
270.	Income taxes	-	3,603,114
280.	**Post-tax profit (loss) from continuing operations**	**(11,228,869)**	**12,028,297**
290.	Post-tax profit from discontinued operations	18,111,738	23,945,867
300.	**Profit for the year**	**6,882,869**	**35,974,164**

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

STATEMENT OF COMPREHENSIVE INCOME

(Euros)

		2020	2019
10.	**Profit for the year**	**6,882,869**	**35,974,164**
	Other comprehensive income (expense), net of tax, that will not be reclassified to profit or loss:	-	-
20.	Equity instruments at fair value through other comprehensive income	–	–
30.	Financial liabilities at fair value through profit or loss (changes in own credit rating)	–	–
40.	Hedges of equity instruments at fair value through other comprehensive income	–	–
50.	Property, equipment and investment property	–	–
60.	Intangible assets	–	–
70.	Defined benefit plans	(28,535)	(21,488)
80.	Non-current assets held for sale and disposal groups	–	–
90.	Share of valuation reserves of equity-accounted investees	–	–
	Other comprehensive income (expense), net of tax, that will be reclassified to profit or loss:		
100.	Hedges of investments in foreign operations	-	-
110.	Exchange gains (losses)	-	-
120.	Cash flow hedges	-	-
130.	Hedging instruments (non-designated items)	-	-
140.	Financial assets (other than equity instruments) at fair value through other comprehensive income	(8,446)	37,798
150.	Non-current assets held for sale and disposal groups	-	-
160.	Share of valuation reserves of equity-accounted investees	-	-
170.	**Total other comprehensive income (expense), net of tax**	(36,981)	16,309
180.	**Comprehensive income (captions 10 + 170)**	**6,845,888**	**35,990,473**

Statement of changes in equity (2020)

(Euros)

	Balance at 31.12.2019	Change to opening balances	Balance at 1.1.2020	Allocation of prior year profit		Changes of the year								Equity at 31.12.2020
							Equity 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	2020 comprehensive income	
Share capital:														
a) ordinary shares	37,785,021	-	37,785,021	-	-	-	16,404,648	-	-	-	-	-	-	54,189,669
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium	139,982,180	-	139,982,180	-	-	-	103,595,352	-	-	-	-	-	-	243,577,532
Reserves:														
a) income-related	15,060,020	-	15,060,020	35,974,164	-	-	-	-	-	-	-	-	-	51,034,184
b) other	133,950,295	-	133,950,295	-	-	-	(120,000,000)	-	-	-	-	-	-	13,950,295
Valuation reserves	(55,594)	-	(55,594)	-	-	-	-	-	-	-	-	-	(36,981)	(92,575)
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit for the year	35,974,164	-	35,974,164	(35,974,164)	-	-	-	-	-	-	-	-	6,882,869	6,882,869
Equity	**362,696,086**	**-**	**362,696,086**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**6,845,888**	**369,541,974**

Statement of changes in equity (2019)

(Euros)

				Allocation of prior year profit		Changes of the year									
							Equity transactions								
	Balance at 31.12.2018	Change to opening balances	Balance at 1.1.2019	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	Equity at 31.12.2019
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) incomerelated	(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**

STATEMENT OF CASH FLOWS (indirect method)

(Euros)

A. OPERATING ACTIVITIES	Amount 2020	2019
1. Operations	**10,578,616**	**38,922,183**
- profit for the year	6,882,869	35,974,164
- net losses on financial assets held for trading and other financial assets/liabilities at fair value through profit or loss	12,692,657	5,469,487
- gains/losses on hedging transactions (-/+)	-	-
- net impairment losses for credit risk	9,919,219	912,921
- amortisation, depreciation and net impairment losses on property, equipment and investment property and intangible assets	6,284,970	8,235,149
- net accruals to provisions for risks and charges and other costs/revenue	2,769,423	635,271
- tax assets	(27,858,938)	(12,247,116)
- net impairment losses/reversals of impairment losses on non-current assets held for sale and disposal groups, net of tax (+/-)	-	-
- other adjustments (+/-)	(111,584)	(57,691)
2. Cash flows used for financial assets	**(171,054,526)**	**(183,259,616)**
- financial assets held for trading	663,494	-
- financial assets at fair value through profit or loss	-	-
- other assets mandatorily measured at fair value	92,183,233	(160,027,382)
- financial assets at fair value through other comprehensive income	3,516,049	3,002,493
- financial assets at amortised cost	(221,005,133)	(54,022,596)
- other assets	(46,412,167)	27,787,870
3. Cash flows generated by financial liabilities	**187,405,493**	**147,822,211**
- financial liabilities at amortised cost	188,708,511	138,540,161
- financial liabilities held for trading	-	-
- financial liabilities at fair value through profit or loss	2,695,572	-
- other liabilities	(3,998,590)	9,282,050
Net cash flows generated by operating activities	**26,929,583**	**3,484,778**
B. INVESTING ACTIVITIES		
1. Cash flows generated by	**-**	**9**
- sales of equity investments	-	-
- dividends from equity investments	-	9
- sales of property, equipment and investment property	-	-
- sales of intangible assets	-	-
- sales of business units	-	-
2. Cash flows used to acquire	**(6,659,191)**	**(109,535,199)**
- equity investments	(4,539,012)	(100,050,014)
- property, equipment and investment property	(1,334,911)	(8,481,885)
- intangible assets	(785,267)	(1,003,300)
- business units	-	-
Net cash flows used in investing activities	**(6,659,191)**	**(109,535,190)**
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	**20,270,393**	**13,949,588**

RECONCILIATION	Amount	
Financial statements captions	2020	2019
Opening cash and cash equivalents	72,874,426	58,924,838
Total net cash flows for the year	20,270,393	13,949,588
Cash and cash equivalents: exchange gains (losses)	-	-
Closing cash and cash equivalents	**93,144,819**	**72,874,426**

With respect to the additional disclosures required for the separate financial statements at 31 December 2020 after publication of Regulation (EU) 2017/1990 which partly amended IAS 7 "Statement of cash flows", the bank 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 SEPARATE 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 2020 were prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and related interpretations of the International Financial Reporting Interpretations Committee (IFRIC) endorsed by the European Union as per the procedure set out by article 6 of Regulation (EC) 1606 of 19 July 2002. They also comply with the layout and compilation requirements contained in Circular no. 262 of 22 December 2005 (sixth revision of 30 November 2018), issued by Bank of Italy as part of its powers granted by article 43 of Legislative decree no. 136/2015.

These separate financial statements set out 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 2020 are as follows:

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

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

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

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

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

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

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.

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. 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

Application of IFRS 5

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

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

		2019 published A	Effect of application of IFRS 5 B	2019 A+B
10.	Interest and similar income	49,980,925	(21,090,136)	28,890,788
	including: interest calculated using the effective interest method	*49,895,716*	*(21,090,136)*	*28,805,580*
20.	Interest and similar expense	(17,954,616)	2,183,880	(15,770,736)
30.	**Net interest income**	**32,026,309**	**(18,906,256)**	**13,120,053**
40.	Fee and commission income	36,303,166	(34,864,954)	1,438,213
50.	Fee and commission expense	(2,205,904)	2,108,158	(97,747)
60.	**Net fee and commission income**	**34,097,261**	**(32,756,795)**	**1,340,466**
70.	Dividends and similar income	9	-	9
80.	Net trading income	975,894	-	975,894
90.	Net hedging income (expense)	-	-	-
100.	Net gain from sales or repurchases of:	8,571	-	8,571
	a) financial assets at amortised cost	-	-	-
	b) financial assets at fair value through other comprehensive income	*8,571*	-	*8,571*
	c) financial liabilities	-	-	-
110.	Net gain (loss) on other financial assets and liabilities at fair value through profit or loss	(6,445,381)	12,597,393	6,152,012
	a) financial assets and liabilities designated at fair value	-	-	-
	b) other financial assets mandatorily measured at fair value	*(6,445,381)*	*12,597,393*	*6,152,012*
120.	**Total income**	**60,662,664**	**(39,065,659)**	**21,597,005**
130.	Net impairment losses/gains for credit risk associated with:	(912,921)	4,908,497	3,995,576
	a) financial assets at amortised cost	*(918,260)*	*4,908,497*	*3,990,237*
	b) financial assets at fair value through other comprehensive income	*5,339*	-	*5,339*
140.	Modification gains (losses)	-	-	-
150.	**Net financial income**	**59,749,743**	**(34,157,162)**	**25,592,581**
160.	Administrative expenses:	(53,946,367)	37,404,740	(16,541,627)
	a) personnel expense	*(32,847,230)*	*27,130,931*	*(5,716,299)*
	b) other administrative expenses	*(21,099,137)*	*10,273,809*	*(10,825,328)*
170.	Net accruals to provisions for risks and charges	(635,271)	-	(635,271)
	a) commitments and guarantees given	-	-	-
	b) other	*(635,271)*	-	*(635,271)*
180.	Depreciation and net impairment losses on property, equipment and investment property	(1,535,461)	1,269,930	(265,531)
190.	Amortisation and net impairment losses on intangible assets	(6,699,688)	6,394,969	(304,719)
200.	Other operating income, net	26,794,091	(26,214,342)	579,750
210.	**Operating costs**	**(36,022,695)**	**18,855,297**	**(17,167,398)**
260.	**Pre-tax profit from continuing operations**	**23,727,048**	**(15,301,865)**	**8,425,183**
270.	Income taxes	12,247,116	(8,644,003)	3,603,114
280.	**Post-tax profit from continuing operations**	**35,974,164**	**(23,945,867)**	**12,028,297**
290.	Post-tax profit from discontinued operations	-	23,945,867	23,945,867
300.	**Profit for the year**	**35,974,164**	**-**	**35,974,164**

Risks, uncertainties and impact of Covid-19
In 2020, the global economy was heavily impacted by the spread of Covid-19. The measures taken to support recovery have been impressive. According to generally accepted forecasts of possible future macroeconomic scenarios, thanks to the extensive government measures implemented in the European Union and in most major countries, as well as those taken to contain the virus, which have been successful, a gradual elimination of the restrictions to the movement of people and a significant recovery of business activities is expected within a relatively short timeframe. Consequently, although the effects of the pandemic on the productive environments will be extremely negative in the short term, a rapid turnaround with a significant upturn in GDP is expected for 2021.

The bank responded very quickly to the emergency, immediately activating a wide range of initiatives aimed at protecting people's health, as well as ensuring business continuity and countering the effects of the epidemic.

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

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 prolonged slowdown (or shutdown) of the courts with impacts on credit collection times (from 3 to 6 months), the government concession of grace periods for loans with possible delays to already-agreed repayment plans, a deceleration in the national and international economy with a possible fallout on the realisable value of the assets given as guarantee for the loans and a slowdown in the economy with a possible growth in bank NPEs.

At the date of this report, the directors do not believe the 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.

Nature and amount of changes in estimates with a significant impact
The bank's 2020 performance was affected by the ongoing public health emergency during the year as illustrated in this section.

Net fee and commission income
The pandemic adversely affected the bank's profit for the year due to the reduced collections of outstanding loan repayments as special servicer (down 30% on forecasts), which meant its commissions thereon were also smaller. This can especially be seen in the drop of €10.8 million in net fee and commission income compared to the previous year.

Net fair value gains (losses) on ABS
Covid-19 triggered extreme volatility on financial markets. The bank reviewed its business plans for investments, which led to the recognition of net fair value losses on the ABS due to the postponement of the repayment recovery dates (see caption 110. Net gain (loss) on other financial assets and liabilities at fair value through profit or loss, showing a net loss of €12.6 million, compared to a net loss of €6.4 million in 2019).

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

The bank's update of the macro-economic scenarios based on Bank of Italy's projections, changes in the rating and staging of the exposures to be measured and the review of the business plan for the POCI portfolios led it to increase the impairment losses on financial assets measured at amortised cost and recognised in profit or loss to €9.9 million compared to €0.9 million for the previous year.

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

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

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

Covid-19-related modifications
1. Assessment of the "substantial nature" of modifications to the contractual cash flows of financial assets subject to moratoria for their possible derecognition (IFRS 9.B5.5.25)
The EBA compliant moratoria granted by the bank did not provide for a waiver of interest or principal, but merely a deferral/extension of payments.
As such, they do not result in the derecognition of the financial asset. Reference should be made to Part E of these notes for a quantitative analysis.

2. Amendment to IFRS 16
Commission regulation (EU) 2020/1434 has amended IFRS 16 – Leases, providing an optional, temporary practical expedient for lessees benefiting from lease payment holidays. A lessee may elect not to apply the modification accounting treatments to rent concessions occurring as a direct consequence of the Covid-19 pandemic. Credito Fondiario has not applied the practical expedient introduced by the amendment to IFRS 16 (IAS 828).

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 bank's board of directors resolved to set aside three groups of assets earmarked for a specific business, "Cube – Gardenia", "Este – Restart and "Este - Gimli".

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

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

As the 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, LeaseCo Europa, CF Liberty Servicing and Be Credit Management. Following the capital increase of 29 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 24 March 2021, 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 28 April 2021, on first call, and of 29 April 2021, on second call, 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 24 March 2021, 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 treated as the date of initial recognition for its assignment to the various risk stages for impairment purposes.

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

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

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

If it is not possible to ascertain the substantial transfer of risks and rewards of title, the 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 (loss) on other financial assets and liabilities at fair value through profit or loss".

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

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

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

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

This category also includes equity instruments other than those held for trading which the 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 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, or rights, to variable returns from involvement with the investee;
• 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 assets under finance lease (for the lessees) and operating lease (for the lessors) as well as leasehold improvement costs. Reference is made to IFRS 16 to determine whether an arrangement contains a lease. Property, equipment and machinery are recognised as assets when:
• it is probable that future economic benefits associated with the item will flow to the bank;
• the cost of the item can be measured reliably.

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 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.

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. Capitalised software development costs only comprise the costs directly attributable to the development stage. They are amortised systematically over the estimated useful life of the relevant product/service so as to reflect the pattern in which the asset's future economic benefits are expected to be consumed by the 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 – Non-current assets held for sale, disposal groups and associated liabilities

Recognition - classification
Asset caption "110 - Non-current assets held for sale and disposal groups" and liability caption "70 - Liabilities associated with disposal groups" include the non-current assets and liabilities and groups of assets and liabilities for which the bank is committed to a plan to sell and the sale is highly probable. To qualify for classification as such, a non-current asset or liability (or disposal group) must be available for immediate sale and an active programme to locate a buyer and complete the plan must have been initiated on which basis its sale is considered to be highly probable within one year from when it is classified as held for sale.

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

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

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

9 – Financial liabilities at amortised cost

Recognition
The 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.

10 – Provisions for risks and charges

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

A provision is recognised when and only when:
• the 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 reversals of (accruals to) provisions for risks and charges".

11 – Other information

Treasury shares
The bank does not have treasury shares.

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

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

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

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

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

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

For the application of the SPPI test, IFRS 9 provides the following definitions:
- principal: the fair value of the financial asset at initial recognition. This may change over the life of the financial asset, for example if there are repayments of part of the principal;
- interest: the consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time. It can also include consideration for other basic lending risks and costs and a profit margin.

In assessing whether the contractual cash flows of a financial asset can be defined as SPPI, IFRS 9 refers to the general concept of a "basic lending arrangement", which is independent of the legal form of the asset. When contract terms introduce exposure to risks or volatility in the contractual cash flows that is inconsistent with the definition of a basic lending arrangement, such as exposure to changes in share or commodity prices, the contractual cash flows do not meet the definition of SPPI. The application of the classification driver based on contractual cash flows sometimes requires a judgement and, consequently, the establishment of internal application policies.

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

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

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

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

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

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

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

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

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

In operational terms, the assessment of the business model is carried out in line with the 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, although they may be subsequently reclassified as performing exposures, nonetheless adjusted by a loss allowance equal to their lifetime ECL.

Business combinations
Business combinations are governed by IFRS 3.

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

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

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

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

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

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

The acquisition-date consideration transferred includes any contingent consideration based on future events, if provided for by the combination agreement and only if it is probable, it can be measured reliably and realised within one year of acquisition of control. Instead, any compensation for impairment losses on the assets used as consideration is not included in the purchase price since it is already considered either in the fair value of equity instruments or as a reduction in the premium or an increase in the discount on the initial issue of debt instruments.

Acquisition-related costs are those incurred by the acquirer to carry out the business combination, including, for example, professional fees paid to independent auditors, experts, legal advisors, costs for appraisals and audits of financial statements, preparation of information documents required by the law, as well as advisory fees incurred to identify potential targets, if the contract provides for the payment of success fees, as well as debt or equity securities' registration and issue costs.

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

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

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

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

Revenue and cost recognition

Revenue is the gross flow of economic benefits generated by an entity's ordinary operations. It is recognised when control of the goods or services is transferred to the customer in an amount that reflects the consideration to which the entity expects to be entitled. Specifically, revenue is recognised using the model that can:

• identify the contract, defined as an agreement that creates enforceable obligations;
• identify the performance obligations in the contract;
• determine the transaction price, i.e., the amount of consideration in a contract to which an entity expects to be entitled in exchange for transferring promised goods and/or services to a customer;
• allocate the transaction price to the performance obligations on the basis of the relative stand-alone selling prices of each distinct good or service;
• recognise revenue when (or as) the entity satisfies a performance obligation.

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

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

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

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

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

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

A.4.1. Levels 2 and 3: valuation techniques and inputs used
The fair value of financial instruments is determined using prices on financial markets for instruments quoted on active markets or internal valuation models for other financial instruments.

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

A.4.2 Valuation processes and sensitivity
Assets other than short-term exposures classified as Level 3 include the ABS at fair value through profit or loss and financial assets at amortised cost.

The 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)

	31/12/2020			31/12/2019		
	L1	L2	L3	L1	L2	L3
1. Financial assets at fair value through profit or loss	-	-	-	-	-	-
a) held for trading	-	-	638	-	-	1,301
b) designated at fair value	-	-	-	-	-	-
c) other financial assets mandatorily measured at fair value	-	-	327,705	-	-	478,952
2. Financial assets at fair value through other comprehensive income	-	-	-	3,514	-	-
3. Hedging derivatives	-	-	-	-	-	-
4. Property, equipment and investment property	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
Total	**-**	**-**	**328,343**	**3,514**	**-**	**480,253**
1. Financial liabilities held for trading	-	-	-	-	-	-
2. Financial liabilities at fair value through profit or loss	-	-	2,696	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
Total	**-**	**-**	**2,696**	**-**	**-**	**-**

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

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

(€'000)

	Financial assets at fair value through profit or loss							
	Total	Including: a) held for trading	Including: b) designated at fair value	Including: c) mandatorily measured at fair value	Financial assets at fair value through other comprehensive income	Hedging derivatives	Property, equipment and investment property	Intangible assets
1. Opening balance	**480,254**	**1,301**	**-**	**478,952**	**3,513**	**-**	**-**	**-**
2. Increases	**314,451**	**-**	**-**	**314,451**	**2**	**-**	**-**	**-**
2.1 Purchases	259,478	-	-	259,478	-	-	-	-
2.2 Gains recognised in:	54,973	-	-	54,973	-	-	-	-
2.2.1 Profit or loss	54,973	-	-	54,973	-	-	-	-
- including gains	-	-	-	-	2	-	-	-
2.2.2 Equity	-	X	X	X	-	-	-	-
2.3 Transfers from other levels	-	-	-	-	-	-	-	-
2.4 Other increases	-	-	-	-	-	-	-	-
3. Decreases	**(466,361)**	**(663)**		**(465,698)**	**(3,516)**			
3.1 Sales	-	-	-	-	-	-	-	-
3.2 Repayments	(409,064)	-	-	(409,064)	(3,510)	-	-	-
3.3 Loss	(10,260)	(73)	-	(10,187)	-	-	-	-
3.3.1 Profit or loss	(10,260)	(73)	-	(10,187)	-	-	-	-
- including losses	(10,260)	(73)	-	(10,187)	-	-	-	-
- 3.3.2 Equity	-	X	X	X	(6)	-	-	-
3.4 TTransfers to other levels	-	-	-	-	-	-	-	-
3.5 Other decreases	(47,037)	(591)	-	(46,446)	-	-	-	-
4. Closing balance	**328,344**	**638**	**-**	**327,705**	**-**	**-**	**-**	**-**

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)

	31/12/2020				31/12/2019			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Financial assets at amortised cost	333,267	107,901	-	228,578	580,315	222,997	-	357,662
2. Investment property	-	-	-	-	-	-	-	-
3. Non-current assets held for sale and disposal groups	740,009	-	-	741,115	-	-	-	-
Total	**1,073,276**	**107,901**	**-**	**969,693**	**580,315**	**222,997**	**-**	**357,662**
1. Financial liabilities at amortised cost	915,782	-	-	915,782	932,656	-	-	932,656
2. Liabilities associated with disposal groups	219,765	-	-	219,765	-	-	-	-
Total	**1,135,547**	**-**	**-**	**1,135,547**	**932,656**	**-**	**-**	**932,656**

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.

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

Part B: Notes to the statement of financial position

Assets

Section 1

Cash and cash equivalents – Caption 10

1.1 Cash and cash equivalents: breakdown

(€'000)

	31/12/2020	31/12/2019
Cash	3	3
Demand deposits with central banks	93,142	72,871
Total	**93,145**	**72,874**

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.

Section 2

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

2.1 Financial assets held for trading: breakdown by type

(€'000)

	31/12/2020			31/12/2019		
	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	-	-	638	-	-	1,301
1.2 associated with fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives						
2.1 trading	-	-	-	-	-	-
2.2 associated with fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total B	**-**	**-**	**638**	**-**	**-**	**1,301**
Total (A+B)	**-**	**-**	**638**	**-**	**-**	**1,301**

The caption “Financial derivatives: 1.1. trading” includes a call option for 100% of BE TC S.p.A.. The bank exercised the other option existing at 31 December 2019 for 65% of BE Credit Management S.p.A. (of which the bank already owned 35%). 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)

	31/12/2020	31/12/2019
A. Assets		
1. Debt instruments	-	-
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
2. Equity instruments	-	-
a) Banks	-	-
b) Other financial companies	-	-
of which: insurance companies	-	-
c) Non-financial companies	-	-
d) Other issuers	-	-
3. OEIC units	-	-
4. Financing	-	-
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	--	--
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total A	-	-
B. Derivatives	-	-
a) Central counterparties	-	-
b) other	638	1,301
Total B	**638**	**1,301**
Total (A+B)	**638**	**1,301**

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 type

(€'000)

	31/12/2020			31/12/2019		
	L1	L2	L3	L1	L2	L3
1. Debt instruments						
1.1 Structured	-	-	-	-	-	-
1.2 Other	-	-	327,430	-	-	478,679
2. Equity instruments	-	-	275	-	-	273
3. OEIC units	-	-	-	-	-	-
4. Financing	-	-		-	-	
4.1 Reverse repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total	**-**	**-**	**327,705**	**-**	**-**	**478,952**

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 €275 thousand issued by Banca Carige;
• senior ABS of €28,125 thousand that did not pass the SPPI test (their business model is HTC);
• mezzanine ABS of €32,630 thousand that did not pass the SPPI test (their business model is HTC);
• junior and mono tranche ABS of €266,675 thousand that did not pass the SPPI test (their business model is HTC).

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

(€'000)

	31/12/2020	31/12/2019
1. Equity instruments	275	273
of which: banks	-	-
of which: other financial companies	275	273
of which: non-financial companies	-	-
2. Debt instruments	**327,430**	**478,679**
a) Central banks	-	-
b) Public administrations	-	-
c) Banks		
d) Other financial companies	327,430	478,679
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	**327,705**	**478,952**

Section 3

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

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

(€'000)

	31/12/2020			31/12/2019		
	L1	L2	L3	L1	L2	L3
1. Debt instruments						
1.1 Structured	-	-	-	-	-	-
1.2 Other	-	-	-	3,514	-	-
2. Equity instruments	-	-	-	-	-	-
3. Financing	-	-	-	-	-	-
Total	-	-	-	**3,514**	-	-

At 31 December 2019, financial assets at fair value through other comprehensive income included listed bank bonds purchased for treasury purposes. They were all sold or repaid during the year.

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

(€'000)

	31/12/2020	31/12/2019
1. Debt instruments	-	-
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	3,514
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
2. Equity instruments	-	-
a) Banks	-	-
b) Other issuers:	-	-
- Other financial companies	-	-
of which: insurance companies	-	-
- Non-financial companies	-	-
- Other	-	-
4. Financing	-	-
a) Central banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	-	-
Total	**-**	**3,514**

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

(€'000)

	Gross carrying amount				Rettifiche di valore complessive			Partial/ total write-offs (*)
	Stage 1	of which: instruments with a low credit risk	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Debt instruments	-	-	-	-	-	-	-	-
Financing	-	-	-	-	-	-	-	-
Total 31/12/2020	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total 31/12/2019	**3,514**	**-**	**-**	**-**	**(2)**	**-**	**-**	**-**
of which: purchased or originated credit-impaired financial assets	**X**	**X**	**-**	**-**	**X**	**-**	**-**	**-**

* To be shown for disclosure purposes

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

None.

Section 4

Financial assets at amortised cost – Caption 40

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

(€'000)

	31/12/2020						31/12/2019					
	Carrying amount			Fair value			Carrying amount			*Fair value*		
	Stages 1 and 2	Stage 3	of which: purchased or originated credit-impaired	L1	L2	L3	Stages 1 and 2	Stage 3	of which: purchased or originated credit-impaired	L1	L2	L3
A. Loans and receivables with central banks												
1. Term deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Minimum reserve	2,545	-	-	X	X	X	2,427	-	-	X	X	X
3. Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	-	-	-	X	X	X	-	-	-	X	X	X
B. Loans and receivables with banks												
1. Financing												
1.1 Current accounts and demand deposits	23,516	-	-	X	X	X	33,564	-	-	X	X	X
1.2. Term deposits	-	-	-	X	X	X	19,965	-	-	X	X	X
1.3. Other financing:	-	-	-	X	X	X	-	-	-	X	X	X
- Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
- Net investments in leases	-	-	-	X	X	X	-	-	-	X	X	X
- Other	521	-	-	X	X	X	918	-	-	X	X	X
2. Debt instruments												
2.1 Structured	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other	-	-	-	-	-	-	-	-	-	-	-	-
Total	**26,582**	**-**	**-**	**-**	**-**	**-**	**56,874**	**-**	**-**	**-**	**-**	**-**

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, which are classified as stage 1, have been impaired by €145 thousand.

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

(€'000)

	31/12/2020						31/12/2019					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Stages 1 and 2	Stage 3	of which: purchased or origina-ted credit-impaired	L1	L2	L3	Stages 1 and 2	Stage 3	of which: purchased or origina-ted credit-impaired	L1	L2	L3
Financing												
1.1. Current accounts	20,384	1,612	1,612	X	X	X	30,344	21,130	21,130	X	X	X
1.2. Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
1.3. Loans	1,859	13,352	12,835	X	X	X	3,702	31,255	31,602	X	X	X
1.4. Credit cards, personal loans and salary-backed loans	178	-	-	X	X	X	229	-	-	X	X	X
1.5. Net investments in leases	6,305	11,562	8,167	X	X	X	5,209	14,598	10,073	X	X	X
1.6. Factoring	-	-	-	X	X	X	-	-	-	X	X	X
1.7. Other financing	29,522	-	-	X	X	X	37,423	-	-	X	X	X
Debt instruments												
1.1. Structured	-	-	-	-	-	-	-	-	-	-	-	-
1.2. Other	221,911	-	-	107,901	-	117,223	379,550	-	-	135,779	-	244,115
Total	**280,159**	**26,525**	**22,614**	**107,901**		**117,223**	**456,457**	**66,984**	**62,805**	**135,779**		**244,115**

Loans and receivables with customers amount to €306,685 thousand, net of impairment losses. They decreased by €216,756 thousand on the balance at 31 December 2019 (€523,441 thousand), due to reclassifications to assets held for sale. The caption is net of loss allowances of €5,652 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 €114,790 thousand that passed the SPPI test;
• 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 specific business; after impairment, their carrying amount is €14,447 thousand;
• purchased lease portfolios (both POCI and performing) in 2016 and 2017 with a carrying amount of €17,868 thousand;
• provided loans to employees or former employees and selected corporate loans of €31,896 thousand; cash collateral of €2,281 was deposited for the corporate loans;
• disbursed personal loans to employees of €178 thousand.

The bank invested €107,122 thousand in government bonds and lodged €19,975 thousand in a deposit current account for cash management purposes.

Trade receivables for servicing fees as master servicer, special servicer or for other servicing activities performed on behalf of the securitisation vehicles as per Law no. 130/99, already invoiced or yet to be invoiced, which amounted to €16,745 thousand at 31 December 2019, have been reclassified to assets held for sale as they are part of the business to be transferred.

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

(€'000)

	31/12/2020			31/12/2019		
	Stages 1 and 2	Stage 3	of which: purchased or originated credit-impaired	Stages 1 and 2	Stage 3	of which: purchased or originated credit-impaired
1. Debt instruments						
a) Public administrations	107,122	-	-	135,034	-	-
b) Other financial companies	114,790	-	-	244,516	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	-	-	-	-	-	-
2. Financing to:						
a) Public administrations	-	-	-	-	-	-
b) Other financial companies	20,384	15	5	40,424	17	17
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	37,038	23,985	20,676	35,397	63,067	59,330
d) Households	825	2,525	1,933	1,087	3,900	3,456
Total	**280,159**	**26,525**	**22,614**	**456,457**	**66,984**	**62,803**

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

(€'000)

	Gross carrying amount				Total impairment losses			Partial/total write-offs (*)
	Stage 1		Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
		of which: instruments with a low credit risk						
Debt instruments	222,923	-	-	-	(1,011)	-	-	-
Financing	84,145	-	1,780	30,218	(988)	(107)	(3,692)	-
Total 31/12/2020	**307,068**	**-**	**1,780**	**30,218**	**(2,001)**	**(107)**	**(3,692)**	**-**
Total 31/12/2019	**499,773**	**-**	**15,455**	**77,196**	**(1,414)**	**(482)**	**(10,212)**	**(17,716)**
of which: purchased or originated credit-impaired financial assets	X	X	-	26,277	X	-	(3,663)	-

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

(€'000)

	Gross carrying amount				Total impairment losses			Partial/total write-offs (*)
	Stage 1		Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
		of which: instruments with a low credit risk						
EBA-compliant moratoria	4,775	-	1,384	2,484	(104)	(81)	(324)	-
Other forbearance measures	-	-	-	2,985	-	-	-	-
New financing	-	-	-	-	-	-	-	-
Total 31/12/2020	**4,775**	**-**	**1,384**	**5,469**	**(104)**	**(81)**	**(324)**	**-**
Total 31/12/2019	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Section 7

Equity investments – Caption 70

7.1 Equity investments: details

This caption includes the purchase price for BE Credit Management S.p.A., deemed strategic to develop the tax asset business. (€2,259 thousand). In December 2020, the bank exercised its call option for 65% of this investee's share capital, or which it already held 35% in 2019.

The following equity investments have been reclassified to assets held for sale as they are allocated to the new group:
- 70% of CF Liberty Servicing S.p.A. (formerly First Servicing S.p.A.) which was acquired on 31 May 2019 (€100,000 thousand);
- the 100% investments in the newcos CF Special Servicing, CF Master Servicing and CF Asset Management (€3,060 thousand);
- the 60% controlling investments in the securitisation vehicles that are part of the VAT group (€20 thousand) and 100% of Leasco One and Leasco Europa (€100 thousand).

The bank carried out an impairment test of the carrying amounts of intangible assets with a finite useful life and goodwill of the subsidiary CLFS, which are recognised in its consolidated financial statements, that did not show the need to recognise any impairment losses on its equity investment in these separate financial statements.

The bank's equity investments are summarised below:

	Registered and Head office	Investment %	Voting rights %
A. Subsidiaries			
1. CF LIBERTY SERVICING	Via Piemonte 38 - Rome	70%	70%
2. BE CREDIT MNG S.P.A.	Via Giuseppe Gioachino Belli 27 - Rome	100%	100%
3. CF Special Servicing S.p.A.	Via Piemonte 38 - Rome	100%	100%
4. CF Master Servicing S.p.A.	Via Piemonte 38 - Rome	100%	100%
5. CF Asset Management S.p.A.	Via Piemonte 38 - Rome	100%	100%
6. LEASECO ONE SRL	Via Piemonte 38 - Rome	100%	100%
7. LEASECO Europa SRL	Via Piemonte 38 - Rome	100%	100%
8. Lucullo S.r.l.	Via Piemonte 38 - Rome	60%	60%
9. Ponente SPV S.r.l.	Via Piemonte 38 - Rome	60%	60%
10. New Levante SPV S.r.l.	Via Piemonte 38 - Rome	60%	60%
11. Bramito SPV S.r.l.	Via Piemonte 38 - Rome	60%	60%
12. Cosmo SPV S.r.l.	Via Piemonte 38 - Rome	60%	60%
13. Convento SPV S.r.l.	Via Piemonte 38 - Rome	60%	60%
14. Artemide SPV S.r.l.	Via Piemonte 38 - Rome	60%	60%
15. Novus Italia 1 S.r.l.	Via Piemonte 38 - Rome	60%	60%
16. Elmo SPV S.r.l.	Via Piemonte 38 - Rome	60%	60%
17. Sallustio S.r.l.	Via Piemonte 38 - Rome	60%	60%
18. Sesto SPV S.r.l.	Via Piemonte 38 - Rome	60%	60%
19. Vette SPV S.r.l	Via Piemonte 38 - Rome	60%	60%
20. Acqua SPV S.r.l.	Via Piemonte 38 - Rome	60%	60%
21. Leviticus SPV S.r.l.	Via Piemonte 38 - Rome	60%	60%
22. Lutezia SPV S.r.l.	Via Piemonte 38 - Rome	60%	60%
23. Tiberina SPV S.r.l.	Via Piemonte 38 - Rome	60%	60%
24. Cassia SPV S.r.l.	Via Piemonte 38 - Rome	60%	60%
25. Aurelia 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)

	2020	2019
A. Opening balance	**100,900**	**850**
B. Increases	**4,539**	**100,050**
B.1 Purchases	4,539	100,050
B.2 Impairment gains	-	-
B.3 Fair value gains	-	-
B.4 Other increases	-	-
C. Decreases	**(103,180)**	**-**
C.1 Sales	-	-
C.2 Impairment losses	-	-
C.3 Fair value losses	-	-
C.4 Other decreases	(103,180)	-
D. Closing balance	**2,259**	**100,900**
E. Total fair value gains	**-**	**-**
F. Total impairment losses	**-**	**-**

Other decreases show the reclassifications to assets held for sale mentioned above.

7.6 Commitments relating to jointly controlled entities

None.

7.7 Commitments relating to associates

None.

7.8 Significant restrictions

None.

7.9 Other disclosures

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)

	31/12/2020	31/12/2019
1 Owned	**214**	**1,241**
a) land	-	-
b) buildings	-	-
c) furniture	181	561
d) electronic systems	-	-
e) other	34	680
2 Right-of-use	**1,068**	**6,981**
a) land	-	-
b) buildings	1,017	6,916
c) furniture	-	-
d) electronic systems	-	-
e) other	51	65
Total	**1,283**	**8,222**
of which: obtained through enforcement of guarantees received	-	-

This caption comprises the right-of-use assets of €1,068 thousand recognised in accordance with the new requirements of IFRS 16. The assets falling within the scope of the new standard refer to the leased offices in Rome, Milan and Genoa, the buildings for residential use granted as a benefit to certain employees, company cars and printers.

8.6 *Property and equipment: changes*

(€'000)

	Land	Buildings	Furniture	Electro-nic systems	Other	Total
A. Gross opening balance	**-**	**8,051**	**1,203**	**-**	**2,106**	**11,360**
A.1 Accumulated depreciation and net impairment losses	-	(1,135)	(642)	-	(1,361)	(3,138)
A.2 Net opening balance	**-**	**6,916**	**561**	**-**	**745**	**8,222**
B. Increases:			**539**		**32**	**571**
B.1 Purchases	-	-	405	-	32	437
B.2 Capitalised improvement costs	-	-	-	-	-	-
B.3 Reversals of impairment losses	-	-	-	-	-	-
B.4 Fair value gains, through:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
B.5 Exchange rate gains	-	-	-	-	-	-
B.6 Transfers from investment property	-	-	x	x	x	-
B.7 Other increases	-	-	134	-	-	134
C. Decreases:		**(5,899)**	**(1,019)**		**(592)**	**(7,509)**
C.1 Sales	-	-	(29)	-	-	(29)
C.2 Depreciation	-	(290)	(24)	-	(54)	(369)
C.3 Impairment losses, through:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
C.4 Fair value losses, through:	-	-	-	-	-	-
a) equity	-	-	-	-	-	-
b) profit or loss	-	-	-	-	-	-
C.5 Exchange rate losses	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) investment property	-	-	x	x	x	-
b) non-current assets held for sale and disposal groups	-	(4,865)	(865)	-	(413)	(6,143)
C.7 Other decreases	-	(742)	(101)	-	(125)	(969)
D. Net closing balance	**-**	**1,018**	**81**	**-**	**185**	**1,283**
D.1 Accumulated depreciation and net impairment losses		(487)	(135)	-	(274)	(896)
D.2 Gross closing balance	**-**	**1,504**	**216**	**-**	**459**	**2,179**
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.

Transfers to non-current assets held for sale and disposal groups show those assets reclassified thereto as they are allocated to the new group.

Section 9

Intangible assets – Caption 90

9.1 Intangible assets: breakdown by asset

(€'000)

	31/12/2020		31/12/2019	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill	**X**	**-**	**X**	**9,300**
A.2 Other intangible assets	**-**	**-**	**15,880**	**-**
A.2.1 Assets measured at cost:				
a) internally developed assets	-	-	-	-
b) other	167	-	15,880	-
A.2.2 Assets measured at fair value:				
a) internally developed assets	-	-	-	-
b) other	-	-	-	-
Total	**167**	**-**	**15,880**	**9,300**

Other intangible assets (€167 thousand) relate to software used by the bank for its loan management activities.

9.2 Intangible assets: changes

(€'000)

	Goodwill	Other intangible assets: internally generated		Other intangible assets: other		Total
		FIN.	IND.	FIN.	IND.	
A. Opening balance	**9,300**	**-**	**-**	**26,667**	**-**	**35,967**
A.1 Accumulated amortisation and net impairment losses	-	-	-	(10,787)	-	(10,787)
A.2 Net opening balance	**9,300**	**-**	**-**	**15,880**	**-**	**25,180**
B. Increases	**-**	**-**	**-**	**785**	**-**	**785**
B.1 Purchases	-	-	-	785	-	785
B.2 Increases in internally-generated intangible assets	X	-	-	-	-	-
B.3 Reversals of impairment losses	X	-	-	-	-	-
B.4 Fair value gains:	-	-	-	-	-	-
- through equity	X	-	-	-	-	-
- through profit or loss	X	-	-	-	-	-
B.5 Exchange rate gains	-	-	-	-	-	-
B.6 Other increases	-	-	-	-	-	-
C. Decreases	**(9,300)**	**-**	**-**	**(16,497)**	**-**	**(25,797)**
C.1 Sales	-	-	-	-	-	-
C.2 Amortisation and impairment losses	-	-	-	-	-	-
- Amortisation	X	-	-	(225)	-	(225)
- Impairment losses:						
+ equity	X	-	-	-	-	-
+ profit or loss	-	-	-	-	-	-
C.3 Fair value losses:	-	-	-	-	-	-
- through equity	X	-	-	-	-	-
- through profit or loss	X	-	-	-	-	-
C.4 Transfers to disposal groups	(9,300)	-	-	(12,345)	-	(21,645)
C.5 Exchange rate losses	-	-	-	-	-	-
C.6 Other decreases	-	-	-	(3,928)	-	(3,928)
D. Net closing balance	**-**	**-**	**-**	**167**	**-**	**167**
D.1 Accumulated amortisation and net impairment losses	-	-	-	(142)	-	(142)
E. Gross closing balance	**-**	**-**	**-**	**309**	**-**	**309**
F. Measurement at cost	-	-	-	-	-	-

Key:
FIN.: finite life
IND.: indefinite life

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[6] 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 (since 2019, the amortisation charged each year is €2,200 thousand). Since the bank identified impairment triggers in both 2019 and 2020, it recognised impairment losses of €3,527 thousand and €1,509 thousand, respectively, 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.

The assets with a finite useful life and goodwill pertaining to the Gerica platform have been reclassified to assets held for sale as they relate to the servicing activities that will be performed by the new group.

9.3 Other disclosures

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 €2,182 thousand have mostly been recognised on carryforward tax losses (€1,579 thousand) and the ACE benefit (€199 thousand) estimated on the basis of the bank's demerger plan. Carryforward tax losses and the ACE benefit allow for the recognition of deferred tax assets as a deductible temporary difference arises on an accruals basis and this difference can be used to decrease the tax base in future years. As these benefits are potential only, the future taxable profits should be such as to offset the carryfoward tax losses and the ACE benefit. IAS 12.24 provides that a deferred tax asset shall be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. Paragraph 34 and following paragraphs of the same standard clarify that a deferred tax asset shall be recognised for the carryforward of unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised. This shall be ascertained on a prudent basis and by performing a specific probability test to support the underlying assumptions. Accordingly, based on its forecast future taxable profits that can cover the carryforward tax losses up to the legally-established limit (80% of the tax base), the bank had recognised deferred tax assets on carryforward tax losses and the ACE benefit at 31 December 2018 and 2019.

The deferred tax assets of €395 thousand recognised in accordance with Law no. 214/2011 relate to impairment losses on loans and receivables of which one seventh, one ninth and one eighteenth can be deducted each year.

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

The other deferred tax assets of €9 thousand relate to the actuarial valuation of post-employment benefits pursuant to IAS 19.

10.2 Deferred tax liabilities: breakdown

Deferred tax liabilities of €540 thousand calculated on the fiscally-driven amortisation of the Gerica platform's goodwill have been reclassified to liabilities associated with assets held for sale.

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

(€'000)

	2020	2019
1. Opening balance	**32,285**	**17,913**
2. Increases		
2.1 Deferred tax assets recognised in the year		
a) related to previous years	-	20,799
b) due to changes in accounting policies	-	-
c) reversals of impairment losses	-	-
d) other	28,180	-
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	-	-
b) other	(58,292)	-
4. Closing balance	**2,173**	**32,285**

In June 2020, the bank recognised deferred tax assets of €28,180 thousand after it had paid substitute taxes of €15,983 thousand to bring the carrying amount of certain intangible assets and goodwill it acquired in 2019 as part of its acquisition of a 70% investment in CF Liberty Servicing ("CFLS") into line with their tax base.
Moreover, in December 2020, the bank transformed deferred tax assets amounting to €23,970 thousand, calculated on carryforward tax losses, into current tax assets as per Decree law no. 18/2020, converted with amendments into Law no.27/2020 (the "Cura Italia" decree) and applicable to the assignment of exposures to Palatino SPV S.r.l. and Domizia SPV S.r.l.. Indeed, the bank assigned bank loan and lease portfolios to the two SPVs in December.

In addition to the above, "Other decreases b) other" comprise deferred tax assets through profit or loss of €34,322 thousand that will be transferred to the new group.

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

(€'000)

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

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

(€'000)

	2020	2019
1. Opening balance	**370**	**208**
2. Increases		
2.1 Deferred tax liabilities recognised in the year		
a) related to previous years	-	-
b) due to changes in accounting policies	-	-
c) other	171	162
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	(541)	-
4. Closing balance	**-**	**370**

10.5 Changes in deferred tax assets (recognised in equity)

(€'000)

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

10.6 Changes in deferred tax liabilities (recognised in equity)

None.

10.7 Other disclosures

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

(€'000)

		Amount
1	Withholdings on current account interest paid on account	3,576
2	Virtual stamp duty paid on account	3,656
3	IRAP from conversion of ACE tax asset	115
4	Asset as per Law no. 214/2011 on the conversion of deferred tax assets	70
5	Recoverable substitute tax	32
6	IRAP from reverse merger	24
7	IRES from reverse merger	92
8	VAT	1,710
9	Assets as per the Cura Italia decree	6,263
	Total	**15,534**

Section 11

Non-current assets held for sale, disposal groups and associated liabilities – Caption 110 of assets and Caption 70 of liabilities

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

(€'000)

	31/12/2020	31/12/2019
A. Individual assets	**-**	**-**
A.1 Individual assets	-	-
A.2 Equity investments	-	-
A.3 Property, equipment and investment property of which:	-	-
- obtained through enforcement of guarantees received	-	-
A.4 Intangible assets	-	-
A.5 Other non-current assets	-	-
Total A	**-**	**-**
of which: at cost	-	-
of which: at fair value level 1	-	-
of which: at fair value level 2	-	-
of which: at fair value level 3	-	-
B. Disposal groups	**-**	**-**
B.1 Financial assets at fair value through profit or loss	-	-
- held for trading	-	-
- financial assets at fair value through profit or loss	-	-
- other financial assets mandatorily measured at fair value	46,446	-
B.2 Financial assets at fair value through other comprehensive income	-	-
B.3 Financial assets at amortised cost	458,132	-
B.4 Equity investments	103,180	-
B.5 Property, equipment and investment property of which:	6,143	-
- obtained through enforcement of guarantees received	-	-
B.6 Intangible assets	21,645	-
B.7 Other assets	104,463	-
Total B	**740,009**	**-**
of which: at cost	693,563	-
of which: at fair value level 1	-	-
of which: at fair value level 2	-	-
of which: at fair value level 3	46,446	-

Continue previous table.

(€'000)

	31/12/2020	31/12/2019
C. Liabilities associated with individual assets held for sale	**-**	**-**
C.1 Financial liabilities	-	-
C.2 Securities	-	-
C.3 Other liabilities	-	-
Total C	**-**	**-**
of which: at cost	-	-
of which: at fair value level 1	-	-
of which: at fair value level 2	-	-
of which: at fair value level 3	-	-
D. Liabilities associated with disposal groups	**-**	**-**
D.1 Financial liabilities at amortised cost	205,583	-
D.2 Financial liabilities held for trading	-	-
D.3 Financial liabilities at fair value through profit or loss	-	-
D.4 Provisions	1,903	-
D.5 Other liabilities	12,279	-
Total D	**219,765**	**-**
of which: at cost	219,765	-
of which: at fair value level 1	-	-
of which: at fair value level 2	-	-
of which: at fair value level 3	-	-

11.2 Other disclosures

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

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

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

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

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

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

Based on the assumptions described earlier, the following items were reclassified to non-current assets held for sale and disposal groups for €740 million in the separate financial statements:
• financial assets at fair value through profit or loss of €46.4 million due to the reclassification of the junior and mezzanine notes (Tiberina and part of Vette);
• loans and receivables with customers of €435.1 million, relating to the Palatino portfolio (€234.9 million), the Domizia portfolio (€185.2 million) and trade receivables for servicing fees already invoiced or yet to be invoiced (€18.9 million);
• loans and receivables with banks of €23 million, comprising the portion of the bank's liquidity that is expected to be transferred to the disposal group;
• the equity investments in the companies that will be transferred (€103.2 million);
• property, equipment and investment property and intangible assets of €27.8 million, including goodwill of €9.3 million and other intangible assets of €11.7 million relating to the Gerica transaction and the portion of right-of-use assets allocated to the new group (€5 million);
• deferred tax assets of €34.4 million, which include those arising on the alignment of the investee CFLS' carrying amounts with their tax bases (€28.2 million) and those on carryforward tax losses (€4.5 million);
• current tax assets of €18.3 million, including the converted deferred tax assets mentioned earlier (€17.7 million).

Liabilities associated with assets held for sale of €219.8 million include:
• liabilities at amortised cost of €205.6 million, including those relating to repurchase agreements for securities being disposed of (€79.4 million), Domizia's senior securities subscribed by third parties (€78.3 million), bank loans (€42 million) and leases (€5.6 million);
• deferred tax liabilities of €0.5 million associated with Gerica's goodwill;
• other liabilities of €13.6 million, including those relating to post-employment benefits (€1.9 million), other employee benefits (€7.3 million) and trade payables associated with the disposal group (most of the remainder).

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

(€'000)

	Gross carrying amount				Total impairment losses		
	Stage 1		Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
		of which: instruments with a low credit risk					
Debt instruments	-	-	-	-	-	-	-
Financing	38,186	-	933	422,033	(200)	(202)	(2,618)
Total 31/12/2020	**38,186**	**-**	**933**	**422,033**	**(200)**	**(202)**	**(2,618)**
of which: purchased or originated credit-impaired financial assets	X	X	933	422,033	X	(202)	(2,618)

Section 12

Other assets – Caption 120

12.1 Other assets: breakdown

(€'000)

	31/12/2020	31/12/2019
Advance for subscription of ABS	50	10,742
Contribution to the assets earmarked for a specific business: "Cube Gardenia"	-	100
Contribution to the assets earmarked for a specific business: "Este	-	50
Contribution to the assets earmarked for a specific business: "Gimli"	-	50
"Cube" intercreditor agreement	12,396	7,399
Deposit for Liberty transaction	-	-
Grants for subsidised loans	118	4
Amounts due from INPS	-	62
Loans and receivables with assets earmarked for a specific business: "Cube Gardenia"	-	-
Loans and receivables with assets earmarked for a specific business: "Este"	-	96
Guarantee deposits	90	130
Coins	-	4
Prepayments and accrued income	272	1,220
Other	1,670	165
Total	**14,596**	**20,021**

Liabilities

Section 1

Financial liabilities at amortised cost – Caption 10

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

(€'000)

	31/12/2020				31/12/2019			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Due to central banks	**-**	**x**	**x**	**x**	**-**	**x**	**x**	**x**
2. Due to banks								
2.1 Current accounts and demand deposits	-	x	x	x	-	x	x	x
2.2 Term deposits	45,043	x	x	x	-	x	x	x
2.3 Financing		x	x	x		x	x	x
2.3.1 Repurchase agreements	77,853	x	x	x	142,029	x	x	x
2.3.2 Other	25,673	x	x	x	79,857	x	x	x
2.4 Commitments to repurchase own equity instruments	-	x	x	x	-	x	x	x
2.5 Lease liabilities	-	x	x	x	-	x	x	x
2.6 Other financial liabilities	3,889	x	x	x	4,071	x	x	x
Total	**152,457**			**152,457**	**225,957**			**225,957**

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

The "Term deposits" of €45,043 thousand at the reporting date relate to interbank financing.

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

"Financing - Other" comprises drawdowns of committed credit lines of €25,673 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 €3,889 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)

	31/12/2020				31/12/2019			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1 Current accounts and demand deposits	25,324	x	x	x	14,297	x	x	x
2 Term deposits	736,344	x	x	x	684,481	x	x	x
3 Financing	-	x	x	x	-	x	x	x
3.1 Repurchase agreements	-	x	x	x	-	x	x	x
3.2 Other	-	x	x	x	-	x	x	x
4 Commitments to repurchase own equity instruments	-	x	x	x	-	x	x	x
5 Lease liabilities	1,176	x	x	x	7,487	x	x	x
6 Other financial liabilities	480	x	x	x	434	x	x	x
Total	**763,325**	**-**	**-**	**763,325**	**706,699**	**-**	**-**	**706,699**

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

The current accounts and demand deposits include the retail current accounts for which the time deposit letter had to be signed (€25,324 thousand).

The term deposits continue to grow strongly due to the increasing popularity of the bank's retail Esagon product, the on-line term deposit account ("DOL"). At the reporting date, the liability to DOL customers includes deposits for which the time deposit letter had been signed of €730,572 thousand (31 December 2019: €678,908 thousand), deposits for which the time deposit letter had not been signed of €25,324 thousand and accrued interest of €3,264 thousand. Due to customers includes the cash collateral guaranteeing corporate loans of €2,000 thousand and the amounts to be paid to the provinces and municipalities in line with the stage of completion of works on behalf of a vehicle. The balance also comprises deposits for the sale of leases securing loans of €283 thousand.

"Lease liabilities" are recognised in accordance with IFRS 16 (€1,176 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 3

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

1.3 Financial liabilities at fair value through profit or loss: breakdown by type

(€'000)

	31/12/2020					31/12/2019				
	Nominal amount	Fair value				Nominal amount	Fair value			
		L1	L2	L3	Fair value		L1	L2	L3	Fair value
1. Due to banks										
1.1 Structured	-	-	-	-	x	-	-	-	-	x
1.2 Other, including:	-	-	-	-	x	-	-	-	-	x
- loan commitments	-	x	x	x	x	-	x	x	x	x
- financial guarantees given	-	x	x	x	x	-	x	x	x	x
2. Due to customers										
2.1 Structured	-	-	-	-	x	-	-	-	-	x
2.2 Other, including:	2,696	-	-	2,696	x	-	-	-	-	x
- loan commitments	-	x	x	x	x	-	x	x	x	x
- financial guarantees given	-	x	x	x	x	-	x	x	x	x
3. Debt instruments										
3.1 Structured	-	-	-	-	x	-	-	-	-	x
3.2 Other	-	-	-	-	x	-	-	-	-	x
Total	**2,696**	**-**	**-**	**2,696**	**-**	**-**	**-**	**-**	**-**	**-**

Section 6

Tax liabilities – Caption 60

The caption shows the unpaid 2019 IRAP.

Section 7

Liabilities associated with disposal groups

Reference should be made to section 11 "Non-current assets held for sale, disposal groups and associated liabilities – Caption 110 of assets and Caption 70 of liabilities of this part B for details.

Section 8

Other liabilities – Caption 80

8.1 Other liabilities: breakdown

(€'000)

	31/12/2020	31/12/2019
Amounts to be credited to current accounts	-	63
Remuneration due to employees	1,018	11,019
VAT liability	-	279
Social security contributions to be paid	404	1,937
Sundry liabilities for the on-line term deposit account product	5,842	4,838
Sundry investment liabilities	-	852
Sundry lease liabilities	3,648	3,098
Sundry amounts due to SPVs	-	90
Amounts due to Cassa Depositi e Prestiti	-	-
Amounts due to CF Liberty Servicing	-	32
Trade payables	3,772	6,993
Trade payables from merger	-	144
Amounts due to "Gimli"	-	32
Amounts due to SPVs for self-securitisation	-	(2,331)
Accrued expenses and deferred income	-	354
Withholding taxes to be paid	163	865
Collection suspense account		
Sums to be settled	3,100	
Guarantee deposits	110	
Amounts due to SPVs for promissory note planning	-	(5)
Other liabilities	1,606	764
Total	**19,663**	**29,024**

Sums to be settled of €3,100 thousand relate to legal disputes.

Section 9

Post-employment benefits – Caption 90

9.1 Post-employment benefits: changes

(€'000)

	2020	2019
A. Opening balance	**2,245**	**2,324**
B. Increases		
B.1 Accruals	178	898
B.2 Other increases	-	-
C. Decreases		
C.1 Payments	-	(976)
C.2 Other decreases	(2,025)	-
D. Closing balance	**398**	**2,245**
Total	**398**	**2,245**

Other decreases show the reclassifications of the benefits accrued by employees who will leave the bank.

9.2 Other disclosures

The carrying amount of these benefits is calculated using actuarial methods as provided for by IAS 19.

The main actuarial assumptions are:
- discount rate of 0.40% (31 December 2019: 0.75%);
- expected inflation rate of 1% (31 December 2019: 1%).

Section 10

Provisions for risks and charges – Caption 100

10.1 Provisions for risks and charges: breakdown

(€'000)

	31/12/2020	31/12/2019
1. Provisions for credit risk for loan commitments and financial guarantees given	-	-
2. Provisions for other commitments and other guarantees given	-	-
3. Internal pension funds	-	-
4. Other provisions		
4.1 legal and tax disputes	1,416	1,712
4.2 personnel	-	-
4.3 other	-	49
Total	**1,416**	**1,761**

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	**-**	**-**	**1,761**	**1,761**
B. Increases				
B.1 Accruals	-	-	144	144
B.2 Changes due to passage of time	-	-	-	-
B.3 Changes due to variations in discount rate	-	-	-	-
B.4 Other increases	-	-	-	-
C. Decreases				
C.1 Utilisations	-	-	(14)	-
C.2 Changes due to variations in discount rate	-	-	-	-
C.3 Other decreases	-	-	(475)	(475)
D. Closing balance	**-**	**-**	**1,416**	**1,416**

10.6 Provisions for risks and charges - other provisions

These provisions comprise:

	Amount
Provision for legal fees	€542 thousand
Provision for amounts to be returned to courts	€24 thousand
Provision for litigation	€851 thousand
Total	**1,416 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.

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 54,189,669 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	**37,785**	**-**
- fully paid-up	37,785	-
- not fully paid-up	-	-
A.1 Treasury shares (-)	-	-
A.2 Outstanding shares: opening balance	**37,785**	**-**
B. Increases	**-**	**-**
B.1 New issues	-	-
- against payment:	16,405	-
- business combinations	-	-
- bond conversions	-	-
- exercise of warrants	-	-
- other	-	-
- bonus:	-	-
- for employees	-	-
- for directors	-	-
- other	-	-
B.2 Sale of treasury shares	-	-
B.3 Other increases	-	-
C. Decreases	**-**	**-**
C.1 Cancellation	-	-
C.2 Repurchase of treasury shares	-	-
C.3 Business transfers	-	-
C.4 Other decreases	-	
D. Outstanding shares: closing balance	**54,190**	**-**
D.1 Treasury shares (+)	-	-
D.2 Closing balance	-	-
- fully paid-up	-	-
- not fully paid-up	-	-

During the year, the bank's shareholders approved a capital increase using the €120 million injected by the shareholder Tiber Investments S.à r.l. on 29 May 2019.

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 €4,070 thousand and must equal at least one fifth of share capital; it was set up in prior years by allocating prior year profits thereto (at least one twentieth). If the reserve decreases, it shall be increased by allocating one twentieth of the profit for the year thereto.
• Statutory reserves: they amount to €58,079 thousand and comprise prior year profits allocated thereto. Their objective is to protect the 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 €13,950 thousand originally included the €52,862 thousand injection by the former shareholder EPAL as per the agreement to sell its shares of the parent in 2013 and €2,693 thousand received on 7 February 2014 as the adjustment, net of utilisation of the reserve to cover the 2013-2017 losses of €41,605 thousand. In 2019, Tiber Investments s.à r.l. injected €120,000 thousand in conjunction with the acquisition of the investment in CFLS, which was converted into share capital and share premium during 2020;
• other reserves of €615 thousand.

12.5 Equity instruments: breakdown and changes

12.6 Other disclosures

The share premium amounts to €243,578 thousand. During the year, it increased by €103,595 thousand as a result of the above-mentioned capital increase.

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			31/12/2020	31/12/2019
	(Stage 1)	(Stage 2)	(Stage 3)		
Loan commitments	**12,734**	**-**	**-**	**12,734**	**20,658**
a) Central banks	-	-	-	-	-
b) Public administrations	-	-	-	-	-
c) Banks	-	-	-	-	-
d) Other financial companies	12,734	-	-	12,734	20,658
e) Non-financial companies	-	-	-	-	-
f) Households	-	-	-	-	-
Financial guarantees given	**-**	**-**	**-**	**-**	**-**
a) Central banks	-	-	-	-	-
b) Public administrations	-	-	-	-	-
c) Banks	-	-	-	-	-
d) Other financial companies	-	-	-	-	-
e) Non-financial companies	-	-	-	-	-
f) Households	-	-	-	-	-

The loan commitment of €12,734 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.

4. 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	**-**
3. Securities custody and administration	**980,380**
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	12,796
d) securities owned by the group deposited with third parties	967,584
4. Other	**-**

At 31 December 2020, the following sections were not applicable:
- assets pledged to guarantee liabilities and commitments;
- operating leases;
- financial assets eligible for netting or subject to master netting or similar agreements;
- securities lending transactions;
- jointly controlled operations.

Part C: Notes to the income statement

Section 1

Interest – Captions 10 and 20

1.1 Interest and similar income: breakdown

(€'000)

	Debt instruments	Financing	Other	Total 2020	Total 2019
1. Financial assets at fair value through profit or loss:	**29,533**	**-**	**-**	**29,533**	**19,534**
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	*29,533*	-	-	*29,533*	*19,534*
2. Financial assets at fair value through other comprehensive income	**10**	**-**	**x**	**10**	**85**
3. Financial assets at amortised cost:	**3,697**	**5,079**	**-**	**8,776**	**9,272**
3.1 Loans and receivables with banks	-	*5*	*x*	*5*	*836*
3.2 Loans and receivables with customers	*3,697*	*5,074*	*x*	*8,771*	*8,436*
4. Hedging derivatives	**x**	**x**	**-**	**-**	**-**
5. Other assets	**x**	**x**	**-**	**-**	**-**
6. Financial liabilities	**x**	**x**	**x**	**-**	**-**
Total	**33,241**	**5,079**	**-**	**38,320**	**28,891**
including: interest income on credit-impaired financial assets	-	*2,943*	-	*2,943*	*2,501*
including: interest income on finance leases	-	*1,468*	-	*1,468*	*1,809*

Interest income of €38,320 thousand mainly includes gains on investments in ABS (€32,353 thousand), in the Gimli portfolio (€1,450 thousand) and in the lease portfolio (€1,468 thousand). Interest accrued on invested liquidity amounts to €1,165 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 2020 totalled €1,468 thousand (2019: €1,809 thousand).

1.3 Interest and similar expense: breakdown

(€'000)

	Liabilities	Securities	Other tran-sactions	Total 2020	Total 2019
1. Financial liabilities at amortised cost					
1.1 Due to central banks	*139*	*x*	*x*	*139*	*39*
1.2 Due to banks	*1,147*	*x*	*x*	*1,147*	*1,367*
1.3 Due to customers	*17,367*	*x*	*x*	*17,367*	*14,364*
1.4 Securities issued	*x*	*x*	*x*	*x*	*x*
2. Financial liabilities held for trading					
3. Financial liabilities at fair value through profit or loss	122	x	x	122	x
4. Other liabilities and provisions	x	x	x	x	x
5. Hedging derivatives	x	x	x	x	x
6. Financial assets	x	x	x	x	x
Total	**18,775**	**x**	**x**	**18,775**	**15,770**
including: interest expense on lease liabilities	*32*	*x*	*x*	*x*	*71*

Interest expense is the cost of funding to the bank, the most significant of which is that accrued on the Esagon deposits (€16,831 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 €32 thousand.

Section 2

Fees and commissions – Captions 40 and 50

2.1 Fee and commission income: breakdown

(€'000)

	2020	2019
a) guarantees given	-	-
b) credit derivatives	-	-
c) management, brokerage and consultancy services:	-	-
1. trading in financial instruments	-	-
2. foreign currency transactions	-	-
3. asset management	-	-
4. securities custody and administration	-	-
5. depository services	-	-
6. securities placement	-	-
7. order collection and transmission	-	-
8. consultancy services	-	-
8.1. concerning investments	-	-
8.2. concerning financial structure	-	-
9. distribution of third party services	-	-
9.1. asset management	-	-
9.1.1. individual	-	-
9.1.2. collective	-	-
9.2. insurance products	-	-
9.3. other products	-	-
d) collection and payment services	-	-
e) servicing services for securitisations	-	-
f) services for factoring transactions	-	-
g) tax collection services	-	-
h) management of multilateral trading systems	-	-
i) keeping and management of current accounts	-	-
j) other services	700	1,438
Total	**700**	**1,438**

2.3 Fee and commission expense: breakdown

(€'000)

	2020	2019
a) guarantees received	2	2
b) credit derivatives	-	-
c) management and brokerage services:	-	-
1. trading in financial instruments	-	-
2. foreign currency transactions	-	-
3. asset management:	-	-
3.1 own portfolio	-	-
3.2 third party portfolios	-	-
4. securities custody and administration	10	8
5. placement of financial instruments	-	-
6. off-premises distribution of financial instruments, products and	-	-
d) collection and payment services	62	37
e) other services	166	50
Total	**240**	**98**

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

Section 3

Dividends and similar income – Caption 70

3.1 Dividends and similar income: breakdown

The bank did not receive any dividends in 2020.

Section 4

Net trading loss – Caption 80

4.1 Net trading loss: breakdown

(€'000)

	Unrealised gains (A)	Trading income (B)	Unrealised losses (C)	Trading losses (D)	Net loss [(A+B) - (C+D)]
1. Financial assets held for trading	-	-	-	-	-
1.1 Debt instruments	-	-	-	-	-
1.2 Equity instruments	-	-	-	-	-
1.3 OEIC units	-	-	-	-	-
1.4 Financing	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	-	-	-	-	-
2.1 Debt instruments	-	-	-	-	-
2.2 Financial liabilities	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Financial assets and liabilities: exchange gains (losses)	x	x	x	x	-
4. Derivatives	-	-	-	-	-
4.1 Financial derivatives:	-	-	-	-	-
- On debt instruments and interest rates	-	-	-	-	-
- On equity instruments and equity indexes	-	-	-	-	-
- On currencies and gold	x	x	x	x	-
- Other	-	18	(91)	-	(73)
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges associated with the fair value option	x	x	x	x	-
Total	**-**	**18**	**(91)**	**-**	**(73)**

This caption includes the fair value losses 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.

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Section 6

Net gain from sales/repurchases – Caption 100

6.1 Net gain from sales/repurchases: breakdown

(€'000)

	2020			2019		
	Gain	Loss	Net gain (loss)	Gain	Loss	Net gain (loss)
A. Financial assets	**-**	**-**	**-**	**-**	**-**	**-**
1. Financial assets at amortised cost:	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Loans and receivables with banks	-	-	-	-	-	-
1.2 Loans and receivables with customers	-	-	-	-	-	-
2. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-
2.1 Debt instruments	-	-	-	14	(5)	9
2.4 Financing	-	-	-	-	-	-
Total assets	**-**	**-**	**-**	**14**	**(5)**	**9**
B. Financial liabilities at amortised cost	**-**	**-**	**-**	**-**	**-**	**-**
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	-	-	-	-	-	-
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**

The 2019 net gain of €9 thousand related 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

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

(€'000)

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

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

(€'000)

	Unrealised gains (A)	Realised gains (B)	Unrealised losses (C)	Realised losses (D)	Net loss [(A+B) - (C+D)]
1. Financial assets					
1.1 Debt instruments	-	-	(6,898)	-	(6,898)
1.2 Equity instruments	2	-	-	-	2
1.3 OEIC units	-	-	-	-	-
1.4 Financing	-	-	-	-	-
2. Foreign currency financial assets	**x**	**x**	**x**	**x**	**-**
Total	**-**	**-**	**(6,898)**	**-**	**(6,896)**

The bank recognised net fair value losses of €6,898 thousand on financial assets at fair value. They include the effect of the amendments to the business plans underlying the securities subscribed, partially offset by the reduction in the interest rates applied in the measurement of the ABS.

Section 8

Net impairment losses/gains – Caption 130

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

(€'000)

	Impairment losses (1)			Impairment gains (2)		2020	2019
		Stage 3					
	Stages 1 and 2	Write-off	Other	Stages 1 and 2	Stage 3		
A. Loans and receivables with banks							
- financing	(134)	-	-	-	-	**(134)**	**218**
- debt instruments	-	-	-	-	-	**-**	**-**
of which: purchased or originated credit-impaired	-	-	-	-	-	**-**	**-**
B. Loans and receivables with customers:	-	-	-	-	-	**-**	**-**
- financing	(547)	-	(3,966)	-	112	**(4,401)**	**3,849**
- debt instruments	(124)	-	-	695	-	**571**	**(76)**
of which: purchased or originated credit-impaired	-	-	*(3,966)*	-	*109*	***(3,858)***	***3,768***
C. Total	**(804)**	**-**	**(3,966)**	**695**	**112**	**(3,963)**	**3,990**

Net impairment losses on financial assets at amortised cost of €3,963 million for the year included:
- individual impairment losses of €3,966 thousand, of which €2,472 thousand on non-performing lease portfolios and €1,494 thousand on other POCI assets. They have been affected by the above-mentioned public health emergency;
- collective impairment losses of €804 thousand, of which €134 thousand on current accounts and bank deposits, €124 thousand on debt instruments (senior ABS and government bonds), €443 thousand on the bank's disbursed stage 1 and 2 loans and €105 thousand on other assets (post office current accounts, deposits with customers);
- impairment gains of €807 thousand, of which collective gains of €695 thousand on ABS due to the reduction in the amount of senior securities compared to 2019 and individual gains of €109 thousand on the POCI bank loan portfolio.

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

(€'000)

	Impairment losses (1)			Impairment gains (2)		2020	2019
	Stages 1 and 2	Stage 3		Stages 1 and 2	Stage 3		
		Write-off	Other				
1. EBA-compliant moratoria	(77)	-	(324)	8	-	**(393)**	**-**
2. Other forbearance measures	-	-	-	-	-	**-**	**-**
3. New financing	-	-	-	-	-	**-**	**-**
Total	**(77)**	**-**	**(324)**	**8**	**-**	**(393)**	**-**

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

(€'000)

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

8.2a Net impairment losses on financial assets at fair value through profit or loss subject to Covid-19-related measures: breakdown

None.

Section 10

Administrative expenses – Caption 160

10.1 Personnel expense: breakdown

(€'000)

	2020	2019
1) Employees		
a) wages and salaries	3,205	3,071
b) social security contributions	944	1,116
c) termination benefits	-	1
d) pension costs	-	-
e) accrual for post-employment benefits	177	144
f) accrual for pension and similar provisions:	-	-
- defined contribution plans	-	-
- defined benefit plans	-	-
g) payments to external supplementary pension funds:	-	-
- defined contribution plans	-	-
- defined benefit plans	-	-
h) costs of share-based payment plans	-	-
i) other employee benefits	375	1,266
2) Other personnel	-	-
3) Directors and statutory auditors	108	107
4) Retired personnel	-	-
5) Cost recoveries for personnel seconded to other companies	-	(1)
6) Cost reimbursements for personnel seconded to the bank	70	10
Total	**4,879**	**5,716**

Personnel expense decreased to €4,879 thousand from €5,716 thousand for 2019 (restated in accordance with IFRS 5). During the year, the bank's workforce increased from 263 to 266 employees. The estimated personnel expense for those employees who will be transferred to the new group has been recognised in the profit from discontinued operations in both years.

The lower personnel expense reflects the decrease in the variable remuneration component and the termination of the long term incentive plan.

10.2 Average number of employees by category

Employees:	
a) managers	19.75
b) junior managers	132.75
c) other employees	113.92
Other personnel	-

At the reporting date, the bank had 266 employees.

10.4 Other employee benefits

(€'000)

	2020	2019
MBO bonuses	223	302
Other bonuses	56	89
Insurance policies	50	68
Healthcare	-	67
Canteen subsidy and lunch vouchers	20	57
Refresher courses	-	53
Other long-term benefits	-	611
Other	25	18
Total	**375**	**1,266**

10.5 Other administrative expenses: breakdown

(€'000)

	2020	2019
Business development, ICT development and due diligences	1,614	1,133
Taxes and duties	1,516	1,404
Professional services	130	730
Sundry consultancies	4,186	1,764
Insurance	9	13
Building leases and management fees	201	111
Payroll services	41	28
IT costs	1,400	1,173
Maintenance	1,405	1,179
Audit fees	113	113
Rating agency fees	119	82
Posting and telephone	300	277
Furniture and hardware leases and rentals	17	35
Cleaning and related supplies	122	93
Information services	330	222
Pro rata deductible/non-deductible VAT	276	144
Contribution to resolution funds	155	56
Advertising	73	97
Sundry lease costs	346	374
Contribution to the Interbank Deposit Protection Fund	964	530
DOL customer assistance	795	650
Other	464	617
Total	**14,576**	**10,825**

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 reversals of (accruals to) provisions for risks and charges – Caption 170

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

(€'000)

	2020	2019
Accrual to the restructuring provision	-	(3)
Reversal of (accrual to) the provision for litigation	331	(632)
Reversal of (accrual to) the provision for legal fees	-	-
Total	**331**	**(635)**

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				
1. Property and equipment				
- owned	68	-	-	68
- right-of-use	301	-	-	301
2. Investment property				
- owned	-	-	-	-
- right-of-use	-	-	-	-
3. Inventories	x	-		
Total	**369**	**-**	**-**	**369**

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)
Intangible assets				
A.1 Owned				
- Generated internally	-	-	-	-
- Other	225	-	-	225
A.2 Right-of-use	-	-	-	-
Total	**225**	**-**	**-**	**225**

Section 14

Other operating expense, net – Caption 200

14.1 Other operating expense: breakdown

(€'000)

	2020	2019
Legal disputes	3,100	-
Other	104	1
Total	**3,204**	**1**

14.2 Other operating income: breakdown

(€'000)

	2020	2019
Compensation for AUM transactions	-	-
Cost recoveries from vehicles	1,329	-
Recovery of social security contributions	51	42
Smaller prior year expense	852	211
Reimbursement of due diligence expenses	-	-
Sundry lease income	27	62
Cost recoveries on promissory note management	-	-
Legal cost recoveries	8	1
Cost recharges to CF Liberty	-	-
Other	353	264
Total	**2,620**	**580**

Section 19

Income taxes – Caption 270

19.1 Income taxes: breakdown

(€'000)

	2020	2019
1. Current taxes (-)	-	(1,831)
2. Change in current taxes from previous years (+/-)	-	-
3. Decrease in current taxes for the year (+)	-	-
3.bis Decrease in current taxes for the year due to tax assets as per Law no. 214/2011 (+)	-	-
4. Change in deferred tax assets (+/-)	-	5,434
5. Change in deferred tax liabilities (+/-)	-	-
6. Tax benefit for the year (-) (-1+/-2+3+3bis+/-4+/-5)	**-**	**3,603**

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%). Since the bank made a loss for the year, it did not recognise any current taxes for 2020.

Section 20

Post-tax profit from discontinued operations – Caption 290

20.1 Post-tax profit from discontinued operations: breakdown

(€'000)

	2020	2019
1. Income	62,975	82,169
2. Expense	(39,366)	(41,697)
3. Net unrealised losses on the disposal group and associated liabilities	(17,372)	(25,171)
4. Net gains (losses) on sales	-	-
5. Taxes and duties	11,875	8,644
Net profit	**18,112**	**23,946**

The net profit from discontinued operations of €18.1 million includes:
• interest income of €34.9 million accrued on the portfolios included in the disposal group, fair value losses of €5.7 million on loans and receivables and impairment losses of €6 million on the loans of Palatino and Domizia and on the other loans transferred to the Palatino portfolio as part of the Gemini 1 transaction in July 2020;
• interest expense accrued on the financial liabilities at amortised cost associated with the disposal group (€2.1

million). The bank did not reclassify the main expense arising on the DOL deposit account with customers (€17 million) as it will retain this source of funds for its new investments;
• net servicing fees of €22.8 million;
• operating costs of €37.6 million, comprising €22.8 million related to personnel expense associated with the new group, other administrative expenses of €12.7 million incurred for the discontinued operations, amortisation, depreciation and net impairment losses on property, equipment and investment property and intangible assets of €5.7 million and other income of €3.6 million;
• an income tax benefit of €11.8 million, arising from the aforesaid recognition of deferred tax assets following the payment of a substitute tax to bring the carrying amount of certain intangible assets and goodwill recognised in the consolidated financial statements after the acquisition of CFLS into line with their tax base.

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

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

(€'000)

	Impairment losses (1)			Impairment gains (2)		2020	2019
	Stages 1 and 2	Stage 3		Stages 1 and 2	Stage 3		
		Write-offs	Other				
A. Loans and receivables with banks	-	-	-	-	-	-	-
- *financing*	-	-	-	-	-	-	-
- *debt instruments*	-	-	-	-	-	-	-
of which: purchased or originated credit-impaired	-	-	-	-	-	-	-
B. Loans and receivables with customers:	-	-	-	-	-	-	-
- financing	(9,653)	(2,182)	(77,910)	9,299	74,979	(5,467)	(4,908)
- debt instruments	(491)	-	-	-	-	(491)	-
of which: purchased or originated credit-impaired	(9,616)	(2,182)	(77,910)	9,299	74,979	(5,430)	(4,861)
Total	**(10,144)**	**(2,182)**	**(77,910)**	**9,299**	**74,979**	**(5,958)**	**(4,908)**

20.2 Breakdown of income taxes on discontinued operations

(€'000)

	2020	2019
1. Current taxes (-)	(150)	(6,550)
2. Change in deferred tax assets (+/-)	12,197	15,365
3. Change in deferred tax liabilities (-/+)	(171)	(171)
4. Tax benefit for the year (-1+/-2+/-3)	**11,876**	**8,644**

Section 22

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 disclosures

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

Part D: Comprehensive income

BREAKDOWN OF COMPREHENSIVE INCOME

(€'000)

		2020	2019
10.	**Profit for the year**	**6,883**	**35,974**
	Other comprehensive income (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	(29)	(21)
80.	Non-current assets held for sale and disposal groups	-	-
90.	Share of valuation reserves of equity-accounted investees	-	-
100.	Related tax	-	-
	Other comprehensive income (expense) that will be reclassified to profit or loss		
110.	Hedges of investments in foreign operations:		
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
120.	Exchange rate gains (losses):		
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
130.	Cash flow hedges:		
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
	including: net gain (loss)	-	-
140.	Hedging instruments (non-designated items)		
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
150.	Financial assets (other than equity instruments) at fair value through other comprehensive income:		
	a) fair value gains (losses)	(8)	38
	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 income (expense)**	**(37)**	**16**
200.	**Comprehensive income (captions 10 + 190)**	**6,846**	**35,990**

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 audit 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 a clear presentation of the bank's total risk profile and its financial strength to the board of directors. The department assists with the definition and implementation of the RAF, the related risk governance policies, the various stages of risk management and the setting of risk taking limits in order to ensure transparency about the 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.

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

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

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

Section 1 – CREDIT RISK

INFORMAZIONI DI NATURA QUALITATIVA

A. QUALITATIVE DISCLOSURE

1. General information

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

The 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 2020 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.

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

The definition of default concerns the way in which banks and financial intermediaries must classify customers for prudential purposes. The new definition of default provides that, for the purposes of calculating the minimum regulatory capital requirements for banks and financial intermediaries, debtors are classified as impaired (default) if at least one of the following conditions is met:
i) the obligor is more than 90 days (in some cases 180 days, e.g. government) in arrears on a material obligation;
ii) the bank considers that it is unlikely that the obligor will perform its obligation in full without recourse to actions such as the enforcement of collaterals.

Condition b) is already in force and does not change in any way. With respect to condition a), a past due debt should be considered material when the amount of the arrears exceeds both of the following thresholds:
i) €100 for retail exposures and €500 for non-retail exposures (absolute materiality threshold);
ii) 1% of the total exposure to the counterparty (relative materiality threshold).

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

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

In line with the provisions set out in Bank of Italy's Circular no. 285/2013, as subsequently amended, about banking groups and banks with assets equal to or less than €4 billion (class 3), the 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:
- it checks the capital absorption level once a quarter, identifying the areas requiring attention and planning any risk containment actions;
- it prepares reports as required or requested on the loan portfolio's quality for the board of directors, the management team, the audit committee and the internal units (as necessary);
- it checks that the performance of individual credit exposures are monitored correctly and the adequacy of the related provisioning, the customer due diligences, their classification, the collection process and the risks of applying credit risk mitigation techniques;
- it checks compliance with the risk limits defined in line with the 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 analyses 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. Measurement of expected credit losses

From 1 January 2018, when IFRS 9 became effective, the bank changed its provisioning of performing and non-performing exposures from an "incurred loss" to an "expected loss" approach.

IFRS 9 introduced three approaches:
1. the general approach, whereby entities recognise 12-month ECL (stage 1) or lifetime ECL (stages 2 and 3);
2. the purchased or originated credit-impaired (POCI) approach, whereby entities recognise the accumulated change in lifetime ECL since initial recognition at each reporting date;
3. the simplified approach for trade receivables or financial assets that do not contain a significant financing component under IFRS 15, whereby entities can elect to recognise lifetime ECL rather than 12-month ECL.

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

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

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

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

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

In the case of customer financing (loans and leases), the trigger events are as follows:
• more than 30 days past due;
• forborne performing.

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

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

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

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

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

Exposures with irregular repayments are classified in different categories depending on the risk level.

Non-performing exposures (stage 3) can be split into:
- non-performing overdrawn/past due exposures: on and off-statement of financial position exposures other than bad exposures or unlikely to pay exposures that are past due or overdue by more than 90 days at the reporting date;
- unlikely to pay: on and off-statement of financial position exposures classified as such given that the 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.

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

The bank has recognised a loss allowance for expected credit losses on:
• financial assets at amortised cost: ABS, loans and receivables with customers, including those arising from leases and loans and receivables with banks;
• financial assets at fair value through other comprehensive income;
• receivables from contracts with customers covered by IFRS 15 (mainly for servicing fees);
• loan commitments;
• financial guarantee contracts that are tested for impairment.

IFRS 9 has introduced the following key steps which are required for the calculation of impairment:
• taking into account expected credit losses rather than incurred losses;
• recalculating the ECL at each reporting date and any changes affect the financial instrument's credit risk at initial recognition;
• considering forward looking information and macroeconomic factors in calculating the ECL;
• introducing an additional stage to the performing and non-performing binary classification of counterparties, in

order to account for a significant increase in credit risk.

The ECL calculation model requires a quantitative estimate of future cash flows and assumes that these may be reliably estimated.

This impairment model is characterised by:
• the staging of exposures, based on an assessment of the increase in the exposure's/counterparty's risk;
• the use of multi-period risk parameters (e.g., lifetime PD, LGD and EAD) to quantify the lifetime ECL on financial instruments whose credit risk has increased significantly since initial recognition.

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

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

The bank revises the business plans used for the measurement of the financial assets every six months or more frequently, if appropriate. The business plan review performed during 2020 was inevitably affected by the Covid-19 public health emergency, mostly in terms of recovery timing.

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

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

Impairment losses on problematic loans and receivables are reversed only when their quality has improved to the point that the bank is reasonably certain that it will recover principal and interest and/or has collected amounts greater than the exposure's carrying amount. Depending on the method used to calculate the impairment loss, the proximity to the deadline for collection of the exposure due to the passage of time gives rise to a reversal of impairment losses as it implies a reduction in the unrealised interest expense previously used to decrease the loans and receivables.

Impacts of the Covid-19 pandemic

With regard to the classification of exposures, the pandemic has primarily led to the need, recognised by the banking system and institutions (governments and regulators), to grant customers with performing exposures generalised measures to suspend payments (moratoria) with simplified procedures and without penalising those involved, i.e., banks and customers. These measures, partly governed by national rules and partly decided independently by banks, were subject to a specific regulation, summarised in the specific EBA Guidelines ("Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the Covid-19 crisis"). Ac-

cording to EBA, moratoria shall meet certain specific requirements; essentially they must:
- be offered indiscriminately by the bank to a range of parties (performing) or pursuant to legal requirements;
- not provide for a waiver of interest or principal, but merely a deferral/extension of payments.

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

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

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

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

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

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

2.4 Credit risk mitigation techniques

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

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

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

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.

3. Non-performing exposures

3.1 Management strategies and policies

Exposures with irregular repayments are classified in different categories depending on the risk level.

Non-performing exposures can be split into:
- non-performing overdrawn/past due exposures: on and off-statement of financial position exposures other than bad exposures or unlikely to pay exposures that are past due or overdue by more than 90 days at the reporting date;
- unlikely to pay: on and off-statement of financial position exposures classified as such given that the 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 available onboarding information.

3.2 Write-offs

The bank reduces the carrying amount of a non-performing exposure when it has no reasonable expectations of recovering it in its entirety or a portion thereof (total/partial write-offs), e.g., in the following cases:
a) irrecoverability, based on certain and precise elements (such as, for example, the debtor being untraceable or destitute, non-recovery from foreclosure of movable and immovable property, unsuccessful seizures, bankruptcy proceedings ended with an incomplete settlement of the bank's claim, if there are no further enforceable guarantees, etc.);
b) transfers;
c) waivers, as a result of unilateral debt forgiveness or residual under settlement agreements;
d) without waivers. In order to avoid retaining in the statement of financial position financial assets that continue to be managed by the credit collection departments but that have a very low chance of being recovered, all or part of their carrying amount is written off due to its irrecoverability even when the related legal case has not been ter-

minated. The write-off may only affect the portion of a financial asset covered by a loss allowance; therefore, each financial asset may be written off to the extent of its carrying amount.

3.3 Purchased or originated credit-impaired financial assets

As described earlier, 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., lease 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.

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

At this time, the risk management department reviews the underlying assumptions by position clusters (defined according to uniform categories of strategy/recovery phase), where they are applied collectively to all portfolios/positions not pipelined by the manager.

The department is informed of the above assumptions in special meetings with the portfolio management office and, where it deems it appropriate, carries out an in-depth analysis of certain portfolios/positions, including through discussions with the various portfolio managers, with the aim of checking the effectiveness/completeness of the process and the consistency between the analyses carried out/the resulting evidence and the relevant business plan projections.

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

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

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

4. Renegotiated financial assets and forborne exposures

Following the urgent measures on public health protection, support to workers and businesses, justice and security, related to the Covid-19 epidemiological emergency issued by the government and the European Central Bank, the figures from the latest supervisory moratoria report at 25 December 2020 (last report of 2020) are set out below:

Summary of the number of applications received, approved and rejected since 28 February 2020:

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

QUANTITATIVE DISCLOSURE

A. CREDIT QUALITY

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

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

(€'000)

	Bad exposures	Unlikely to pay exposures	Non-performing past due exposures	Performing past due exposures	Other performing exposures	Total
1. Financial assets at amortised cost	9,858	16,657	11	369	306,371	333,267
2. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-
3. Financial assets at fair value through profit or loss	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-	327,705	327,705
5. Financial assets held for sale	417,003	839	1,573	420	84,743	504,578
Total 31/12/2020	**426,861**	**17,496**	**1,584**	**789**	**718,819**	**1,165,549**
Total 31/12/2019	**39,220**	**26,586**	**1,177**	**1,384**	**994,140**	**1,062,507**

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

A.1.1a Breakdown of financial assets at amortised cost subject to Covid-19-related measures by portfolio and credit quality (carrying amount)

(€'000)

	Bad exposures	Unlikely to pay exposures	Non-performing past due exposures	Other performing exposures	Non-performing exposures	Total
A. Financing at amortised cost						
A.1 EBA-compliant moratoria	-	2,160	-	-	5,974	8,134
A.2 Other forbearance measures	-	2,985	-	-	-	2,985
A.3 New financing	-	-	-	-	-	-
B. Financing measured at fair value through other comprehensive income	-	-	-	-	-	-
B.1 EBA-compliant moratoria	-	-	-	-	-	-
B.2 Other forbearance measures						
B.3 New financing						
Total 31/12/2020	**-**	**5,144**	**-**	**-**	**5,974**	**11,119**
Total 31/12/2019	**-**	**-**	**-**	**-**	**-**	**-**

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

(€'000)

	Non-performing				Performing			Total (carrying amount)
	Gross amount	Total impairment losses	Carrying amount	Partial/total write-offs (*)	Gross amount	Total impairment losses	Carrying amount	
1. Financial assets at amortised cost	30,221	(3,695)	26,526	-	308,848	(2,107)	306,740	333,267
2. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-
3. Financial assets at fair value through profit or loss	-	-	-	-	x	x	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-	x	x	327,705	327,705
5. Financial assets held for sale	422,030	(2,615)	419,415	-	85,365	(202)	85,163	504,578
Total 31/12/2020	**452,251**	**(6,310)**	**445,941**	**-**	**394,213**	**(2,309)**	**719,608**	**1,165,549**
Total 31/12/2019	**77,196**	**(10,212)**	**66,984**	**(1,556)**	**518,741**	**(1,896)**	**995,524**	**1,062,507**

* To be shown for disclosure purposes

Financial assets at amortised cost classified as non-performing mainly 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		
	From 1 to 30 days	From 30 to 90 days	After 90 days	Up to 30 days	From 30 to 90 days	After 90 days	Up to 30 days	From 30 to 90 days	After 90 days
1. Financial assets at amortised cost	3	-	-	1,304	349	21	-	-	26,526
2. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	420	-	-	419,415
TOTAL 31/12/2020	**3**	**-**	**-**	**1,304**	**349**	**441**	**-**	**-**	**445,941**
TOTAL 31/12/2019	**-**	**-**	**-**	**124**	**1,260**	**-**	**-**	**-**	**66,984**

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

(€'000)

	Total impairment losses																Total provisioning on loan commitments and financial guarantees given			
	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 credit-impaired financial assets	Stage 1	Stage 2	Stage 3	Total
Opening balance	**(1,414)**	**(3)**	**-**	**-**	**(1,417)**	**(482)**	**-**	**-**	**(251)**	**(231)**	**(10,212)**	**-**	**-**	**(10,212)**	**-**	**(9,497)**	**-**	**-**	**-**	**(12,108)**
Increase in purchased or originated financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cancellations other than write-offs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net impairment losses/ gains for credit risk (+/-)	(222)	3	(528)	-	(747)	114	-	-	-	114	(6,468)	-	(4,798)	(11,268)	-	(11,268)	-	-	-	(11,899)
Modification gains/losses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in estimation methodology	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs not directly recognised in profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	2,179	2,179	-	2,179	-	-	-	2,179
Other changes	(365)	-	328	-	(37)	261	-	(202)	251	(192)	12,988	-	-	12,988	-	12,988	-	-	-	13,010
Closing balance	**(2,001)**	**-**	**(200)**	**-**	**(2,201)**	**(107)**	**-**	**(202)**	**-**	**(309)**	**(3,692)**	**-**	**(2,618)**	**(6,312)**	**-**	**(5,598)**	**-**	**-**	**-**	**(8,820)**
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 2 to stage 1
1. Financial assets at amortised cost	378	1,742	-	-	12	-
2. Financial assets at fair value through other comprehensive income	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-
4. Loan commitments and financial guarantees given	-	-	-	-	-	-
TOTAL 31/12/2020	**378**	**1,742**	**-**	**-**	**12**	**-**
TOTAL 31/12/2019	**-**	**36**	**8**	**633**	**186**	**-**

A.1.5a Financial assets at amortised cost subject to Covid-19-related measures: transfers among the various credit risk stages (gross amount and nominal amount)

(€'000)

	Gross/nominal amounts					
	Transfer between stage 1 and 2		Transfer between stage 2 and 3		Transfer between stage 1 and 3	
	From stage 1 to stage 2	From stage 2 to stage 1	From stage 1 to stage 2	From stage 2 to stage 1	From stage 1 to stage 2	From stage 2 to stage 1
A. Financing at amortised cost	-	-	-	-	-	-
A.1 EBA-compliant moratoria	356	1,262	-	-	-	-
A.2 Other forbearance measures	-	-	-	-	-	-
A.3 New financing	-	-	-	-	-	-
B. Financing measured at fair value through other comprehensive income	-	-	-	-	-	-
B.1 EBA-compliant moratoria	-	-	-	-	-	-
B.2 Other forbearance measures	-	-	-	-	-	-
B.3 New financing	-	-	-	-	-	-
TOTAL 31/12/2020	**356**	**1,262**	**-**	**-**	**-**	**-**
TOTAL 31/12/2019	**-**	**-**	**-**	**-**	**-**	**-**

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 provisioning	Carrying amount	Partial/total write-offs*
	Non-performing	Performing			
A. ON-STATEMENT OF FINANCIAL POSITION					
a) Bad exposures	-	x	-	-	-
- including: forborne exposures	-	x	-	-	-
b) Unlikely to pay exposures	-	x	-	-	-
- including: forborne exposures	-	x	-	-	-
c) Non-performing past due exposures	-	x	-	-	-
- including: forborne exposures	-	x	-	-	-
d) Performing past due exposures	x	-	-	-	-
- including: forborne exposures	x	-	-	-	-
e) Other performing exposures	x	49,775	(194)	49,582	-
- including: forborne exposures	x	-	-	-	-
TOTAL A	**-**	**49,775**	**(194)**	**49,582**	**-**
B. OFF-STATEMENT OF FINANCIAL POSITION					
a) Non-performing	-	x	-	-	-
b) Performing	x	-	-	-	-
TOTAL B	**-**	**-**	**-**	**-**	**-**
TOTAL A+B	**-**	**49,775**	**(194)**	**49,582**	**-**

* To be shown for disclosure purposes

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

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 provisioning	Carrying amount	Partial/total write-offs*
	Non-performing	Performing			
A. ON-STATEMENT OF FINANCIAL POSITION					
a) Bad exposures	430,753	x	(3,892)	426,861	(2,182)
- including: forborne exposures	3,497	x	468	3,965	-
b) Unlikely to pay exposures	19,961	x	(2,465)	17,496	-
- including: forborne exposures	16,525	x	(1,732)	14,793	-
c) Non-performing past due exposures	1,537	x	47	1,584	-
- including: forborne exposures	-	x	-	-	-
d) Performing past due exposures	x	1,008	(218)	789	-
- including: forborne exposures	x	-	-	-	-
e) Other performing exposures	x	671,478	(2,241)	669,237	-
- including: forborne exposures	x	6,415	(196)	6,219	-
TOTAL A	**452,251**	**672,486**	**(8,769)**	**1,115,967**	**(2,182)**
B. OFF-STATEMENT OF FINANCIAL POSITION					
a) Non-performing	-	x	-	-	-
b) Performing	x	12,734	-	12,734	-
TOTAL B	**-**	**12,734**	**-**	**12,734**	**-**
TOTAL A+B	**452,251**	**685,220**	**(8,769)**	**1,128,701**	**(2,182)**

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

A.1.7a On-statement of financial position exposures with customers subject to Covid-19-related measures: gross amount and carrying amount

(€'000)

	Gross amount	Total impairment losses and provisioning	Carrying amount	Partial/total write-offs*
A. BAD EXPOSURES	**601**	(45)	556	-
a) EBA-compliant moratoria	-	-	-	-
b) Other forbearance measures	601	(45)	556	-
c) New financing	-	-	-	-
B. UNLIKELY TO PAY EXPOSURES	**5,517**	**(328)**	**5,188**	**-**
a) EBA-compliant moratoria	2,484	(324)	2,160	-
b) Other forbearance measures	3,033	(4)	3,029	-
c) New financing	-	-	-	-
C) NON-PERFORMING PAST DUE EXPOSURES	**-**	**-**	**-**	**-**
a) EBA-compliant moratoria	-	-	-	-
b) Other forbearance measures	-	-	-	-
c) New financing	-	-	-	-
D) PERFORMING PAST DUE EXPOSURES	**-**	**-**	**-**	**-**
a) EBA-compliant moratoria	-	-	-	-
b) Other forbearance measures	-	-	-	-
c) New financing	-	-	-	-
E) OTHER PERFORMING EXPOSURES	**6,480**	**(196)**	**6,284**	**-**
a) EBA-compliant moratoria	6,415	(196)	6,219	-
b) Other forbearance measures	65	-	65	-
c) New financing	-	-	-	-
TOTAL (A+B+C+D+E)	**12,598**	**(569)**	**12,029**	**-**

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

(€'000)

	Bad exposures	Unlikely to pay exposures	Non-performing past due exposures
A. Gross opening balance	**48,276**	**27,743**	**1,177**
- *including: exposures transferred but not derecognised*	*38,981*	*5,757*	-
B. Increases	**439,892**	**4,504**	**1,631**
B.1 from performing exposures	-	-	15
B.2 from purchased or originated credit-impaired exposures	428,663	1,355	1,507
B.3 transfers from other non-performing categories	2,190	-	-
B.4 modification losses	-	-	-
B.5 other increases	9,039	3,149	109
C. Decreases	**(57,414)**	**(12,286)**	**(1,271)**
C.1 to performing exposures	-	-	(1,262)
C.2 *write-offs*	(2,182)	-	-
C.3 collections	(16,556)	(5,278)	(9)
C.4 sales	-	-	-
C.5 losses on sales	-	-	-
C.6 transfers to other non-performing categories	-	(2,190)	-
C.7 modification gains	-	-	-
C.8 other decreases	(38,675)	(4,819)	-
D. Gross closing balance	**430,754**	**19,961**	**1,537**
- *including: exposures transferred but not derecognised*	*419,147*	*1,358*	*1,525*

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

(€'000)

	Forborne non-performing exposures	Forborne performing exposures
A. Gross opening balance	**20,716**	**2,394**
- including: exposures transferred but not derecognised	*1,985*	*1,055*
B. Increases	**3,243**	**5,608**
B.1 from non-forborne performing exposures	-	4,775
B.2 from forborne performing exposures	-	x
B.3 from forborne non-performing exposures	x	-
B.4 from non-forborne non-performing exposures	139	-
B.5 other increases	3,104	834
C. Decreases	**(3,937)**	**(1,587)**
C.1 to non-forborne performing exposures	x	(1,339)
C.2 to forborne performing exposures	-	x
C.3 to forborne non-performing exposures	x	-
C.4 *write-offs*	-	-
C.5 collections	(2,129)	(247)
C.6 sales	-	-
C.7 losses on sales	-	-
C.8 other decreases	(1,809)	-
D. Gross closing balance	**20,022**	**6,416**
- including: exposures transferred but not derecognised	*1,801*	*257*

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		Non-performing past due exposures	
	Total	including: forborne exposures	Total	including: forborne exposures	Total	including: forborne exposures
A. Opening balance	**9,055**	**488**	**1,158**	**(260)**	**-**	**-**
- including: exposures transferred but not derecognised	*9,776*	*488*	*1,444*	*9*	*-*	*-*
B. Increases	**91,948**	**81**	**2,882**	**2,004**	**1**	**-**
B.1 from purchased or originated credit-impaired exposures	85,477	x	546	x	-	x
B.2 other impairment losses	6,385	81	1,074	1,729	1	-
B.3 losses on sales	-	-	-	-	-	-
B.4 transfers from other non-performing categories	86	-	-	-	-	-
B.5 modification losses	-	x	-	x	-	x
B.6 other increases	-	-	1,262	274	-	-
C. Decreases	**(97,110)**	**(1,037)**	**(1,575)**	**(12)**	**(48)**	**-**
C.1 fair value gains	(78,690)	(502)	(27)	-	(48)	-
C.2 impairment gains due to collections	(2,463)	-	(989)	-	-	-
C.3 gains on sales	-	-	-	-	-	-
C.4 *write-offs*	(2,182)	-	-	-	-	-
C.5 transfers to other non-performing categories	-	-	(86)	(3)	-	-
C.6 modification gains	-	x	-	x	-	x
C.7 other decreases	(13,774)	(535)	(473)	(9)	-	-
D. Closing balance	**3,892**	**(468)**	**2,465**	**1,732**	**(47)**	**-**
- including: exposures transferred but not derecognised	*2,145*	*(424)*	*519*	*4*	*(48)*	*-*

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

A.2 Classification of 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	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Stage 1	-	29.421	153.130	-	-	-	391.500	574.051
- Stage 2	-	-	-	-	-	-	2.713	2.713
- Stage 3	-	-	-	-	-	-	452.251	452.251
B. Financial assets at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Stage 1	-	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
C. Financial assets held for sale	-	-	-	-	-	-	-	-
- Stage 1	-	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
Total (A + B + C)	**-**	**29.421**	**153.130**	**-**	**-**	**-**	**846.464**	**1.029.015**
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	-	-
D. Loan commitments and financial guarantees given	-	-	-	-	-	-	-	-
- Stage 1	-	-	-	-	-	-	-	-
- Stage 2	-	-	-	-	-	-	-	-
- Stage 3	-	-	-	-	-	-	-	-
Total D	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A + B + C + D)	**-**	**29.421**	**153.130**	**-**	**-**	**-**	**846.464**	**1.029.015**

A.2.2 Breakdown of financial assets, loan commitments and financial guarantees given by internal 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

(importi in Euro migliaia)

	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	21,756	18,802	21,796	-	-	-	-	-	-	-	-	-	-	-	-	21,796
- including non-performing	19,247	16,257	50,480	-	-	-	-	-	-	-	-	-	-	-	-	50,480
1.2 partly guaranteed	10,530	10,363	10,530	-	-	4,210	-	-	-	-	-	-	-	-	-	14,740
- including non-performing	437	414	1,322	-	-	2,234	-	-	-	-	-	-	-	-	-	3,556
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 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 (of which: insurance companies)		Non-financial companies		Households	
	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	-	-	2,762	52	-	-	315,938	23	108,161	(3,968)
- including: forborne exposures	-	-	-	-	-	-	*3,654*	*511*	*311*	*(43)*
A.2 Unlikely to pay exposures	-	-	-	-	-	-	17,049	(2,422)	447	(44)
- including: forborne exposures	-	-	-	-	-	-	*14,793*	*(1,732)*	-	-
A.3 Non-performing past due exposures	-	-	-	-	-	-	1,573	48	11	(1)
- including: forborne exposures	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	107,396	(214)	519,420	(944)	-	-	42,321	(1,089)	889	(20)
- including: forborne exposures	-	-	-	-	-	-	*6,219*	*(196)*	-	-
Total (A)	**107,396**	**(214)**	**522,182**	**(892)**	**-**	**-**	**376,881**	**(3,440)**	**109,509**	**(4,033)**
B. Off-statement of financial position										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	-	-	12,738	-	-	-	-	-	-	-
Total (B)	**-**	**-**	**12,738**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31/12/2020	**107,396**	**(214)**	**534,920**	**(892)**	**-**	**-**	**376,881**	**(3,440)**	**109,509**	**(4,033)**
Total (A+B) 31/12/2019	**135,034**	**(91)**	**763,677**	**(1,029)**	**-**	**-**	**119,080**	**(11,788)**	**4,987**	**(181)**

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	Carrying amount	Esposizione netta	Total impairment losses
A. On-statement of financial										
A.1 Bad exposures	426,507	(3,891)	349	(2)	5	-	-	-	-	-
A.2 Unlikely to pay exposures	17,497	(2,466)	-	-	-	-	-	-	-	-
A.3 Non-performing past due	1,574	47	10	-	-	-	-	-	-	-
A.4 Performing exposures	661,157	(2,065)	8,869	(203)	-	-	-	-	-	-
Total (A)	**1,106,735**	**(8,374)**	**9,229**	**(205)**	**5**	**-**	**-**	**-**	**-**	**-**
B. Off-statement of financial										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	12,738	-	-	-	-	-	-	-	-	-
Total (B)	**12,738**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31/12/2020	**1,119,473**	**(8,374)**	**9,229**	**(205)**	**5**	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31/12/2019	**993,011**	**(12,942)**	**9,104**	**(146)**	**4**	**-**	**-**	**-**	**-**	**-**

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	49,582	(194)	-	-	-	-	-	-	-	-
Total (A)	**49,582**	**(194)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Off-statement of financial position										
B.1 Non-performing exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	-	-	-	-	-	-	-	-	-	-
Total (B)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31/12/2020	**49,582**	**(194)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B) 31/12/2019	**56,874**	**(60)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

B.4 Large exposures

(€'000)

	31/12/2020	31/12/2019
a) Carrying amount	506,633	469,008
b) Weighted amount	105,938	46,422
c) Number	6	5

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 disclosures 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	353,497,466	-	-
	1,512,496	100%	1,512,496
	28,215,114	250%	70,537,785
Exposures with or guaranteed by local administrations or authorities	17,214,372	150%	25,821,558
Exposures with or guaranteed by public sector bodies	26,567	100%	26,567
	43,474,678	150%	65,212,017
Exposures with or guaranteed by bodies	91,202,083	20%	18,240,417
	13,946,614	100%	13,946,614
Exposures with or guaranteed by companies	52,001,988	100%	52,001,988
Exposures guaranteed by mortgages on properties	3,363,406	35%	1,177,192
	17,923,627	50%	8,961,814
Defaulting exposures	420,631,983	100%	420,631,983
	106,163,097	150%	159,244,646
Equity instruments	105,594,278	100%	105,594,278
	120,015,00	250%	300,038
Other exposures	5,548	-	-
	565,399	20%	113,080
	73,289,963	100%	73,289,963
Exposures with securitisations	48,909,339	75%	36,682,004
	1,578,605	81%	1,278,670
	73,763,647	100%	73,763,647
	27,693,075	104%	28,800,798
	24,747,990	105%	25,985,389
	53,343,016	112%	59,744,178
	1,028,141	150%	1,542,211
TOTAL WEIGHTED ASSETS			1,244,409,332
Breakdown of capital allocated to cover credit and counterparty risk at the reporting date (in Euro)			99,552,747

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.) and the performance of earlier securitisations performed by the same originators and valuations of the real estate;
- the transaction's contractual structure;
- the parties involved in the securitisation and especially the special servicer.

As the department in charge of performing the second level controls, the risk management department:
- monitors investment performances constantly;
- performs stress tests;
- checks the capital absorption level once a quarter, identifying the areas requiring attention and planning any risk containment actions;
- checks compliance with the risk limits defined in line with the 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 "self"-securitisations broken down by securitised asset and type of exposure

(€'000)

	Exposures						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	30,931	(13)	18,216	-	1,359	-	-	-	-	-	-	-	-	-	-	-	-	-
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)

	Exposures						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, securities	111,767	(999)	40,140	-	286,036	-	-	-	-	-	-	-	-	-	-	-		-

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

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

C.4. Non-consolidated securitisation vehicles

(€'000)

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

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

C.5 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)	16,848	33,910	6,269	2,720	-	24.23%	-	0%	-	0%
Resloc (2nd portfolio)	547	827	280	48	-	17.70%	-	-	-	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 fully derecognised

Qualitative disclosure

In December 2020, the bank purchased nearly all the non-performing loans of Bramito SPV S.r.l. (which had received all the loans managed by Elmo SPV S.r.l., Salllustio S.r.l., Lucullo S.r.l., Cosmo SPV S.r.l., Novus Italia 1 S.r.l., Sesto SPV S.r.l. and Artemide SPV S.r.l. in July 2020 as part of the Gemini 1 transaction) and Lutezia SPV S.r.l. for a total of €247.7 million, including the Gemini or Palatino portfolio). It also purchased the leases of the SPV Vette for €184.8 million (Domizia portfolio) and subsequently sold them to Palatino and Domizia structuring two new securitisations. The related notes issued by the selling vehicles held by the bank were redeemed (all of the senior notes and part of the junior notes in line with the transferred loans).

The portfolios, purchased directly by the bank which then transferred them to the vehicles, did not qualify for derecognition under IFRS 9 as the related risks and rewards were not transferred because the bank had subscribed 100% of the junior notes. As it had also subscribed all the senior notes issued by Palatino, the securitisation qualifies as a self-securitisation, while in the case of Domizia, the bank subscribed all the junior notes issued and, accordingly, recognised the securitised loans as assets sold but not derecognised for €185.2 million and the financial liability with the SPV equal to the portion of senior notes subscribed by third parties (€78.3 million at 31 December 2020).

The above transactions are not part of a transfer made to issue covered bonds and the bank is not the lender.

Quantitative disclosure

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

Financial assets transferred and not derecognised include the non-performing lease portfolio purchased by Vette SPV and subsequently sold to Domizia SPV which issued new senior and junior notes of which the bank subscribed 100% and 5%, respectively. The transfer did not qualify for derecognition under IFRS 9 and, hence, the bank has recognised the entire portfolio under assets and the financial liability with the SPV equal to the portion of senior notes subscribed by third parties.

Since the portfolio and associated liability are part of the disposal group envisaged by Project 3.0, they have been recognised under non-current assets held for sale and disposal groups and liabilities associated with disposal groups, respectively.

The bank has not 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 not fully derecognised: fair value

None.

B Financial assets transferred and fully derecognised with recognition of continuing involvement

Qualitative disclosure

None.

Quantitative 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, exchange 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 a call option for a company deemed of strategic interest. This option does not fall under the "supervisory trading book" definition, as defined by prudential regulations for market risk. The 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 does not have investments in this type of portfolio and, hence, is not exposed to the risk of losses thereon.

B. Management and measurement of interest rate and price risks

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

2.2 - Interest rate and price risks - banking book

QUALITATIVE DISCLOSURE

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

The 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 bracket based on their residual life (fixed rate assets and liabilities) or the interest rate renegotiation date (floating rate assets and liabilities), weighing the net exposures in each bracket, adding the weighted exposures of each bracket and calculating the risk indicator (ratio of net weighted exposure to the own funds).

The risk management department performs this calculation.

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

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

QUANTITATIVE DISCLOSURE

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

(€'000)

	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	After 10 years	Open term
1. Assets								
1.1 Debt instruments								
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	20,010	10,145	45,471	31,495	-	-	-
1.2 Financing to banks	140,207	2,545	-	-	-	-	-	-
1.3 Financing to customers								
- current accounts	20,754	1,444	2,340	5,259	33,159	3,843	532	-
- other financing	-	-	-	-	-			
- with early repayment option	-	2,289	73	12,661	564	15,998	489	-
- other	3,810	13,518	14,587	71,900	291,853	22,631	2,245	-
2. Liabilities								
2.1 Due to customers								
- current accounts	65	-	-	2,000	281	-	-	-
- other liabilities	-	-						
- with early repayment option	-	-	-	-	-	-	-	-
- other	25,966	143,796	29,560	120,867	519,766	7,523	80	-
2.2 Due to banks								
- current accounts	-	-	-	-	-	-	-	-
- other liabilities	-	85,809	37,404	25,616	125,328	-	-	-
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	-	-	-	-	638	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security								
- Options								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4. Other off-statement of financial position transactions								
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-

A ±200 basis point change would decrease or increase net interest income, respectively (and hence the profit for the year and equity) by approximately €4,345 thousand.

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

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

2.3 Currency risk

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

A. Financial derivatives

A.1 Trading financial derivatives: reporting date notional amounts

(€'000)

	31/12/2020				31/12/2019			
	Over the counter			Organised markets	*Over the counter*			Organised markets
	Central counterpar-ties	Without central counterparties			Central counterpar-ties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Debt instruments and interest								
a) Options	-	-	-	-	-	-	-	-
b) *Swaps*	-	-	-	-	-	-	-	-
c) *Forwards*	-	-	-	-	-	-	-	-
d) *Futures*	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
2. Equity instruments and share								
a) Options	-	-	200	-	-	-	350	-
b) *Swaps*	-	-	-	-	-	-	-	-
c) *Forwards*	-	-	-	-	-	-	-	-
d) *Futures*	-	-	-	-	-	-	-	-
e) Other	-	-	-	-	-	-	-	-
3. Currencies and gold								
a) Options	-	-	-	-	-	-	-	-
b) *Swaps*	-	-	-	-	-	-	-	-
c) *Forwards*	-	-	-	-	-	-	-	-
d) *Futures*	-	-	-	-	-	-	-	-
e) Other								
4. Commodities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
5. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**-**	**-**	**200**	**-**	**-**	**-**	**350**	**-**

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

(€'000)

	31/12/2020				31/12/2019			
	Over the counter			Organised markets	*Over the counter*			Organised markets
	Central counterpar-ties	Without central counterparties			Central counterpar-ties	Without central counterparties		
		With netting agreements	Without netting agreements			With netting agreements	Without netting agreements	
1. Positive fair value								
a) Options	-	-	638	-	-	-	1,301	-
b) *Interest rate swaps*	-	-	-	-	-	-	-	-
c) *Cross currency swaps*	-	-	-	-	-	-	-	-
d) *Equity swaps*	-	-	-	-	-	-	-	-
e) *Forwards*	-	-	-	-	-	-	-	-
f) *Futures*	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	**-**	**-**	**638**	**-**	**-**	**-**	**1,301**	**-**
1. Negative fair value								
a) Options	-	-	-	-	-	-	-	-
b) *Interest rate swaps*	-	-	-	-	-	-	-	-
c) *Cross currency swaps*								
d) *Equity swaps*	-	-	-	-	-	-	-	-
e) *Forwards*	-	-	-	-	-	-	-	-
f) *Futures*	-	-	-	-	-	-	-	-
g) Other	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

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

(€'000)

	Government and central banks	Banks	Other financial companies	Other
Contracts not covered by netting agreements				
1) Debt instruments and interest rates				
- notional amount	x	-	-	-
- positive fair value	x	-	-	-
- negative fair value	x	-	-	-
2) Equity instruments and share indexes				
- notional amount	x	-	200	-
- positive fair value	x	-	638	-
- negative fair value	x	-	-	-
3) Currencies and gold				
- notional amount	x	-	-	-
- positive fair value	x	-	-	-
- negative fair value	x	-	-	-
4) Commodities				
- notional amount	x	-	-	-
- positive fair value	x	-	-	-
- negative fair value	x	-	-	-
5) Other				
- notional amount	x	-	-	-
- positive fair value	x	-	-	-
- negative fair value	x	-	-	-
Contracts covered by netting agreements				
1) Debt instruments and interest rates				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
2) Equity instruments and share indexes				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
3) Currencies and gold				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
4) Commodities				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-
5) Other				
- notional amount	-	-	-	-
- positive fair value	-	-	-	-
- negative fair value	-	-	-	-

A.4 Residual life of OTC trading financial derivatives: notional amounts

(€'000)

	Up to 1 year	From 1 to 5 years	After 5 years	Total
A.1 Financial derivatives on debt instruments and interest rates	-	-	-	**-**
A.2 Financial derivatives on equity instruments and share indexes	-	200	-	**200**
A.3 Financial derivatives on currencies and gold	-	-	-	**-**
A.4 Financial derivatives on commodities	-	-	-	**-**
A.5 Other financial derivatives	-	-	-	**-**
Total 31/12/2020	**-**	**200**	**-**	**200**
Total 31/12/2019	**-**	**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 monitors early warning ratios and indicators for the timely identification of any vulnerabilities in its financial position. In addition, it regularly develops stress scenarios and has defined a contingency funding plan.

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

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

At the reporting date, the 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.

Impacts of the Covid-19 pandemic

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

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

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

Reference should be made to the consolidated financial statements for information on the regulatory indicators (LCR and NSFR), which are well above supervisory requirements.

QUANTITATIVE DISCLOSURE

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

(€'000)

	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	After 5 years	Open term
Assets										
A.1 Government bonds	-	-	-	-	-	10,000	45,000	50,000	-	-
A.2 Other debt instruments	-	-	-	9,480	28,006	27,534	76,457	278,445	69,542	-
A.3 OEIC units	-	-	-	-	-	-	-	-	-	-
A.4 Financing										
- banks	138,170	-	-	-	2,014	-	-	-	-	2,550
- customers	24,772	-	-	11,150	16,454	30,551	101,708	402,068	56,475	-
Liabilities										
B.1 Deposits and current accounts										
- banks	-	-	-	-	5,000	36,250	22,250	49,500	-	-
- customers	25,354	2,602	5,459	11,173	50,687	33,821	129,627	508,999	6,869	-
B.2 Debt instruments	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	642	-	-	1,313	79,899	21,289	41,449	99,866	1,397	-
Off-statement of financial position transactions										
C.1 Financial derivatives with exchange of principal										
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	200	-	-	-
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	-	-	-	-	-	-	-	-	-	-

Section 5 – OPERATIONAL RISK

QUALITATIVE DISCLOSURE

A. General aspects, management and measurement of operational risk

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

It includes losses deriving from fraud, human error, operating breakdowns, system unavailability, contractual defaults and natural disasters. It does not include strategic or reputation risks but does include legal risk (i.e., the risk created by violations or non-compliance with laws and regulations or scant transparency about the rights and obligations of counterparties in a transaction) and conduct risk (i.e. the risk of losses resulting from inappropriate supply of financial services and the resulting litigation costs, including wilful or negligent conduct).

This risk also comprises exposure to fines, warnings and sanctions as a result of measures taken by the supervisory authority or private transactions.

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

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

The internal consequences include employee dissatisfaction.

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

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

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

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

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

Internal operational and reputation risk measurement, management and control systems
In line with the provisions set out in Bank of Italy's Circular no. 285/2013, as subsequently amended, about banking groups and banks with assets equal to or less than €4 billion (class 3), the bank measures counterparty risk using the basic indicator approach to calculate the regulatory capital requirement, whereby it calculates the related capital requirement by applying a 15% factor to the average of the last three annual positive observations of the relevant indicator (article 316 of the Capital Requirements Regulation - CRR).

The procedures are highly automated and the 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.

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

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

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

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 €1.4 million 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.

Impacts of the Covid-19 pandemic

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

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

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

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

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

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

Quantitative disclosure

Based on its observation of the relevant indicator for application of the basic indicator approach and calculation of the operational risk, the capital requirement to cover this risk at a stand-alone level is €10.179 thousand at the reporting date.

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 €54,190 thousand;

• reserves of €308,562 thousand including the legal reserve (€4,070 thousand), statutory reserves (€58,079 thousand), capital injection reserve (€13,950 thousand), share premium (€243,158 thousand), other reserves (€615 thousand), the IFRS 9 FTA reserve (€6,074 thousand) and the reserve for losses on the sale of the shares (€5,656 thousand);

• valuation reserves of €93 thousand;

• profit for the year of €6,883 thousand.

As set out in the directors' report, the directors propose that the profit for the year of €6,882,869 be fully allocated to the legal 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.

(Euros)

	31/12/2020	Possible use	Available portion	Use in the last three years
Equity-related reserves:	**-**	**-**	**-**	
Share premium	243,577,532	B	243,577,532	-
Other equity-related reserves	13,950,296	A,B	13,950,296	1,083,537
Income-related reserves:				
Legal reserve	4,069,971	B	4,069,971	-
Reserve for treasury shares - available portion	-	-	-	-
Statutory reserve	58,079,014	A, B, C	58,079,014	-
Unavailable reserves as per article 6.1.1.a of Legislative decree no. 38/05	-	-	-	-
IFRS 9 FTA reserve	(6,073,697)	-	-	-
Reserve for losses on the sale of shares	(5,655,670)	-	-	-
Other reserves	614,566	B	614,566	-
Total	**308,562,011**	**-**	**320,291,378**	**1,083,537**
of which: unavailable	250,482,997	-	-	-
of which: available	58,079,014	-	-	-
Share capital	54,189,669	-	-	-
Valuation reserve	(92,575)	-	-	-
Profit for the year	6,882,869	-	-	-
Total equity	**369,541,974**	**-**	**-**	**-**

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

B.1 Equity: breakdown

(€'000)

	31/12/2020	31/12/2019
1. Share capital	54,190	37,785
2. Share premium	243,578	139,982
3. Reserves		
- income-related		
a) legal	4,070	2,271
b) statutory	58,079	23,904
c) treasury shares	-	-
d) other	(11,115)	(11,115)
- other	13,950	133,950
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
- Property, equipment and investment property	-	-
- Intangible assets	-	-
- Hedges of investments in foreign operations	-	-
- Cash flow hedges	-	-
- Hedging instruments (non-designated items)	-	-
- Exchange rate gains (losses)	-	-
- Non-current assets held for sale and disposal groups	-	-
- Financial liabilities at fair value through profit or loss (changes in own credit rating)	-	-
- Actuarial losses on defined benefit pension plans	(93)	(64)
- Share of valuation reserves of equity-accounted investees	-	-
- Special revaluation laws	-	-
7. Profit for the year	6,883	35,974
Total	**369,542**	**362,696**

B.2 Fair value reserves: breakdown

(€'000)

	31/12/2020		31/12/2019	
	Fair value gains	Fair value losses	Fair value gains	Fair value losses
1. Debt instruments	-	-	8	-
2. Equity instruments	-	-	-	-
3. Financing	-	-	-	-
Total	**-**	**-**	**8**	**-**

B.3 Fair value reserves: changes

(€'000)

	Debt instruments	Equity instruments	Financing
1. Opening balance	**8**	**-**	**-**
2. Variazioni positive			
2.1 Fair value gains	-	-	-
2.2 Impairment losses for credit risk	-	x	-
2.3 Reclassification of fair value losses to profit or loss on sale	-	x	-
2.4 Transfers to other equity reserves (equity instruments)	-	-	-
2.5 Other increases	-	-	-
3. Decreases			
3.1 Fair value losses	(2)	-	-
3.2 Impairment gains for credit risk	-	-	-
3.3 Reclassification of fair value gains to profit or loss: on sale	(6)	x	-
3.4 Transfers to other equity reserves (equity instruments)	-	-	-
3.5 Other decreases	-	-	-
4. Closing balance	**-**	**-**	**-**

B.4 Actuarial reserves: changes

The bank recognised actuarial losses of €29 thousand on post-employment benefits during the year. The net actuarial losses accumulated on defined benefit plans amounted to €92 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.

8. Additional Tier 1 – AT1

None.

9. Tier 2 – T2

None.

10. Quantitative disclosure

(€'000)

	31/12/2020	31/12/2019
A. Common Equity Tier 1 (CET1) before application of prudential filters	369,542	362,696
including CET1 instruments covered by transitional measures	-	-
B. CET1 prudential filters (+/-)	(483)	(585)
C. CET1 including elements to be deducted and the effects of the transitory regime (A +/-B)	369,059	362,111
D. Elements to be deducted from CET1	28,073	55,583
E. Transitory regime - Impact on CET1 (+/-)	-	-
F. Total Common Equity Tier 1 (CET1) (C-D+/-E)	**340,986**	**306,529**
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)	**340,986**	**306,529**

11 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 always considered the capital adequacy.

B. Quantitative disclosure

(€'000)

	Unweighted amounts		Weighted amounts/requirements	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019
A. EXPOSURES				
A.1 Credit and counterparty risk	**1,694,616**	**1,488,524**	**1,244,409**	**1,069,943**
1. Standardised method	1,463,553	1,151,554	1,016,612	643,569
2. IRB approach	-	-	-	-
2.1 Basic	-	-	-	-
2.2. Advanced	-	-	-	-
3. Securitisations	231,064	336,970	227,797	426,374
B. CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk	**-**	**-**	**99,553**	**85,595**
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	**-**	**-**	**10,179**	**7,724**
1. Basic method	-	-	10,179	7,724
2. Standardised method	-	-	-	-
3. Advanced method			-	-
B.6 Other calculation elements			**15**	**44**
B.7 Total prudential requirements			**109,747**	**93,364**
C. EXPOSURES AND CAPITAL RATIOS				
C.1 Risk-weighted assets			**1,371,832**	**1,167,052**
C.2 CET1 / Risk-weighted assets (CET1 capital ratio)			**24.86%**	**26.70%**
C.3 Tier 1 / Risk-weighted assets (T1 capital ratio)			**24.86%**	**26.70%**
C.4 Total own funds / Risk-weighted assets (Total capital ratio)			**24.86%**	**26.70%**

Part G: Business combinations

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

Part H: Related party transactions

12. Key management personnel's remuneration

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

(€'000)

	Directors	Statutory auditors	Other key management personnel
a) Short-term benefits	409	201	2,377
b) Post-employment benefits			205
c) Other long-term benefits	-	-	322
d) Termination benefits	-	-	-
e) Share-based payment	-	-	-
Total	**409**	**201**	**2,904**

The fees due to the board of statutory auditors amounted to €217 thousand at the reporting date.

13. Related party transactions

	Consolidated SPVs	Other consolidated companies	31/12/2020	%
Assets	5,811	-	5,811	0.38% (*)
Liabilities	32	32	63	0.01%
Revenue	10,698	2,351	13,050	20.76% (**)
Costs	-	75	75	0.12%

(*) % 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 bank's net assets. Assets include invoices to be issued to the consolidated SPVs for servicing fees (€5,810 thousand). Revenue and costs arising from related party transactions mainly relate to servicing fees and commissions paid to the bank by SPVs (€7,716 thousand) and LeaseCo (€84 thousand), in addition to revenue generated by sundry transactions with CF Liberty, including consideration for supply services (€1,499 thousand), interest on drawdowns (€46 thousand), lease income (€238 thousand) and recharges for seconded personnel (€568 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 operations.

The related party transactions of a significant amount carried out during the year include the bank's December 2020 purchase of nearly all non-performing loans of Bramito SPV S.r.l. (which had received all the loans managed by Elmo SPV S.r.l., Sallustio S.r.l., Lucullo S.r.l., Cosmo SPV S.r.l., Novus Italia 1 S.r.l., Sesto SPV S.r.l. and Artemide SPV S.r.l. in July 2020) and Lutezia SPV S.r.l. (for a total of €247.7 million, the "Gemini" or "Palatino" portfolio). It also purchased the leases of SPV Vette for €184.8 million (Domizia portfolio) and subsequently sold them to Palatino SPV S.r.l. and Domizia SPV S.r.l. structuring two new securitisations. The related notes issued by the selling vehicles held by the bank were redeemed (all of the senior notes and part of the junior notes in line with the transferred loans). Accordingly, the bank recognised a loss of €555 thousand.

The portfolios, purchased directly by the bank which then transferred them to the vehicles, did not qualify for derecognition under IFRS 9 as the related risks and rewards were not transferred because the bank had subscribed 100% of the junior notes.

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 separate and consolidated financial statements and other services provided by the independent auditors in 2020 are set out below.

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

(€'000)

	Provider: independent auditors or entity of their network	Total fees
Audit services:		
- Statutory audit of the separate financial statements	KPMG S.p.A.	102
- Review of the condensed interim separate financial statements	KPMG S.p.A.	55
- Audit of the consolidated financial statements	KPMG S.p.A.	35
- Attestation services on tax returns	KPMG S.p.A.	3
Other services	KPMG Advisory S.p.A.	354

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

Quantitative disclosure

1. Changes

No options for the shares were exercised during the year.

2. Other disclosures

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

Part L: Segment reporting

As the 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, company cars used by employees and printers 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 B, Assets;
- the information on lease liabilities set out in Part B, Liabilities;
- the information on interest expense on lease liabilities and other expenses relating to right-of-use assets, gains or losses from sale and leaseback transactions and income from subleasing right-of-use assets set out in Part C.

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

	Office premises	Buildings for residen-tial use	Company cars	Printers	Total 2020
a) depreciation of right-of-use assets	1,659,374	19,531	52,648	4,910	**1,736,463**
b) interest expense on lease liabilities	180,222	1,015	2,560	383	**184,179**
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	1,839,595	20,546	55,208	5,293	**1,920,643**
h) additions to right-of-use assets	-	-	-	-	**-**
i) gains or losses from sale and leaseback transactions	-	-	-	-	**-**
j) closing balance of right-of-use assets	5,850,669	31,374	147,833	147,313	**6,177,189**

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

SECTION 2 - LEASES AS A LESSOR

Qualitative information

The bank recognised four lease portfolios in its consolidated financial statements (the largest of which is classified under assets held for sale), three 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)

	31/12/2020 Lease payments receivable	31/12/2019 Lease payments receivable
Up to 1 year	74,770	3,255
From 1 to 2 years	82,242	4,020
From 2 to 3 years	70,072	3,557
From 3 to 4 years	12,032	3,186
From 4 to 5 years	4,604	2,287
After 5 years	8,878	8,589
Total lease payments receivable	**252,597**	**24,895**
RECONCILIATION WITH NET INVESTMENT IN LEASES		
Unaccrued interest income (-)	(45,694)	(5,087)
Unguaranteed residual value (-)	-	-
Net investments in leases	**206,904**	**19,808**

2.2 Other disclosures

None.

3. Operating leases

3.1 Breakdown of lease payments receivable by due date

None.

3.2 Other disclosures

None.

DISCLOSURE ON THE ASSETS EARMARKED FOR A SPECIFIC BUSINESS

Cube Gardenia

On 26 April 2017, the 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.

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

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

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

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

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

At the reporting date, the underlying assets amounted to €28,320 thousand while the outstanding special loan amounted to €29,352 thousand.

Este

On 16 June 2017, the 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
Operating assets	1,293	679
Vehicles	725	67
Watercraft	24	2
Total	**2,145**	**2,592**

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

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

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

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

At the reporting date, the underlying assets amounted to €2,041 thousand while the outstanding special loan amounted to €1,898 thousand.

Gimli

On 19 September 2018, the 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 bank decided to give the assets earmarked for a specific business an endowment fund of €50,000 to cover their costs.

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

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

The 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 €96 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

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

CREDITO FONDIARIO S.p.A.

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS PURSUANT TO ARTICLE 2429.2 OF THE ITALIAN CIVIL CODE

Dear shareholders,

Our duty is to report to the shareholders of Credito Fondiario S.p.A. ("Credito Fondiario" or the "bank") called to approve the separate financial statements as at and for the year ended 31 December 2020 (the "separate financial statements") and to examine the consolidated financial statements. We report on our supervisory activities and any omissions or objectionable actions identified pursuant to article 2429 of the Italian Civil Code.

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

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

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

1. Compliance with the law and the by-laws

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

Information about the key transactions is provided in the two directors' reports that accompany the draft separate and consolidated financial statements, to which reference should be made.

The bank became the head of a banking group in 2019 and has consolidated and developed the operations of the group's two core businesses:
- the debt servicing business' original amount of non-performing exposures totalled €50.0 billion at year end;
- the debt purchasing business' investments totalled €973 million.

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

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

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

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

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

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

2. Financial position, financial performance and cash flows

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

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

In the above section, the directors also specified the methods and assumptions used for the "separation" of the captions reclassified to the specific captions of the statement of financial position (asset caption 110 "Non-current assets held for sale and disposal groups" and liability caption 70 "Liabilities associated with disposal groups") and income statement (caption 290 "Profit from discontinued operations"), as well as the reconciliations between the statement of financial position and the income statement before application of IFRS 5 and the statement of financial position and income statement included in the separate financial statements with a description of the assets held for sale, the associated liabilities and the profit from discontinued operations. The assets held for sale and associated liabilities totalled €740.0 million and €219.8 million, respectively, while the profit from discontinued operations was €18.1 million. Reference should be made to sections 11 and 20 of the notes to the statement of financial position and income statement, respectively, for additional information.

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

That being said, the bank's pro forma (pre-IFRS 5) income statement shows total income of €62.9 million, a pre-tax loss of €5.0 million and a profit for the year of €6.9 million. The profit for the previous year was €36.0 million.

As discussed in the directors' report, the profit for the year was affected, inter alia, by:
- the negative effects of Covid-19 on both the bank's investment portfolio (it recognised impairment losses on financial assets and fair value losses on ABS totalling €22.5 million) and servicing fees, as gross collections were more than 30% less than expected;
- a non-recurring cost of €3.1 million relating to a legal dispute and an impairment loss of €1.5 million;
- non-recurring costs of €5.2 million for Project 3.0;
- a tax benefit of €12.2 million arising after the bank paid the substitute tax to align the carrying amount and tax base of goodwill.

The bank's total assets rose by €200 million to €1,531 million at the end of 2020. The increase is mainly attributable to its debt purchasing business, offset by its funding from online deposits and asset-backed funding from banks.

3. Correct administration and suitability of the organisational structure

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

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

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

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

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

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

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

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

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

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

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

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

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

The bank's headcount was in line with prior year end, going from 263 to 266 at the end of 2020.

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

In this respect, we believe that the reorganisation project currently underway, whereby the bank's core business under the current business model (from an organisational, financial statements volumes and net revenue perspective) will be demerged and transferred to a new group, is a key issue:
- the implementation of Project 3.0 presents some challenges in relation to personnel management and administrative, accounting and IT issues. However, the bank has promptly launched the preliminary activities for the demerger and reorganisation, addressing both organisational and technological and administrative infrastructural issues.

We will continue to closely monitor the identification of the assets and liabilities that will be demerged and how this complex transfer of assets and liabilities to the new group that will manage the NPE servicing and investment activities will take place. We will focus, in particular, on the demerger value and transfer price, and, since the latter carries a potential conflict of interest, we will specifically concentrate on the fair value measurement of all transferred assets and liabilities;
- as set out in the directors' report ("Approval of Project 3.0" section), according to the new business model, the future CF NewBank will continue to manage some NPE portfolios on a run-off basis and to work in the tax asset segment. It will also develop its foothold in new sectors and segments in which it currently operates but that are not its core business. It will be a challenger bank with a revisited business object in order to become a specialised lender for performing (or re-performing) loans, and an innovative player in the specialised corporate lending sector for high potential market segments not currently fully covered by the major banks. On the other hand, the bank will retain its retail funding up to maturity.

Other risks to which the bank is exposed are:
- reputation and operational risks related to its servicing business, which are augmented by risks related to the performance of the bank's counterparties that transfer or have committed to transferring NPEs for servicing, especially when there are long-term agreements involved;
- risks related to the enhancement and management of the collateral underlying the secured exposures and estimates of the expected credit collection inflows that affect calculation of the fair value of the portfolio notes and the exposures' carrying amounts.

4. Internal controls and risk management

We checked the adequacy of the internal controls by meeting the bank's senior management to examine the internal controls and risk management system. We also met the control departments and the chief risk officer ("CRO") to assess how they plan their work, based on the identification and valuation of the main risks inherent in the processes and departments and by checking the procedures and regular reports prepared by the control departments. We also reviewed the information provided about the monitoring activities and the implementation of identified remedial actions by the departments as well as discussing our work with the independent auditors.

The bank has policies for each internal control department, information flows, interaction with the internal controls, the internal control system, the roles and responsibilities of the corporate bodies and control departments and the coordination among these departments in compliance with the model set out in Bank of Italy's Circular no. 285/2013.

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

In addition, the bank completed its revision of the integrated risk assessment in 2020 after which it updated the organisational and management model as per Legislative decree no. 231/2001 in December 2020, which now covers the additional predicate crimes added by the law.

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

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

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

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

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

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

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

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

5. The administrative accounting system and the financial reporting process

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

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

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

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

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

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

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

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

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

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

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

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

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

We regularly receive and review the periodic information about transactions performed with related and associated parties and monitor the exposures with associated parties. When necessary, we asked for additional information and details.

No transactions as per article 136 of the Consolidated Banking Act that required the unanimous approval of the board of directors and the favourable opinion of all the members of our board took place. We also acknowledged the statements provided in accordance with article 2391 of the Italian Civil Code.

6. Statutory audit

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

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

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

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

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

In accordance with the applicable regulations, the audit report refers to the auditing standards applied and sets out the key audit matters that were identified during the audit. These matters referred to: (i) the measurement of the ABS classified as other financial assets mandatorily measured at fair value through profit or loss and non-current assets held for sale and (ii) the classification and measurement of the intangible asset held for sale relating to the servicing agreement signed with Banca Carige S.p.A. in 2018.The audit procedures applied for each matter are specified.

The audit report also state that the opinion is consistent with the information provided in the additional report to us.

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

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

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

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

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

7. Complaints, statements, reports and opinions

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

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

With respect to the requirements of article 52-bis of the Consolidated Banking Act and the related implementation instructions issued by Bank of Italy, the bank has introduced a whistleblowing system, which also complies with Legislative decree no. 231/2001. This system complements the existing internal procedures in place as part of the system for reporting to the supervisory body as per Legislative decree no. 231/2001. As a result of observations made by directors during the induction programme carried out at the start of 2019, the bank has introduced the option to make reports about suspicious transactions anonymously, which will be considered if they are properly documented and detailed. At the date of this report, no such reports have been received.

During 2020 and up to the date of this report, we expressed our opinion, where required by law, on the bank's by-laws and supervisory regulations. The opinions and comments made in compliance with supervisory requirements include the assessment of the ICAAP and ILAAP 2020 process (required by Bank of Italy's Circular no. 285/2013, Part 1, Title III, Chapter 1 and Circular no. 263 of 27 December 2006, Title V, Chapter 7), comments on the outsourcing report (Bank of Italy Circular no. 263/2006, Title V, Chapter 7), the opinions required by Bank of

Italy Circular no. 285/2013, Part I, Chapter 1, Section III, the comments on the planning of their activities by the internal control bodies and their reports required by Bank of Italy Circular no. 285/2013 (Title V, Chapter 3) and Bank of Italy's Measure of 11 March 2011.

8. Conclusions

Dear shareholders,

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

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

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

Reference should be made to the directors' report accompanying the consolidated financial statements for information on the main risks and uncertainties faced by the bank, its ability to continue as a going concern and its outlook.

The draft separate financial statements show a profit of €6,882,869 thousand and equity of €369,541,974 thousand.

Both the draft separate financial statements and the consolidated financial statements have been prepared on a going concern basis. The bank did not make any departures from the accounting policies and the independent auditors expressed unqualified opinions without emphasis of matters on both sets of financial statements. We have no issues to report in this respect.

At a stand-alone level, the bank has complied with the prudential requirements and the SREP Capital Guidance as shown by its RAF indicators at year end.

The directors have proposed that the bank's profit for the year of €6,882,869 be fully allocated to the legal reserve pursuant to article 2430 of the Italian Civil Code.

In conclusion, we have no comments to make about your approval of the draft separate financial statements at 31 December 2020.

Upon the approval of the separate financial statements at 31 December 2020, the board of directors' and board of statutory auditors' terms of office expire. Accordingly, the shareholders are invited to appoint the new boards.

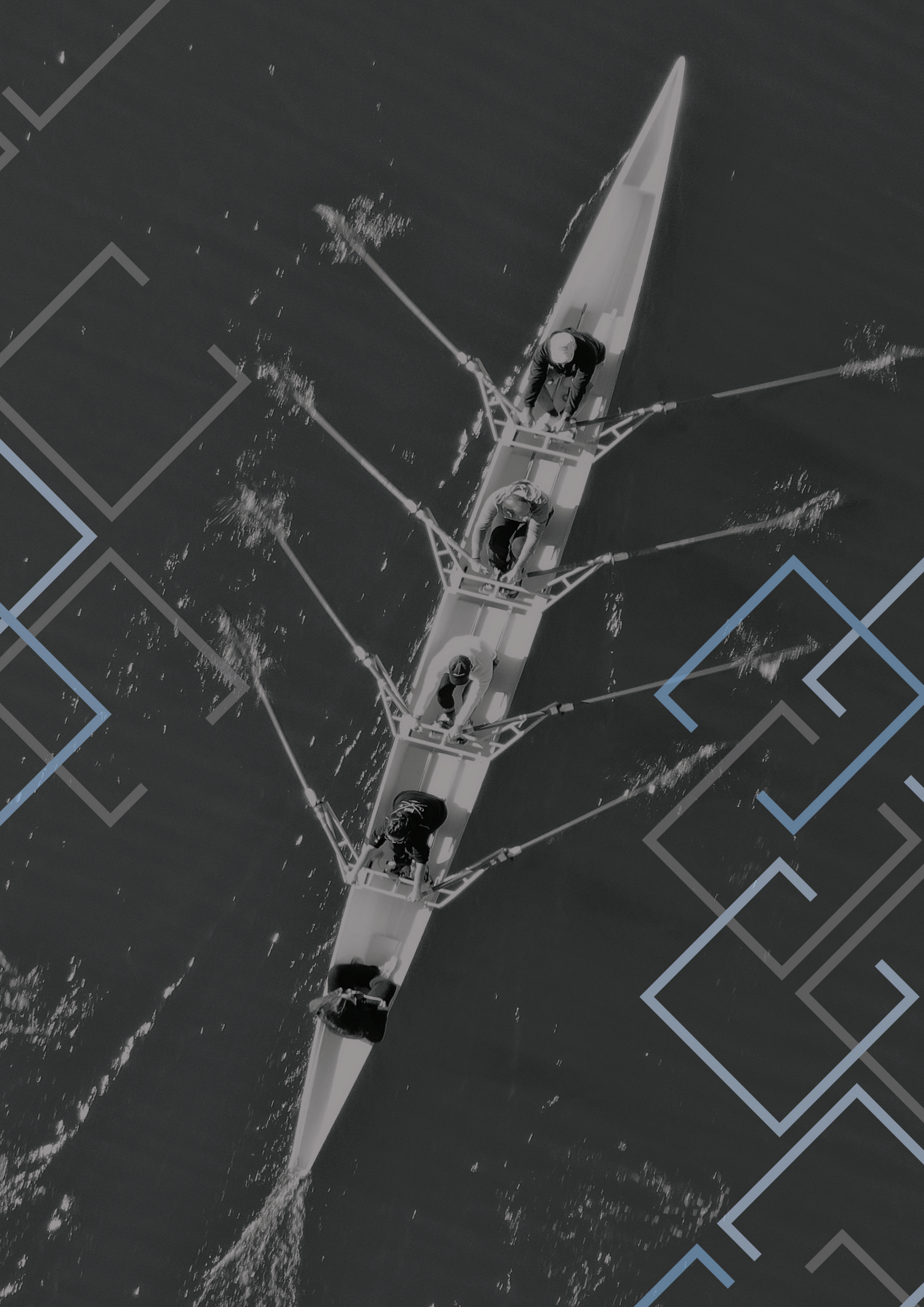
Milan and Rome, 13 April 2021.

Board of statutory auditors

Antonio MELE (signed on the original)

Giuseppina PISANTI (signed on the original)

Franco VEZZANI (signed on the original)



INDEPENDENT AUDITORS' REPORT PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE NO. 39 OF 27 JANUARY 2010

Revisione e organizzazione contabile
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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 separate 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 2020, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the separate financial statements give a true and fair view of the financial position of Credito Fondiario S.p.A. as at 31 December 2020 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 43 of Legislative decree no. 136/15.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the 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.

KPMG

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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 and non-current assets held for sale

Notes to the separate financial statements "Part A - Accounting policies": paragraph A.1 section 4 "Other matters"

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.2.8 "Non-current assets held for sale and disposal groups and liabilities associated with disposal groups"

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 B - Notes to the statement of financial position - Assets": section 11 "Non-current assets held for sale and disposal groups and liabilities associated with disposal groups"

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 C - Notes to the income statement": section 20 "Post-tax profit from discontinued operations"

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

Key audit matter	Audit procedures addressing the key audit matter

KPMG

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The separate financial statements at 31 December 2020 include other financial assets mandatorily measured at fair value through profit or loss of €374.2 million (comprising €327.7 million classified as other financial assets mandatorily measured at fair value through profit or loss and €46.5 million classified as non-current assets held for sale - see below), 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. Following the reorganisation project approved by the bank's board of directors on 24 June 2020 ("Project 3.0"), the directors plan to dispose of such other financial assets mandatorily measured at fair value through profit or loss amounting to €46.4 million. Accordingly, they believed that the IFRS 5 requirements for classification as non-current assets held for sale and disposal groups had been met. Project 3.0 is subject to Bank of Italy's authorisation, which is expected to be received during 2021. Measuring such 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. The complexity of the above procedure has increased in 2020 due to the Covid-19 emergency which has severely affected economic conditions and potential future macroeconomic scenarios. For the above reasons, we believe that the measurement of 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; — discussing the model and main assumptions used with management; — 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 as well as analysing the adjustments made as a result of the effects of the Covid-19 pandemic; — 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; — obtaining and analysing Project 3.0, which was approved by the bank's board of directors on 24 June 2020, including through discussions with the department heads; — obtaining and analysing the documentation relating to the disposal of the other financial assets mandatorily measured at fair value through profit or loss in order to check whether the classification requirements of IFRS 5 had been met; — assessing the appropriateness of the disclosures about other financial assets mandatorily measured at fair value through profit or loss, also in the light of the increased disclosure requirements currently applicable as a result of the Covid-19 pandemic.

KPMG

Classification and measurement of the investment in CF Liberty Servicing S.p.A. held for sale

Notes to the separate financial statements "Part A - Accounting policies": paragraph A.1 section 4 "Other matters"

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

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

Notes to the separate financial statements "Part B - Notes to the statement of financial position - Assets": section 11 "Non-current assets held for sale and disposal groups and liabilities associated with disposal groups"

Key audit matter	**Audit procedures addressing the key audit matter**
Following the reorganisation project approved by the bank's board of directors on 24 June 2020 ("Project 3.0"), the directors plan to dispose of of investments in subsidiaries amounting to €103.2 million, including the investment in CF Liberty Servicing S.p.A. of €100 million. Project 3.0 is subject to Bank of Italy's authorisation, which is expected to be received during 2021. Since the directors believed that the IFRS 5 requirements had been met, when preparing the separate financial statements at 31 December 2020, they classified the investment in CF Liberty Servicing S.p.A. as a non-current asset held for sale and measured it at the lower of its carrying amount and fair value less costs to sell, which meant maintaining it at purchase cost. Assisted by external experts, the directors calculated the fair value 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, also due to the Covid-19 emergency which has severely affected economic conditions and potential future macroeconomic scenarios. For the above reasons, we believe that the measurement of the investment in CF Liberty Servicing S.p.A. is a key audit matter.	Our audit procedures included: — obtaining and reading the minutes of the internal bodies' meetings; — obtaining and analysing the report issued by the external experts engaged by the bank to assess the recoverable amount of the equity investment; — discussing the model and main assumptions used with management; — involving experts of the KPMG network in the assessment of the appropriateness and reasonableness of the methods and main assumptions used, including by means of a comparison with external data and information, and analysing the adjustments made as a result of the effects of the Covid-19 pandemic; — obtaining and analysing Project 3.0, which was approved by the bank's board of directors on 24 June 2020, including through discussions with the department heads; — obtaining and analysing the documentation relating to the disposal of the equity investment in order to check whether the classification requirements of IFRS 5 had been met; — assessing the appropriateness of the disclosures about the equity investment, also in the light of the increased disclosure requirements currently applicable as a result of the Covid-19 pandemic.

Classification and measurement of the intangible asset held for sale relating to the servicing agreement signed with Banca Carige S.p.A. in 2018

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

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

Notes to the separate financial statements "Part B - Notes to the statement of financial position - Assets": section 11 "Non-current assets held for sale and disposal groups and liabilities associated with disposal groups"

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 C - Notes to the income statement": section 20 "Post-tax profit from discontinued operations"

Key audit matter	Audit procedures addressing the key audit matter

Following the reorganisation project approved by the bank's board of directors on 24 June 2020 ("Project 3.0"), the directors plan to dispose of intangible assets amounting to €21.6 million, comprising the asset of €11.6 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 therefrom. Project 3.0 is subject to Bank of Italy's authorisation, which is expected to be received during 2021. Since the directors believed that the IFRS 5 requirements had been met, when preparing the separate financial statements at 31 December 2020, they classified the intangible asset relating to said agreement as a non-current asset held for sale and measured it at the lower of its carrying amount and fair value less costs to sell. Since the estimated realisable value of the above intangible asset is lower than its carrying amount, the directors impaired the non-current assets held for sale by €1.5 million. Determining a realisable value requires a high level of judgement especially in relation to estimates about: — 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. The complexity of the above procedure has increased in 2020 due to the Covid-19 emergency which has severely affected economic conditions and potential future macroeconomic scenarios. For the above reasons, we believe that the 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 measure the intangible asset's fair value; — 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; — discussing the measurement model and main assumptions used with management; — involving experts of the KPMG network in the assessment of the appropriateness and reasonableness of the measurement methods and models used, as well as checking the reasonableness of the main underlying assumptions, including by means of a comparison with external data and information, and analysing the adjustments made as a result of the effects of the Covid-19 pandemic; — obtaining and analysing Project 3.0, which was approved by the bank's board of directors on 24 June 2020, including through discussions with the department heads; — obtaining and analysing the documentation relating to the disposal of the intangible asset relating to the agreement in order to check whether the classification requirements of IFRS 5 had been met; — assessing the appropriateness of the disclosures about the recoverability of the intangible asset relating to the servicing agreement, also in the light of the increased disclosure requirements currently applicable as a result of the Covid-19 pandemic.

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.

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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 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;
- 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.

Credito Fondiario S.p.A.
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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 2020 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 2020 and its compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report is consistent with the bank's separate financial statements at 31 December 2020 and has been prepared in compliance with the applicable law.

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

Rome, 13 April 2021

KPMG S.p.A.

(signed on the original)

Riccardo De Angelis
Director of Audit

CREDITO
FONDIARIO